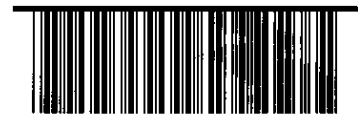


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Edinburgh Fund Managers Group plc Annual Report

2001

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**“The record gross new business achieved across our core divisions is the result of our strong and able teams and firm commitment to delivering good service and investment performance to the clients on whom our business depends.”**

Colin Ross **Chairman**

# 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

	Year to 31 January 2001	Year to 31 January 2000
Turnover	£36,340,000	£29,935,000
Operating profit	£11,353,000	£10,028,000
Pre-tax profit (including goodwill and exceptionals)	£12,210,000	£12,104,000
Earnings per share (excluding goodwill and exceptionals)	31.4p	27.5p
Dividends per share	25.0p	25.0p
Number of shares in issue	28.5 million	27.8 million
Funds under management	£8.6 billion	£8.0 billion

Edinburgh Fund Managers enjoyed another year of record gross new business in 2000. Our long term strategy of developing our business in four key, diversified areas has resulted in continued growth.

Colin Ross Chairman

## Chairman's Statement

### Highlights of 2000

**New business:** new business growth resulted in a second successive year of record gross sales, up by 70% to £700 million – the highest ever achieved by the group. This excludes £90 million from the acquisition of Northern Venture Managers

**Turnover:** increased by 21% to £36.3 million

**Earnings per share** (excluding goodwill and exceptionals): increased by 14% to 31.4p

**Funds under management:** increased by 6.6% to £8.6 billion, representing a 3.8% increase above market growth

**Business development:** good progress was made in all four areas of the strategic development plan (strategic partnerships, intermediaries, private clients and the institutional market)

**Acquisition:** Funds under management at Northern Venture Managers up by 67% to £150 million in the eight months since acquisition

### Business performance

I am pleased to report that during 2000 the group maintained its recent pattern of steady growth in revenues, earnings and funds under management.

The substantial commitment made to developing the group's marketing and sales

resources over the past three years was rewarded by a further year of record gross new business, which rose 70% to £700 million.

All four key areas of new business performed well. Northern Venture Managers, the Newcastle based venture capital management firm, made a very pleasing contribution of £2.2 million to revenues for the group since its acquisition in June, increasing its funds under management by 67% from £90 million to £150 million in its first eight months within the group.

Funds under management overall rose 6.6% to £8.6 billion in the year to 31 January 2001, against the background of a rise of 2.8% in the markets in which we are invested.

The £6.4 million (21%) increase in gross revenues to £36.3 million is a result of both this growth and the continuing trend towards higher margin business within the new business won, whilst costs rose 24%, reflecting our continued investment in developing the business. The costs of Northern Venture Managers since June were £1.7 million. The company was acquired to expand our expertise in the smaller companies end of the market.

Earnings per share rose from 27.5p per share to 31.4p, an increase of 14%. The proposed final dividend of 17p makes a total dividend payout of 25p, which is unchanged from last year.

## Review of the year

The millennium year was the fourth year of our strategic development plan, which set out to build strong, consistent growth from a secure, diversified business mix of distribution and products.

Our existing strategic partnerships, under which we provide investment management and retail expertise to major banks and life companies in the UK and around the world, continued to provide a steadily increasing flow of new funds. We were pleased to add two new overseas strategic partners during the year.

Retail sales, which embrace open-ended funds sold through the professional intermediary market, the private client portfolio management business and our investment trust clients, enjoyed a strong year. Sales of open-ended funds through intermediaries, which had doubled in 1999, were a particular highlight and increased by over 260% in 2000. Net new business in our OEIC/unit trust business was a healthy 14% of funds under management in that area.

The consistent growth in sales to this market is a good indication that the steady development of our service to professionals, our policy of building recognition and a brand for the group, and in particular our 'Rock Solid' marketing and advertising campaign, have had a real impact.

Product development, and ensuring that we meet our clients' needs, is another core part of the strategic development plan. So it was gratifying that our strongest selling single fund in 2000 was Edinburgh Managed Growth Portfolio. This was as a result of the fund being

offered through a new product – the Classic Portfolio Service – which we introduced in mid 1999 and which attracted £40 million over the year from intermediaries with high net worth clients. Our award winning Edinburgh UK Smaller Companies Fund similarly attracted notable professional support.

Investment trust performance was good relative to benchmark. Initiatives to support our investment trust clients, including the active promotion of InvestIT for Children, one of our investment trust saving schemes, were successful, and the discounts on the majority of our investment trusts reduced during the year. In 2000 we launched a new £54 million offshore investment trust, Edinburgh Pacific and Income Trust, and in early 2001 Edinburgh New Tiger Trust was successfully rolled over into the new, much larger, Edinburgh Leveraged Income Trust.

Our UK and international institutional business continues to grow its client base, having won a number of mandates during the year.

The record gross new business achieved across Edinburgh Fund Managers core divisions has been the result of a strong and able team, a clear corporate strategy and a firm commitment to delivering good service and investment performance to clients. With these strengths, and our ability to adapt rapidly to client needs, we aim to counter the negative impact of the market falls which we have seen at the start of this financial year. We anticipate that, as investor sentiment is fragile, markets will continue to be difficult in the shorter term. However we expect an improvement later in the year.

My congratulations and thanks to all our staff for their contribution to the achievements in 2000 and previous years, and to our clients for their support.



C H Ross

**Chairman**

Edinburgh, 2 April 2001

Nothern Venture Managers Executive Directors

The highlights of 2000 were the growth in new funds under management and the increase in new business revenues – the result of the strategies adopted and implemented over the previous four years.

Iain Watt Chief Executive

## Chief Executive's Review

While we adopted a number of important new initiatives during the year, the most important tasks of the year were converting the projects launched in previous years into solid, revenue-generating business and continuing to meet our clients' needs.

In addition to this organic growth, we also made our first acquisition for some years, *Northern Venture Managers*, which itself achieved 67% growth in funds under management after joining the group.

Our focus remains the development of four key areas of business: strategic partnerships, professional intermediaries, private clients and the institutional market. We believe that this gives us a good spread of business risk between different types of product, customer and distributor – in the UK and overseas.

Behind this lies continuing investment in all aspects of the business to ensure that we continue to offer high levels of investment management, product development and service to our customers, a good working environment to our staff and growth to our shareholders.

## Marketing and business development

### 1. STRATEGIC PARTNERSHIPS

Last year I reported to you that we had doubled the number of strategic partnerships and that our objective in 2000, in this area of business, was to concentrate on increasing sales and services to existing relationships.

Within Edinburgh Global Partnerships we provide investment management and retail expertise to support, primarily, the retail fund operations of banks and life companies in the UK and around the world. Expertise provided for different partners includes the management of a range of funds, including traditional equity and bond funds as well as derivative funds. Our partners distribute these funds, usually under their own brand, to a wide range of international clients.

During the year, the flow of funds under management from our strategic partners increased significantly and we won further new mandates from a number of partners, including most recently an additional £25 million UK equity portfolio from Bank of Bermuda.

Towards the end of last year we were also pleased to be selected as a strategic partner by Armstrong Jones, one of the largest money managers in New Zealand, and we have created a new share class in our UK OEIC specifically for New Zealand investors. The current year will see us continuing to develop the relationships which we have with our existing partners, whilst considering potential new opportunities.

## 2. RETAIL FUND SALES

The highlight of retail funds development in 2000 was the 260% growth in gross sales of open-ended funds to intermediaries. Venture capital products, introduced through the acquisition of Northern Venture Managers, made an excellent contribution to gross sales in the second half and good progress was seen in demand for investment trusts managed by the group.

Among other initiatives to support this progress, we increased our marketing spend on building the Edinburgh Fund Managers brand. This included developing a retail consumer campaign which followed the themes developed in our trade advertising. We continued our product development with the addition of Edinburgh Global Growth Portfolio to the successful Classic Portfolio fund of funds service, which now has over £120 million under management. We also continued the development of our website and e-commerce platform and this financial year have commenced a project to enhance our 'ISA online' offering. The start of the year also saw a high profile poster campaign to increase awareness of the Edinburgh Fund Managers brand.

Towards the end of the year we made our funds available through an electronic 'fund supermarket', Fidelity Funds Network, and we are working on making our products available through a wider range of IFA sites.

### **Open-ended funds and the intermediary market**

The group's relationships with the professional intermediary market continued to develop. We added to and consolidated our relationships with national and network intermediaries, strengthened our relationships with the discretionary managers and increased the volume of business that existing contacts do with us. A key factor in this development has been the excellent levels of service provided to intermediaries, which was recognised in 2000 by a 4-star Service Award from Financial Adviser magazine.

Professional intermediaries continue to widen the range of our funds that they use. The award-winning Edinburgh UK Smaller Companies Fund continued to attract strong interest, but this year our most popular fund was Edinburgh Managed Growth Portfolio, available through the Classic Portfolio Service, which became the UK's third best selling fund of funds\*. Other specialist funds did well, notably Edinburgh North American Fund.

\*Source: Investment Adviser – August 2000

Professional Intermediary Team

### **Northern Venture Managers**

In June we acquired Northern Venture Managers, the Newcastle based venture capital firm which is a leading player in the rapidly growing venture capital trust ('VCT') sector. The acquisition brought us an established private equity brand, an experienced management team and £90 million under management, comprising two VCT's with almost 4,000 private shareholders as well as a highly successful investment trust, Northern Investors Company.

As a result we have achieved not only an exposure to this important growth area in the retail market, but also strong investment synergy with our successful smaller companies team, which now has a total of over £1 billion under management.

In the first eight months of the relationship we have opened a new Northern Venture Managers office in the important Thames Valley area, launched Northern AIM VCT and had a rights issue for Northern Investors Company. The benefits of group marketing are already evident. Using the



combined professional contacts and brands of both operations Northern Venture Managers has already increased its funds under management to £150 million. Funds under management are expected to build further with January 2001 having seen Northern Venture Managers launching a top-up for Northern 2 VCT.

#### Investment trusts

Edinburgh Fund Managers is one of the top five managers of investment trusts with fourteen trusts representing funds under management of £4.3 billion.

We continued our policy of joint marketing initiatives, participation in the AITC's 'its' campaign and an active share buyback programme. Over the year discounts were reduced on the majority of the trusts to provide added return to shareholders.

The outflow of funds under management from the buyback programme was partly mitigated by the well received launch of the £54 million Edinburgh Pacific and Income Trust in May. Also this year, the shareholders of Edinburgh New Tiger Trust voted to roll over the £40 million trust into a new, larger fund, Edinburgh Leveraged Income Trust, with total assets of £83 million.

#### 3. PRIVATE CLIENTS

Our private client business made good progress in 2000, increasing fully discretionary funds under management for private individuals and charities by 10%, and the number of client accounts by more than 15%. The growth in business continued to come primarily from introductions from major professional practices and personal recommendations.

The team is dedicated to delivering investment performance and a highly personal level of service. Investment performance continued to be generally successful, and during the year we launched an internet-based online portfolio information and valuation service for our clients.

#### 4. INSTITUTIONAL SALES: UK AND INTERNATIONAL

Our key theme for institutional business in 2000 was building relationships. Edinburgh Institutional Client Management increased the resources dedicated to providing support to clients and the actuarial consulting community. We widened the range of consultants with whom we communicate and built on the relationships established over the past two years. We also invested in building direct relationships with potential new clients and ensuring high levels of service to current clients.

At the heart of our relationships and service lies the communication and analysis of our investment management process and we continue to supply some of the most comprehensive investment performance and risk analysis in the industry. The results of our strengthened relationship with consultants were seen in new mandates from the UK and overseas. These included a £30 million international equity mandate for FPS Group's centralised pension scheme, and the wide range of corporate client pension schemes which invest through it, and a \$100 million US equity mandate for the Employees' Retirement Systems of Puerto Rico Electric Power Authority. We also attracted additional funds from existing clients.

#### Analysis of funds under management at 31 January 2001

By geographic split

By client

UK 72%	Investment Trusts 50%
North America 12%	Institutional 33%
Europe 9%	OEICs/Unit Trusts 10%
Pacific 4%	Private Clients 5%
Japan 2%	Venture Capital 2%
Emerging Markets 1%	

## **The way forward**

The group enjoyed strong new business growth in 2000.

Our task in 2001 is fourfold:

- to continue to meet the needs and expectations of our clients;
- to ensure consistency and excellence of investment performance;
- to maintain our strengths in new product and service development; and
- to ensure that all our staff have a positive and rewarding environment in which to work.

To meet these objectives we continue to build increasingly sophisticated quantitative and risk control systems into our investment management process, and to recruit and develop fund managers of the first rank. We will take advantage of opportunities to develop new products and services in 2001 for the strategic partnerships, open and closed ended funds, private client and institutional divisions. We will continue to invest in building the brand and reputation of the group.

I am pleased to be able to report that over 75% of our staff own shares in the company and I would like to thank them for their efforts and commitment over the year. We have built a strong business base for the years to come.



I A Watt  
**Chief Executive**  
Edinburgh, 2 April 2001

**"I would like to thank all our staff for their efforts and commitment over the years. We have built a strong business base for the years to come."**

# Operating and Financial Review

## Funds under management

Total funds under management increased overall from £8.04 billion to £8.57 billion, an increase of 6.6%. With most of the major market indices showing only small increases, and, in some cases falls, this positive outcome was as a direct result of new business wins.

## Market levels

The major markets of the UK and the US rose by around 1.8% and 8.7% respectively during the year. In the more specialist markets the UK small companies sector rose by 5.6%, the Pacific markets were unchanged, Japan fell by 22.3% and the FTSE technology index, the Techmark, fell by 28%. The new business wins secured during the year were therefore key to ensuring that funds under management increased.

## New business

New business increased by 70%. This was due to the following factors:

- increased sales to our strategic partners;
- increased sales through intermediaries;
- new capital raised by Northern Venture Managers Limited which was acquired during the year;
- UK and international institutional business wins; and
- the launch of new split capital investment companies, Edinburgh Pacific and Income Trust and Edinburgh Leveraged Income Trust (the rollover vehicle for Edinburgh New Tiger Trust) helped to offset the losses from investment trust share buybacks.

## Financial summary

### Turnover

Management fee income is directly related to funds under management. Turnover increased during the year by 21%, from £30.0 million to £36.3 million despite a year where market levels have been particularly volatile. Northern Venture Managers turnover for the eight months since acquisition was £2.2 million, accounting for one third of this increase.

Fee levels earned on specialist funds are generally higher than mainstream funds which means that funds under management in these areas contribute a disproportionate amount to income earned. The acquisition of Northern Venture Managers helped to increase our revenues as a percentage of funds under management from 0.39% to 0.42%. In addition, performance fees have also contributed to the increased revenues.

### Administration costs

Costs rose by 24% over the previous year from £19.9 million to £24.7 million. This rise can be attributed to three key factors. Firstly, the costs for the eight months of the venture capital business of £1.7 million accounted for one third of the increase. Secondly, we increased our marketing spend on the Edinburgh Fund Managers brand to increase awareness and encourage investors to invest with us, supporting our efforts in the professional intermediary market. Finally, outperformance by both our fund management teams and 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 0.27% to 0.29% but still remain below the average of our peer group.

Mike Balfour Executive Director

**The Year 2000 saw growth in funds under management, revenues and profits.**

## OPERATING AND FINANCIAL REVIEW

### Goodwill amortisation

Goodwill arose on the acquisition of Northern Venture Managers. This represented the difference between the purchase price and the tangible assets acquired and is written off over twenty years.

### Operating profit

Operating profit (excluding goodwill and exceptionals) rose by 16% over the past year from £10.0 million to £11.6 million.

### Other income

During the year we realised gains of £0.5 million on our investment portfolio.

### Interest payable

The interest payable was higher than last year. This was as a direct result of the acquisition of Northern Venture Managers and the acquisition of a property in Dundee, which was purchased to accommodate our expanded back office and investment administration teams. The interest cost also included interest on the loan notes issued on the acquisition of Northern Venture Managers and the amortisation of the discount on the deferred consideration.

### Pre-tax profit

Pre-tax profit (excluding goodwill and exceptionals) rose by 15% from £10.8 million in the year to 31 January 2000, to £12.5 million.

### Taxation

The realised gains on investments during the year did not give rise to capital gains tax and, together with an adjustment for over provision in prior years, gave an effective tax rate of 29.8%, down from last year's 29.9%.

### Earnings per share

Earnings per share (excluding goodwill and exceptionals) increased by 14% from 27.5p to 31.4p. Earnings per share (including goodwill and exceptionals) were down 1% from 30.8p to 30.5p.

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 £9.2 million as at 31 January 2001 compared with £5.2 million the previous year. There were three main reasons for this increase; firstly, the effect of the short term timing differences on our OEIC dealing and settlements positions which were financed out of cash resources, secondly, the disposal of part of the investment portfolio and thirdly, the retained profits of the year. The acquisition of Northern Venture Managers was financed by a combination of shares and loan notes issued in exchange for the shares and a placing in the market. The acquisition of property in Dundee was financed by bank borrowings.

### Market returns year to 31 January 2001

Region	Percentage movement (Sterling adjusted)
UK	+1.8
UK Smaller Companies	+5.6
US	+8.7
Europe (ex UK)	+11.2
Japan	-22.3
Pacific (ex Japan)	-0.4
Emerging Markets	-14.4

### **Risk management and financial instruments**

The key business risk which Edinburgh Fund Managers faces is the level of stock markets and their impact 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.

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of 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.

Detailed information relating to the risk profile of these financial instruments is shown in note 23 to the financial statements.

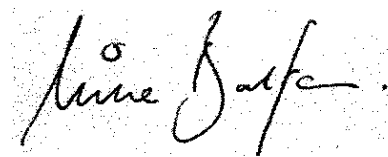
As part of our OEIC/unit trust activity we hold temporary positions which are at risk to market and currency movements. In order to manage the risk involved financial instruments have been used. There were no open derivatives positions at the year end.

### **The year ahead**

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 two years and will continue to focus on growing our four key business areas (strategic partnerships, professional intermediaries, private clients and the institutional market).

At present we do not anticipate a material rise in operating costs, although investment for the future growth of the company may lead to some cost increases. Key to increasing earnings per share, our main financial objective, will be the average level of stock markets during the year and increasing funds under management from new and existing clients.

Stock markets have fallen by over 10% so far this calendar year. This and their volatility over the last twelve months could lead to a slowdown in new business development in the shorter term as investor sentiment is fragile. Despite shorter term concerns we believe, with further interest rate cuts to come, and equities at attractive valuation levels, that equity markets will make decent progress throughout the year.



M W Balfour

**Executive Director**

Edinburgh, 2 April 2001

**We wish to build on the significant progress the company has made over the last two years.**

## CORPORATE INFORMATION

### **Registered office**

Donaldson House  
97 Haymarket Terrace  
Edinburgh EH12 5HD  
Telephone: 0131-313 1000  
Facsimile: 0131-313 6300  
Registered no: SC 157875  
Website: [www.edfd.com](http://www.edfd.com)

### **Registrars**

Computershare Services plc  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Telephone: 0870 702 0010  
Website: [www.cshare.co.uk](http://www.cshare.co.uk)

### **Bankers**

Bank of Scotland  
The Mound  
Edinburgh EH1 1YZ

### **Auditors**

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

### **Joint stockbrokers**

WestLB Panmure Ltd  
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**

Colin Ross CA, (60), 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.  
Date of appointment:  
8 February 1972\*

# Board of Directors

**Sir Angus Grossart**

**Non-Executive Deputy Chairman**

Sir Angus Grossart CBE, LLD, FRSE, DL, (63), 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. Date of appointment: 13 September 1983\*

**I A Watt Chief Executive**

Iain Watt, (56), is an associate of the Institute of Bankers in Scotland and a non-executive director of Edinburgh Dragon Trust. Date of appointment: 24 February 1986\*

**M W Balfour Executive Director**

Mike Balfour CA, (40), is managing director and chief investment officer of Edinburgh Fund Managers plc. Date of appointment: 22 September 1998

**J W Blair Non-Executive Director**

Johnnie Blair BA, LLB, WS, (64), is a member of the audit committee and the nominations committee. He is senior partner of an Edinburgh legal firm. Date of appointment: 30 December 1988\*

**A D M MacDonald**

**Senior Independent**

**Non-Executive Director**

Donald MacDonald CBE, MA, LLB, CA, (61), 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. Date of appointment: 21 September 1995

**A F MacDonald Non-Executive Director**

Angus MacDonald, (38), is a member of the nominations committee and the remuneration committee. He is also a non-executive director of Noble Group and chairman of eFinancialNews. Date of appointment: 25 October 1999

\* Date of appointment to Edinburgh Fund Managers plc which was the holding company prior to the implementation of the scheme of arrangement effected on 1 August 1995.

# Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 January 2001.

## 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 client funds 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 (2000–17p) per share be paid on 21 May 2001 to holders of ordinary shares on the register on 27 April 2001 making a total payment of 25p (2000–25p) per share for the year.

The group's profit and loss account surplus for the year of £1,559,000 will be transferred to reserves.

## Directors

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

In accordance with the articles of association, J W Blair and Sir Angus Grossart retire from the board at the annual general meeting and, being eligible, offer themselves for re-election.

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

## 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 2 April 2001 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)	24.2
Prudential	5.8
Legal & General Investment Management (on behalf of clients)	3.9
NFU Mutual Insurance Society	3.1

## 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 2001 represented 34 days' average purchases.



## Environment

The group encourages efficiency and avoidance of waste including recycling of materials and reduction of paper by the use of computer systems. The group maintains a high standard health and safety policy.

## Charitable donations

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

## Auditors

Resolutions will be proposed at the annual general meeting to re-appoint 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 18 May 2001, the following three resolutions will be proposed:

- ordinary resolution 7 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 £474,000 (being 33.3% of the current issued ordinary share capital and in line with institutional guidelines) in accordance with section 80 of the Companies Act 1985. The authority conferred by this resolution will expire on 17 May 2006.
- special resolution 8 will be proposed to give the directors power to allot a maximum of £474,000 of unissued ordinary share capital for cash without first being required to offer such shares to existing shareholders provided that such power shall be limited to the allotment of (i) ordinary shares issued pursuant to a rights issue and (ii) £71,157 of ordinary share capital representing 5% of the company's issued share capital at the date of this report. The power conferred by this resolution will expire on 17 May 2006.

The directors consider that the authority and power proposed to be granted by resolutions 7 and 8 are necessary to retain flexibility, although they do not have any intention of exercising such authority and power at the present time.

- special resolution 9 will be proposed to authorise the company to make market purchases of its own shares. The maximum aggregate number of shares which may be purchased pursuant to the authority shall be 10% of the issued share capital of the company as at the date of the passing of the resolution (approximately 2.846 million shares). The minimum price which may be paid for a share shall be 5p (exclusive of expenses). The maximum price for a share (again exclusive of expenses) shall be an amount equal to 105% of the average of the middle market quotations for the company's shares for the five business days immediately preceding the date of purchase. As at 2 April 2001, the company had 2,702,975 options to subscribe for shares outstanding (representing 9.50% of the issued share capital of the company as at 2 April 2001). If the outstanding amount of the existing buyback authority conferred at the 2000 AGM is utilised in full prior to the 2001 AGM and the buyback authority is renewed at the 2001 AGM and is then utilised in full, the options outstanding at 2 April 2001 would represent 11.8% of the issued share capital of the company.

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, 2 April 2001



# Remuneration Report

## **Remuneration policy**

The specific remuneration package for each of the executive directors, including those of subsidiary undertakings, (the 'executives') is 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 does 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 2001, 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

**Directors' emoluments\***

	Basic salary £000	Bonus and profit share £000	Fees £000	Benefits £000	Total emoluments excluding pensions	
					2001 £000	2000 £000
<b>Executive</b>						
I A Watt	230	81	—	11	322	303
M W Balfour	173	4	—	12	189	243
<b>Non-executive</b>						
J W Blair	—	—	15	—	15	12
Sir Angus Grossart	—	—	17	—	17	15
A D M MacDonald	—	—	15	—	15	12
A F MacDonald (appointed 25 October 1999)	—	—	15	—	15	3
C H Ross	—	—	35	—	35	33
Total 2001	403	85	97	23	608	621
Total 2000	368	156	75	22	621	

\* The total emoluments of, and gains made on exercise of options by, the highest paid director totalled £384,000.

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 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-five at 31 January 2001, amounts to £138,000 (2000-£122,000). 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 £14,000. The accrued annual entitlement of Mr M W Balfour, who was forty at 31 January 2001, amounts to £40,000 (2000-£34,000). This change reflects the salary increase he received during the period. The additional pension earned in excess of inflation amounted to £5,000.

## REMUNERATION REPORT

### Directors' interests in the company at 31 January

	2001			2000		
	Ordinary shares	Share options		Ordinary shares	Share options	
		Executive	Savings-related		Executive	Savings-related
J W Blair	9,000	—	—	9,000	—	—
C H Ross	495,000	—	—	495,000	—	—
I A Watt	173,947	255,000	5,340	139,680	260,100	5,340
M W Balfour	41,140	244,000	—	36,149	224,000	—

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 2000 I A Watt and M W Balfour received bonuses in respect of the previous year. I A Watt elected to take 7,788 shares and

M W Balfour elected to take 3,634 shares. Under the terms of the bonus scheme, they will be entitled to receive an additional 4,672 and 2,180 shares respectively in May 2003. I A Watt will also receive an additional 2,140 shares in May 2002 arising from a previous year's election.

### Directors' share options

	31.1.00	Options granted	Options exercised	31.1.01	Exercise price	Date from which exercisable	Expiry date
<b>I A Watt</b>							
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 <sup>(1)</sup>	726.0p	6.10.98	5.10.05
	25,000	—	—	25,000 <sup>(1)</sup>	592.5p	1.10.99	30.9.06
	100,000	—	—	100,000 <sup>(2)</sup>	532.5p	25.3.03	25.3.05
	100,000	—	—	100,000 <sup>(2)</sup>	407.5p	4.5.04	4.5.06
	—	20,000	—	20,000 <sup>(2)</sup>	661.0p	31.3.05	31.3.07
<b>Total</b>	<b>260,100</b>	<b>20,000</b>	<b>25,100</b>	<b>255,000</b>			
<b>M W Balfour</b>							
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 <sup>(1)</sup>	726.0p	6.10.98	5.10.05
	10,000	—	—	10,000 <sup>(1)</sup>	592.5p	1.10.99	30.9.06
	44,000	—	—	44,000 <sup>(2)</sup>	532.5p	25.3.01	25.3.05
	100,000	—	—	100,000 <sup>(2)</sup>	407.5p	4.5.04	4.5.06
	—	20,000	—	20,000 <sup>(2)</sup>	661.0p	24.3.05	24.3.07
<b>Total</b>	<b>224,000</b>	<b>20,000</b>	<b>—</b>	<b>244,000</b>			

During the year, Mr Watt exercised options as above. The middle market price of the ordinary shares at the date of exercise was 661p.

## Directors' interests

The names of the directors and their holdings in the company's shares are shown in the table opposite. All interests are beneficially held. Other than those disclosed opposite, no director had any interests in the share capital of any group company. *The company has not been notified of any changes in directors' holdings between 31 January 2001 and 2 April 2001.*

## Directors' share options

No options lapsed during the year. The market price of the shares at 31 January 2001 was 704p and the range during the year was 531p to 713p.

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.

In certain circumstances options may be exercised early without the performance criteria being achieved. These include takeover, death, retirement and redundancy.

# Corporate Governance

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 listing rules of the Financial Services Authority) (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.

## 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 when 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 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 association, 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 are 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.

A management committee, the compliance and risk committee, has the 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 2001 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 2001.

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.

## CORPORATE GOVERNANCE

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 acquisitions, tax advice, IMRO audit reviews, strategy reviews, IT security and general accounting matters 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:

<b>Audit committee</b>	<b>Nominations committee</b>	<b>Remuneration committee</b>
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 ( <i>Chairman</i> )	C H Ross ( <i>Chairman</i> )	Sir Angus Grossart ( <i>Chairman</i> )
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 45.

### **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 Financial Services Authority, 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 Financial Services Authority and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the 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.

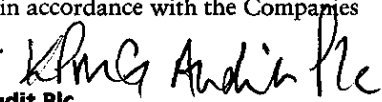
### **Basis of audit opinion**

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 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor

Saltire Court  
Edinburgh, 2 April 2001

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 January 2001

	Notes	2001 £000	2000 £000
<b>TURNOVER</b>	<b>2</b>		
– continuing operations		34,064	29,935
– acquisitions		2,276	—
		<u>36,340</u>	<u>29,935</u>
<b>ADMINISTRATIVE EXPENSES</b>			
– administration	3	24,741	19,907
– amortisation of goodwill		246	—
		<u>24,987</u>	<u>19,907</u>
<b>OPERATING PROFIT</b>			
– continuing operations		11,023	10,028
– acquisitions		330	—
		<u>11,353</u>	<u>10,028</u>
Gain on disposals of investments	5	498	528
Other income – ordinary	6	793	536
– exceptional	6	—	1,281
		<u>793</u>	<u>1,817</u>
		<u>12,644</u>	<u>12,373</u>
Interest payable	7	434	269
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>12,210</b>	<b>12,104</b>
Taxation	8	3,637	3,616
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>8,573</b>	<b>8,488</b>
<b>DIVIDENDS</b>	<b>9</b>	<b>7,014</b>	<b>6,848</b>
Retained profit for the year	20	<u>1,559</u>	<u>1,640</u>
<b>EARNINGS PER SHARE</b>			
(excluding goodwill and exceptional items)	10	31.4p	27.5p
<b>EARNINGS PER SHARE</b>			
(including goodwill and exceptional items)	10	30.5p	30.8p
<b>FULLY DILUTED EARNINGS PER SHARE</b>	<b>10</b>	<b>30.2p</b>	<b>30.7p</b>

# CONSOLIDATED BALANCE SHEET

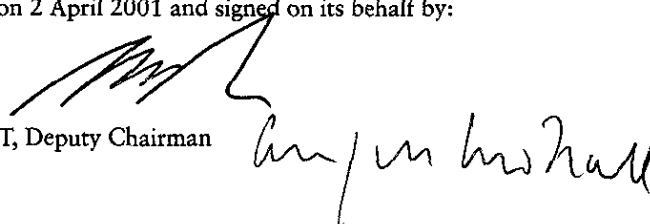
at 31 January 2001

	Notes	2001 £000	2000 £000
<b>FIXED ASSETS</b>			
Intangible assets - goodwill	11	7,142	—
Tangible assets	12	2,783	614
Investments	13	9,219	8,922
Own shares – at cost	14	2,091	2,128
		<u>21,235</u>	<u>11,664</u>
<b>CURRENT ASSETS</b>			
Stock of shares and units		803	1,022
Debtors	16	11,116	9,924
Cash and deposits		13,255	6,495
		<u>25,174</u>	<u>17,441</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Bank overdraft		4,068	1,287
Taxation and social security		2,880	2,961
Other creditors	17	13,745	7,789
Proposed final dividend		4,762	4,646
		<u>25,455</u>	<u>16,683</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(281)</u>	<u>758</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>20,954</u>	<u>12,422</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
	18	4,279	—
		<u>16,675</u>	<u>12,422</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	1,423	1,392
Reserves	20	15,252	11,030
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>16,675</u>	<u>12,422</u>

Approved by the board on 2 April 2001 and signed on its behalf by:

C H ROSS, Chairman

SIR ANGUS GROSSART, Deputy Chairman



# COMPANY BALANCE SHEET

at 31 January 2001

	Notes	2001 £000	2000 £000
<b>FIXED ASSETS</b>			
Investments	13	33	86
Subsidiary undertakings	15	95,181	85,606
Own shares – at cost	14	2,091	2,128
		<u>97,305</u>	<u>87,820</u>
<b>CURRENT ASSETS</b>			
Debtors falling due after more than one year	16	<u>11,547</u>	<u>10,030</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Bank overdraft		4,068	1,287
Other creditors	17	11,916	10,021
Proposed final dividend		4,762	4,646
		<u>20,746</u>	<u>15,954</u>
<b>NET CURRENT LIABILITIES</b>		<u>(9,199)</u>	<u>(5,924)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>88,106</u>	<u>81,896</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
	18	<u>4,279</u>	<u>—</u>
		<u>83,827</u>	<u>81,896</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	1,423	1,392
Reserves	20	82,404	80,504
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>83,827</u>	<u>81,896</u>

Approved by the board on 2 April 2001 and signed on its behalf by:

C H ROSS, Chairman

SIR ANGUS GROSSART, Deputy Chairman

*Angus Grossart*

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 January 2001

	2001 £000	2000 £000
Profit for the year .....	8,573	8,488
Movement in revaluation of investments .....	(689)	3,123
Total recognised gains and losses relating to the year .....	<u>7,884</u>	<u>11,611</u>

## NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31 January 2001

	2001 £000	2000 £000
Reported profit on ordinary activities before taxation .....	12,210	12,104
Realisation of investment revaluation losses of prior years .....	(9)	(1,944)
Historical cost profit for the year before taxation .....	<u>12,201</u>	<u>10,160</u>
Historical cost profit/(loss) for the year after taxation and dividends .....	<u>1,550</u>	<u>(304)</u>

## RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

for the year ended 31 January 2001

	2001		2000	
	Consolidated £000	Company £000	Consolidated £000	Company £000
Profit for the year .....	8,573	5,615	8,488	8,217
Dividends .....	7,014	7,014	6,848	6,848
Retained profit/(loss) for the year .....	1,559	(1,399)	1,640	1,369
Other recognised gains and losses .....	(689)	(53)	3,123	—
Issue of shares .....	3,383	3,383	44	44
Net addition to shareholders' funds .....	4,253	1,931	4,807	1,413
Shareholders' funds at 31 January 2000 .....	12,422	81,896	7,615	80,483
Shareholders' funds at 31 January 2001 .....	<u>16,675</u>	<u>83,827</u>	<u>12,422</u>	<u>81,896</u>

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 January 2001

	Notes	2001 £000	2000 £000
Cash inflow from operating activities .....	(a)	15,695	6,076
Returns on investments and servicing of finance .....	(b)	357	240
Taxation .....		(3,894)	(2,510)
Capital expenditure and financial investment .....	(c)	(1,913)	(2,428)
Acquisitions and disposals .....	(d)	(548)	—
Equity dividends paid .....		(6,898)	(6,909)
Cash inflow/(outflow) before financing .....		2,799	(5,531)
Financing .....	(e)	1,180	44
Increase/(decrease) in cash in the period .....	(f)	3,979	(5,487)

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating profit to operating cash flows

Operating profit .....	11,353	10,028
Depreciation charge .....	393	434
Amortisation of goodwill .....	246	—
Gain on disposal of fixed assets .....	(12)	(8)
Other income – ordinary .....	111	42
– exceptional .....	—	1,281
(Increase)/decrease in stock of shares and units .....	219	(568)
Increase in debtors .....	(1,080)	(2,600)
Increase/(decrease) in creditors .....	4,465	(2,533)
.....	15,695	6,076
Net cash inflow before exceptional items .....	15,695	4,795
Inflow related to exceptional items .....	—	1,281
Cash inflow from operating activities .....	15,695	6,076

### (b) Returns on investment and servicing of finance

Interest received .....	637	494
Dividends received .....	41	15
Interest paid .....	(321)	(269)
Cash inflow from investment and servicing of finance .....	357	240

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2001 £000	2000 £000	
<b>(c) Capital expenditure and financial investment</b>			
Purchase of tangible assets .....	(2,520)	(261)	
Purchase of investments .....	(3,812)	(4,304)	
Purchase of own shares .....	(532)	(1,820)	
Cost of own shares transferred to employees .....	569	—	
Sale of tangible assets .....	110	218	
Sale of investments .....	4,272	3,739	
Cash outflow from capital expenditure and financial investment .....	<u>(1,913)</u>	<u>(2,428)</u>	
<b>(d) Acquisitions and disposals</b>			
Cash element on acquisition of subsidiary undertaking .....	(1,093)	—	
Net cash acquired with subsidiary .....	545	—	
Cash outflow arising on acquisitions and disposals .....	<u>(548)</u>	<u>—</u>	
<b>(e) Financing</b>			
Issue of shares .....	1,180	44	
Cash inflow from financing .....	<u>1,180</u>	<u>44</u>	
<b>(f) Analysis of net debt</b>			
	31 January 2000 £000	Cash flow £000	31 January 2001 £000
Cash and deposits .....	6,495	6,760	13,255
Bank overdraft .....	(1,287)	(2,781)	(4,068)
.....	<u>5,208</u>	<u>3,979</u>	9,187
Loan notes .....			(2,761)
Net funds .....			<u>6,426</u>



## 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.

### Goodwill

Goodwill arising on consolidation is capitalised and amortised over a period of 20 years.

### Depreciation

Fixed tangible assets are stated at historical cost 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:

Freehold property	50 years
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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies—contd

### Stock of shares and units

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

	2001 £000	2000 £000
<b>2 Turnover</b>		
Fund management income .....	36,130	29,513
Net profit from OEIC and unit trust trading .....	210	422
Turnover .....	<u>36,340</u>	<u>29,935</u>

## 3 Administrative expenses

Administrative expenses include:

Remuneration paid to the auditors

and their associates	– audit fees .....	47	44
	– other .....	134	97
Depreciation .....		392	434
Operating lease payments	– land and buildings .....	583	522
	– office equipment .....	<u>104</u>	<u>62</u>

Audit fees paid in respect of the parent undertaking amounted to £7,000 (2000 – £7,000).

Note: During the year, additional fees of £12,000 were paid to the auditors which formed part of the cost of acquisitions.

## 4 Director and employee information

Average number of employees of the group (excluding non-executive directors) 239 (2000 – 205)

Salaries and bonuses .....	11,948	9,872
Social security costs .....	1,302	1,017
Pension scheme costs .....	1,105	879
Other pension costs .....	30	38
.....	<u>14,385</u>	<u>11,806</u>
Directors' remuneration (including pension contributions)		
Fees .....	97	75
Other emoluments .....	511	546
.....	<u>608</u>	<u>621</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

	2001 £000	2000 £000
<b>5 Gain on disposal of investments</b>		
Realised gain/(loss) on investments .....	489	(1,416)
Loss brought into account at 31 January 2000 .....	9	1,944
Gain since 31 January 2000 on disposal of investments .....	<u>498</u>	<u>528</u>
<b>6 Other income</b>		
<b>Ordinary</b>		
Income from listed investments .....	22	6
Income from unlisted investments .....	19	9
Interest .....	641	479
Other .....	111	42
	<u>793</u>	<u>536</u>
<b>Exceptional</b>		
Exceptional income in the previous year represented compensation for the loss of the management contract of Edinburgh Japan Trust.		
	<u>—</u>	<u>1,281</u>
<b>7 Interest payable</b>		
Interest on bank overdraft .....	225	269
Interest on unsecured guaranteed loan notes 2000-2005 .....	96	—
Amortisation of discount on deferred consideration .....	113	—
	<u>434</u>	<u>269</u>
<b>8 Taxation</b>		
Corporation tax at 30% (2000-30.1%) on net profit for year .....	3,695	3,525
Transfer from deferred taxation .....	22	39
(Overprovision)/underprovision in previous year .....	(80)	52
	<u>3,637</u>	<u>3,616</u>
The tax charge includes provision for tax on the exceptional items .....	<u>—</u>	<u>383</u>
<b>9 Dividends</b>		
Interim dividend of 8.0p (2000 – 8.0p) per share paid 1 November 2000 .....	2,252	2,202
Final dividend of 17.0p (2000 – 17.0p) per share payable 21 May 2001 .....	4,762	4,646
	<u>7,014</u>	<u>6,848</u>

The proposed final dividend will be paid on 21 May 2001 to shareholders on the register at the close of business on 27 April 2001. The ex-dividend date will be 25 April 2001.

## NOTES TO THE FINANCIAL STATEMENTS

	2001 £000	2000 £000
<b>10 Earnings per share</b>		
Profit after taxation .....	8,573	8,488
Adjustments:		
Goodwill .....	246	—
Exceptional items .....	—	(1,281)
Taxation attributable .....	—	383
.....	246	(898)
Profit excluding goodwill and exceptional items and after taxation .....	8,819	7,590
Basic weighted average number of shares outstanding .....	28,086,009	27,551,041
Number of shares under option that would have been issued .....	1,887,975	580,100
Number of shares that would have been issued at fair value .....	(1,573,708)	(531,929)
Fully diluted weighted average number of shares .....	28,400,276	27,599,212
Basic earnings per share .....	30.5p	30.8p
Basic adjustments for exceptional items .....	—	(3.3p)
Basic adjustments for goodwill .....	0.9p	—
Basic earnings per share (excluding goodwill and exceptional items) .....	31.4p	27.5p
Fully diluted earnings per share .....	30.2p	30.7p

In addition to basic earnings per share, earnings per share (excluding goodwill and exceptional items) is disclosed in the profit and loss account. This figure is the headline earnings per share used by stock market analysts when making comparisons with previous years and other companies.

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

	Consolidated £000
<b>11 Intangible assets – goodwill</b>	
<b>Cost</b>	
At 31 January 2000 .....	—
Addition .....	7,388
At 31 January 2001 .....	7,388
<b>Amortisation</b>	
At 31 January 2000 .....	—
Charge for year .....	246
At 31 January 2001 .....	246
<b>Net book value</b>	
At 31 January 2000 .....	—
At 31 January 2001 .....	7,142

## NOTES TO THE FINANCIAL STATEMENTS

### 12 Tangible assets

	Freehold property £000	Office furniture and equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>				
At 31 January 2000 .....	—	2,049	355	2,404
Acquisition of subsidiaries .....	2,076	82	58	2,216
Additions .....	—	291	153	444
Disposals .....	—	(8)	(234)	(242)
At 31 January 2001 .....	<u>2,076</u>	<u>2,414</u>	<u>332</u>	<u>4,822</u>
<b>Depreciation</b>				
At 31 January 2000 .....	—	1,645	145	1,790
Charge for year .....	—	294	98	392
Disposals .....	—	(7)	(136)	(143)
At 31 January 2001 .....	<u>—</u>	<u>1,932</u>	<u>107</u>	<u>2,039</u>
<b>Net book value</b>				
At 31 January 2001 .....	<u>2,076</u>	<u>482</u>	<u>225</u>	<u>2,783</u>
At 31 January 2000 .....	<u>—</u>	<u>404</u>	<u>210</u>	<u>614</u>

The company is committed to the following operating lease payments in the year ending 31 January 2002:

	2001		2000	
	Property £000	Office equipment £000	Property £000	Office equipment £000
Operating leases which expire:				
– within one year .....	20	—	4	31
– in one to five years .....	64	115	72	31
– over five years .....	428	—	408	—
.....	<u>512</u>	<u>115</u>	<u>484</u>	<u>62</u>

## NOTES TO THE FINANCIAL STATEMENTS

	Consolidated £000	Company £000
<b>13 Investments</b>		
Market value 31 January 2000 .....	8,922	86
Unrealised appreciation 31 January 2000 .....	(1,057)	(169)
Cost 31 January 2000 .....	9,979	255
Additions at cost .....	4,760	—
Disposals at cost .....	3,783	—
Cost 31 January 2001 .....	10,956	255
Unrealised appreciation 31 January 2001 .....	(1,737)	(222)
Market value 31 January 2001 .....	9,219	33

	2001		2000	
	Consolidated £000	Company £000	Consolidated £000	Company £000
Listed — UK .....	7,598	—	8,002	—
Unlisted .....	1,621	33	920	86
.....	9,219	33	8,922	86

	Consolidated £000	Company £000
<b>14 Own shares</b>		
Cost 31 January 2000 .....	2,128	2,128
Additions at cost .....	532	532
Transferred to beneficial ownership of employees .....	(569)	(569)
Cost 31 January 2001 .....	2,091	2,091

The own shares are held in an employees' benefit trust. These are shown in both the consolidated balance sheet and the company's balance sheet at cost in accordance with accounting practice. Details are shown in note 21.

## NOTES TO THE FINANCIAL STATEMENTS

### 15 Subsidiary undertakings

	Company £000
Cost 31 January 2000 .....	85,606
Cost of acquisitions .....	10,574
Dividend out of pre-acquisition profits .....	(999)
Cost 31 January 2001 .....	<u>95,181</u>

On 2 June 2000 the company acquired the venture capital management company Northern Venture Managers Limited for an initial cost of £6,057,000. In addition, a deferred consideration of up to £3,000,000 will be paid subject to certain growth targets being achieved by April 2003. The discounted value of the deferred consideration of £2,441,000 has been included in the cost of subsidiaries acquired during the year.

The assets and liabilities of Northern Venture Managers at the date of acquisition were as follows:

	Original £000	Fair value adjustments £000	Fair value £000
Fixed asset investments .....	602	347	949
Tangible fixed assets .....	140	—	140
Cash at bank .....	545	—	545
Debtors .....	140	—	140
Creditors .....	(664)	—	(664)
.....	<u>763</u>	<u>347</u>	<u>1,110</u>
Goodwill .....			7,388
Cost of acquisition .....			<u>8,498</u>
Discharged by:			
Cash payment .....			976
Issue of 389,794 shares .....			2,203
Issue of unsecured guaranteed loan notes .....			2,761
Expenses of acquisition .....			117
.....			<u>6,057</u>
Discounted value of deferred consideration .....			2,441
Cost of acquisition .....			<u>8,498</u>
Contribution to the group's cash flow			
Cash inflow from operating activities .....			933
Taxation .....			(53)
Returns on investments and servicing of finance .....			40
Capital expenditure and financial investment .....			(100)
.....			<u>820</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 15 Subsidiary undertakings—contd

Northern Venture Managers Limited made a profit after tax of £471,000 for the 13 months to 31 January 2001. The analysis of profits for the period to 1 June 2000 and for the period from 2 June 2000 was as follows:

	Pre-acquisition £000	Post-acquisition £000
Turnover .....	925	2,172
Administrative expenses .....	810	1,700
Operating profit .....	115	472
Interest and other income .....	50	40
Profit before taxation .....	165	512
Taxation .....	41	165
Profit for the periods to and from acquisition .....	124	347

Amortisation of goodwill attributable to the acquisition in the period was £246,000.

On 6 December 2000 the company acquired James Keiller (Strathtay) Limited (subsequently renamed Edinburgh Fund Managers (Properties) Limited) for £2,076,000. The purpose of the acquisition was to acquire Strathtay House in Dundee. The assets and liabilities of Edinburgh Fund Managers (Properties) Limited at the date of acquisition were as follows:

	Original £000	Fair value adjustments £000	Fair value £000
Tangible fixed assets .....	1,344	732	2,076
Cost of acquisition .....			2,076
Discharged by:			
Cash payment .....			2,025
Expenses of acquisition .....			51
Cost of acquisition .....			2,076

Edinburgh Fund Managers (Properties) Limited was incorporated on 28 June 2000 and made a loss of £24,000 for the period from 28 June 2000 to 31 January 2001. The analysis of profits for the period from 28 June 2000 to 5 December 2000 and for the period from 6 December 2000 to 31 January 2001 was as follows:

	Pre-acquisition £000	Post-acquisition £000
Turnover .....	—	—
Administrative expenses .....	6	—
Operating loss .....	(6)	—
Interest paid .....	(18)	—
Taxation .....	—	—
Loss for the periods to and from acquisition .....	(24)	—

There have been no transactions since the date of acquisition.



## NOTES TO THE FINANCIAL STATEMENTS

### 15 Subsidiary undertakings—contd

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
<b>Directly held subsidiary undertakings</b>			
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	Pooled fund management (Canada)	100
Northern Venture Managers Limited	England	Venture capital fund management (UK)	100
Edinburgh Fund Managers (Properties) Limited	Scotland	Property holding company (UK)	100
<b>Indirectly held subsidiary undertakings</b>			
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

	2001		2000	
	Consolidated £000	Company £000	Consolidated £000	Company £000
<b>16 Debtors</b>				
<b>Amounts falling due within one year:</b>				
Management fees receivable .....	4,275	—	4,230	—
Debtors for shares and units sold or cancelled .....	4,939	—	3,933	—
Deferred consideration on sale of Dunedin Ventures .....	486	—	—	—
Other debtors .....	407	—	387	—
Prepayments .....	947	—	835	—
	<u>11,054</u>	<u>—</u>	<u>9,385</u>	<u>—</u>
<b>Amounts falling due outwith one year:</b>				
Amounts owed by subsidiaries .....	—	11,547	—	10,030
Deferred consideration on sale of Dunedin Ventures .....	—	—	455	—
<b>Deferred taxation:</b>				
Accelerated capital allowances .....	15	—	13	—
Other timing differences .....	47	—	71	—
	<u>62</u>	<u>11,547</u>	<u>539</u>	<u>10,030</u>
	<u>11,116</u>	<u>11,547</u>	<u>9,924</u>	<u>10,030</u>

The decrease in deferred taxation on accelerated capital allowances and other timing differences from 31 January 2000 to 31 January 2001 of £22,000 has been transferred to the profit and loss account (see note 8).

## NOTES TO THE FINANCIAL STATEMENTS

	2001		2000	
	Consolidated £000	Company £000	Consolidated £000	Company £000
<b>17 Other creditors</b>				
Creditors for shares and units repurchased or created .....	5,066	—	3,005	—
Amounts owed to subsidiaries .....	—	9,286	—	10,021
Accruals .....	6,176	2,630	3,382	—
Trade creditors .....	1,140	—	1,024	—
Unsecured guaranteed loan notes 2000-2005 .....	1,035	—	—	—
Provisions (see note below) .....	328	—	378	—
.....	<u>13,745</u>	<u>11,916</u>	<u>7,789</u>	<u>10,021</u>

Provisions:	Pensions £000	Share schemes £000	NIC on share options £000	Total £000
At 31 January 2000 .....	30	348	—	378
Provided during year .....	22	231	45	298
Utilised during year .....	—	(348)	—	(348)
At 31 January 2001 .....	<u>52</u>	<u>231</u>	<u>45</u>	<u>328</u>

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. The provision for national insurance contributions in respect of unapproved share options granted after 5 April 1999 is calculated on the proportion of the gain which would have arisen between the market value of the shares on 31 January 2001 and the price at which the options were granted.

	2001		2000	
	Consolidated £000	Company £000	Consolidated £000	Company £000
<b>18 Creditors: amounts falling due after more than one year</b>				
Unsecured guaranteed loan notes 2000-2005 .....	1,726	1,726	—	—
Discounted deferred consideration .....	2,553	2,553	—	—
.....	<u>4,279</u>	<u>4,279</u>	<u>—</u>	<u>—</u>

The unsecured guaranteed loan notes were issued as part of the consideration on the acquisition of Northern Venture Managers Limited. The total value of loan notes issued was £2,761,000. The loan notes are redeemable, subject to certain restrictions, during the period 30 June 2001 to 30 June 2005. The maximum amount which may be redeemed during the next year is £1,035,000 and is included in other creditors.

The discounted deferred consideration represents the discounted value of £3,000,000 which is payable in June 2003 and is subject to certain growth targets being achieved by Northern Venture Managers Limited.

## NOTES TO THE FINANCIAL STATEMENTS

	Number of shares	£000
<b>19 Called up share capital</b>		
<b>Authorised</b>		
Ordinary shares of 5p each		
At 31 January 2001 and 2000 .....	45,000,000	2,250
<b>Allotted, called up and fully paid</b>		
At 31 January 2000 .....	27,839,884	1,392
Issued during year .....	571,794	29
Issued during year on exercise of options .....	51,406	2
At 31 January 2001 .....	28,463,084	1,423

During the year a total of 51,406 ordinary shares were allotted following the exercise of options under the EFM Group Executive Share Option Scheme and the EFM Group Savings-related Share Option Scheme for a total consideration of £195,000.

On 2 June 2000, 389,794 shares were issued as part of the acquisition of Northern Venture Managers Limited. On 6 June 2000, an additional 182,000 shares were issued through a placing in the market. The total consideration for these shares issued was £3,188,000.

Options relating to share option schemes outstanding at 31 January 2001 to subscribe for new ordinary shares were as follows:

Subscription price	Last date when options exercisable	Number of shares	
		2001	2000
Executive share option schemes			
210p .....	7 June 2000 .....	—	5,000
308p .....	21 June 2002 .....	30,000	30,000
366p .....	21 June 2003 .....	35,000	75,100
604p .....	26 May 2004 .....	180,000	185,000
726p .....	5 October 2005 .....	190,000	190,000
699p .....	24 March 2006 .....	175,000	175,000
592.5p .....	30 September 2006 .....	659,000	696,000
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	440,000
439p .....	23 September 2006 .....	44,000	44,000
661p .....	24 March 2007 .....	400,000	—
661p .....	31 March 2007 .....	20,000	—
632.5p .....	30 September 2007 .....	30,000	—
		2,684,500	2,321,600

## NOTES TO THE FINANCIAL STATEMENTS

### 19 Called up share capital—contd

Subscription price	Last date when options exercisable	Number of shares	
		2001	2000
Savings-related share option schemes			
580p .....	1 June 2001 .....	—	1,306
463p .....	1 June 2002 .....	18,475	21,604
.....		<u>18,475</u>	<u>22,910</u>

Outstanding savings-related share options over existing shares at 31 January 2001 totalled 323,311 shares of which 59,201 are exercisable before 1 December 2002 and 264,110 are exercisable before 1 December 2004.

### 20 Reserves

	Capital redemption reserve £000	Share premium account £000	Special capital reserve £000	Revaluation reserve £000	Profit and loss account £000	Total £000
<b>Consolidated</b>						
At 31 January 2000 .....	183	468	—	(1,057)	11,436	11,030
Retained profit for the year .....	—	—	—	—	1,559	1,559
Issue of shares .....	—	3,352	—	—	—	3,352
Movement in revaluation of investments .....	—	—	—	(680)	(9)	(689)
At 31 January 2001 .....	<u>183</u>	<u>3,820</u>	<u>—</u>	<u>(1,737)</u>	<u>12,986</u>	<u>15,252</u>
<b>Company</b>						
At 31 January 2000 .....	183	468	75,177	(169)	4,845	80,504
Retained loss for the year .....	—	—	—	—	(1,399)	(1,399)
Movement in revaluation of investments .....	—	—	—	(53)	—	(53)
Issue of shares .....	—	3,352	—	—	—	3,352
At 31 January 2001 .....	<u>183</u>	<u>3,820</u>	<u>75,177</u>	<u>(222)</u>	<u>3,446</u>	<u>82,404</u>

Cumulative goodwill written off to reserves to 31 January 2001 amounted to £84,530,000 (2000 – £84,284,000).

There are no non-equity interests in the reserves.

## 21 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 cash bonus schemes to acquire shares. These cash 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 (Deferred Bonus Shares) in lieu of cash will receive an enhancement (Matching Shares) of up to 60% of the number of Deferred Bonus Shares purchased with their after tax bonus. The Deferred Bonus Shares are held within the employees' benefit trust for the beneficial ownership of the employee and, subject to the employee continuing to be employed after three years, the Deferred Bonus Shares and Matching Shares will be transferred to the employee.

The profit sharing scheme is Inland Revenue approved and open to all employees of the group with a minimum of 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. The first award of shares was made in May 2000 in respect of the year ended 31 January 2000. The number of shares held at 31 January 2001 in the profit sharing scheme was 55,000.

A summary of the movement during the year of the shares held within the employees' benefit trust and the profit sharing scheme is as follows:

	Employees' benefit trust				Profit sharing scheme
	Non beneficially held		Beneficially held		Beneficially held
	Unallocated 000's	Matching Shares 000's	Total 000's	Deferred Bonus 000's	000's
At 31 January 2000 .....	486	26	512	43	—
Purchases .....	75	—	75	—	—
Profit sharing scheme .....	(55)	—	(55)	—	55
Bonus scheme .....	(131)	49	(82)	82	—
Transfer to employees/leavers .....	1	(1)	—	(2)	—
At 31 January 2001 .....	376	74	450	123	55

The 450,000 shares which are not beneficially held for employees are included in the balance sheet at a cost of £2,091,000 (market value – £3,167,000). These shares have no dividend entitlement. The unallocated shares will be used principally to satisfy the share options outstanding under the savings-related share options scheme.

### 22 Pensions

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The principal pension scheme provides retirement benefits based on salary close to retirement for eligible group employees. Employees who are not eligible for this scheme are members of defined contribution schemes. Employers' contributions are charged to the profit and loss account. The assets of the schemes 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 defined benefit pension scheme cost for the year was £999,000 (2000 – £862,000). The charge was after a deduction of £446,000 (2000 – £385,000) 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 provision of £52,000 (2000 – £30,000) is included in respect of the cost of providing the unapproved benefits accrued to 31 January 2001 (see note 17).

## 23 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 2001 were as follows:

	Total £000	No interest £000	Floating rate £000
Sterling .....	21,155	8,265	12,890
US Dollar .....	298	—	298
Other currencies .....	948	874	74
.....	<u>22,401</u>	<u>9,139</u>	<u>13,262</u>

The no interest financial assets do not have a maturity date and principally comprise fixed asset investments. These are subject to stock market movements. The floating rate financial assets principally comprise cash and deposit balances which earn interest at rates which fluctuate according to money market rates. Non-sterling cash balances are subject to exchange rate movements.

The group's financial liabilities at 31 January 2001 were the bank overdraft of £4,068,000 which is in sterling, has a floating interest rate and no fixed repayment date and the unsecured guaranteed loan notes of £2,761,000 which have a floating interest rate and are repayable between 30 June 2001 and 30 June 2005.

## TEN YEAR RECORD

Year ended 31 January	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m
Funds under management	1,906	2,391	4,011	3,437	3,538	7,638	7,256	6,622	8,035	8,566
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Shareholders' funds	15,045	15,711	17,002	21,848	26,439	26,502	7,868	7,615	12,422	16,675
Fund management income	8,738	9,693	17,072	22,339	18,913	30,544	29,468	26,693	29,513	36,130
Net profit from OEIC and unit trust trading	522	1,383	1,415	1,603	709	585	546	308	422	210
Turnover	9,260	11,076	18,487	23,942	19,622	31,129	30,014	27,001	29,935	36,340
Administrative expenses (excluding goodwill)	6,047	7,202	10,643	11,458	9,595	14,604	15,977	17,962	19,907	24,741
Goodwill	—	—	—	—	—	—	—	—	—	246
Operating profit	3,213	3,874	7,844	12,484	10,027	16,525	14,037	9,039	10,028	11,353
Profit on disposal of investments	90	(57)	1,028	214	447	(34)	(68)	45	528	498
Other net income	1,480	1,182	903	1,043	1,496	1,475	578	604	267	359
Profit on ordinary activities before taxation and exceptional items	4,783	4,999	9,775	13,741	11,970	17,966	14,547	9,688	10,823	12,210
Exceptional items	—	—	—	—	799	(5,408)	2,414	2,002	1,281	—
Profit on ordinary activities before taxation	4,783	4,999	9,775	13,741	12,769	12,558	16,961	11,690	12,104	12,210
Taxation	1,326	1,616	2,741	4,250	3,997	4,222	5,127	3,770	3,616	3,637
Profit on ordinary activities after taxation	3,457	3,383	7,034	9,491	8,772	8,336	11,834	7,920	8,488	8,573
Minority interest	10	12	11	9	8	7	9	(1)	—	—
Profit for the financial year	3,447	3,371	7,023	9,482	8,764	8,329	11,825	7,921	8,488	8,573
Earnings per share excluding goodwill and exceptional items	18.6p	18.1p	37.2p	49.7p	42.3p	40.2p	35.6p	23.6p	27.5p	31.4p
Dividends per share	13.0p	13.5p	22.0p	24.0p	25.0p	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.



## Financial calendar

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

- |                    |   |
|--------------------|---|
| <b>April –</b>     | Preliminary figures and recommended final dividend for year announced<br><br>Annual report and accounts published |
| <b>May –</b>       | Annual general meeting and final dividend paid  |
| <b>September –</b> | Interim figures to 31 July and interim dividend announced   |
| <b>October –</b>   | Interim report for half year to 31 July published   |
| <b>November –</b>  | Interim dividend paid   |

## Annual general meeting

This year's annual general meeting will be held at Donaldson House on Friday 18 May 2001 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.

## Edinburgh Fund Managers Group plc

**Chairman:**

Colin Ross

**Deputy Chairman:**

*Sir Angus Grossart*

**Chief Executive:**

Iain Watt

**Directors:**

Mike Balfour

Johnnie Blair

Donald MacDonald

Angus MacDonald

### **Edinburgh Fund Managers plc**

**Chairman:**

Iain Watt

**Directors:**

Mike Balfour

*(Chief Investment Officer,  
Managing Director)*

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

Nigel Whittingham

### **Edinburgh Unit Trust Managers Limited**

**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) Limited**

**Chairman:**

Iain Watt

**Directors:**

Alan Aitchison

Graham Brock

Harry Morgan

*(Managing Director)*

Robert Seaton

### **Northern Venture Managers Limited**

**Chairman:**

Michael Denny

**Directors:**

Alastair Conn

*(Managing Director)*

Tim Levett

Christopher Mellor

Iain Watt

Norman Yarrow

Notice is hereby given that the sixth 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 18 May 2001 at 12.15 pm for the following purposes:

## Ordinary business

### ORDINARY RESOLUTIONS

1. to adopt the reports of the directors and auditors and the financial statements for the year ended 31 January 2001;
2. to declare a final dividend of 17p per share;
3. to re-elect Mr J W Blair as a director;
4. to re-elect Sir Angus Grossart as a director;
5. to re-appoint KPMG Audit Plc as auditors;
6. to authorise the directors to fix the auditors' remuneration;
7. that, in substitution for any existing authority under section 80 of the Companies Act 1985 (the 'Act'), but without prejudice to the exercise of any such authority prior to the date hereof, the directors be and they are hereby 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 £474,000, such authority to expire on 17 May 2006, unless previously revoked, varied or renewed 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 may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired;

### SPECIAL RESOLUTIONS

8. that, in substitution for any existing power under section 95 of the Act, but without prejudice to the exercise of any such power prior to the date hereof, the directors be and

they are hereby empowered, in accordance with section 95(1) of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash, pursuant to the authority under section 80 of the Act conferred on the directors by an ordinary resolution of even date herewith (the 'section 80 authority'), as if section 89(1) of the Act did not apply to any such allotment, up to an aggregate nominal amount of £474,000, such power to expire on 17 May 2006 (or, if earlier, on the revocation of the section 80 authority), unless previously revoked, varied or renewed by the company in general meeting, provided that such power shall be limited to the allotment of equity securities:

- (i) in connection with an offer of equity securities open for acceptance for a period fixed by the directors to the holders of ordinary shares in proportion (as nearly as practicable) to their respective holdings of such ordinary shares (but subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with legal problems under or resulting from the application or apparent application of the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever); and
- (ii) other than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £71,157;

save that the company may, at any time prior to the expiry of such power, make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the directors may allot equity securities in pursuance of such an offer or agreement as if such power had not expired; and

9. that the company be and is hereby generally and unconditionally authorised, in accordance with section 166 of the Act, to make market purchases (within the meaning of section 163(3) of the Act) of fully paid ordinary shares of 5p each in the capital of the company ('shares'), provided that:

## NOTICE OF MEETING

- (i) the maximum aggregate number of shares hereby authorised to be purchased shall be 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 (exclusive of expenses); and
- (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations (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;

such authority to expire on the earlier of 17 November 2002 or at the conclusion of the annual general meeting of the company to be held in 2002, unless previously revoked, varied or renewed by the company in general meeting, save that the company may at any time prior to the expiry of such authority enter into a contract to purchase shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of shares in pursuance of any such contract.

Catherine C J Miller  
**Secretary**  
Edinburgh, 18 April 2001



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 (or persons) (whether a member of the company or not) as his proxy (or proxies) to attend and vote on a poll in his stead. Proxies must be lodged with 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 21 May 2001.*

## FORM OF PROXY

I/We \_\_\_\_\_

of \_\_\_\_\_

BLOCK  
CAPITALS  
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 18 May 2001 at 12.15 pm and at any adjournment thereof.

	For	Against
Adoption of directors' and auditors' reports and financial statements		
Declaration of final dividend		
Re-election of J W Blair <sup>(1)</sup> <sup>(2)</sup> as a director		
Re-election of Sir Angus Grossart <sup>(1)</sup> <sup>(2)</sup> <sup>(3)</sup> as a director		
Re-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 \_\_\_\_\_

<sup>(1)</sup> Audit committee member

<sup>(2)</sup> Nominations committee member

<sup>(3)</sup> Remuneration committee member

### 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

COMPUTERSHARE SERVICES PLC  
PO BOX 457, OWEN HOUSE  
8 BANKHEAD CROSSWAY NORTH  
EDINBURGH EH11 OXG

First fold

Third fold and tuck in

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Donaldson House

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