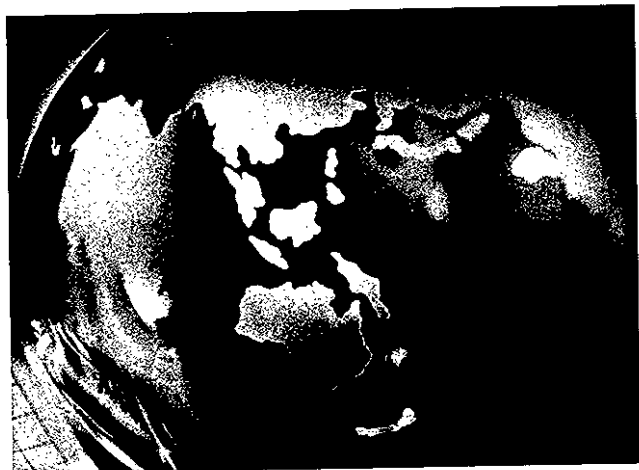


157875



1998

## Edinburgh Fund Managers Group plc

Annual Report and Accounts for the year ended 31 January 1998



*[Handwritten signature]*





<b>Contents:</b>	<b>Page</b>
Our Mission	1
Summary Financial Information	1
Chairman's Statement	2
Chief Executive's Review	3
Operating and Financial Review	7
Corporate Information	10
Board of Directors	11
Directors' Report	12
Report of the Remuneration Committee	14
Corporate Governance	17
Statement of Directors' Responsibilities	18
Review Report by KPMG Audit Plc on Corporate Governance Matters	18
Report of the Auditors	19
Consolidated Profit and Loss Account	20
Consolidated Balance Sheet	21
Company Balance Sheet	22
Statement of Total Recognised Gains and Losses	23
Note of Historical Cost Profits and Losses	23
Reconciliation of Movement in Shareholders' Funds	23
Consolidated Cash Flow Statement	24
Notes to the Financial Statements	26
Ten Year Record	36
Shareholder Information	37
Corporate Legal Structure	38
Notice of Meeting	39
Form of Proxy	41

## Our Mission

Edinburgh Fund Managers is an innovative investment management company which creates and delivers investment solutions to its clients.

## Summary Financial Information

	1998 £000	1997 £000
Turnover	£30,014	£31,129
Operating profit (before exceptionals)	£14,037	£16,525
Pre-tax profit (after exceptionals)	£16,961	£12,558
Earnings per share (before exceptionals)	35.6p	40.2p
Dividends per share	25.0p	25.0p
Number of shares in issue	27.7 million	31.3 million
Funds under management	£7,256 million	£7,638 million



## Chairman's Statement

Funds under management remained unchanged during the second six months of the year at £7.3 billion, although there was a marginal reduction from £7.6 billion in 1997, principally due to the liquidation of the £900 million British Investment Trust. As reported at the interim stage, the board felt that it was in the best interest of shareholders to utilise some of the company's accumulated cash to take advantage of the lower share price and purchase for cancellation part of the equity in issue. During the last year, approximately 11.7% of the equity was bought back.



The severe declines in Pacific stock markets had an adverse effect on income in the latter half of the year contributing to a fall in earnings per share (before exceptional items) from 40.2p to 35.6p. The board is recommending an unchanged final dividend of 17p per share, payable on 20 May 1998 to shareholders on the register on 14 April 1998. If approved, the total dividend for the year will be unchanged at 25p per share.

I referred last year to our commitment to improve investment performance and I am delighted that this has been, and is being, achieved. Specific areas of outperformance are highlighted in the Chief Executive's Review.

Turning to the current year there are two factors which cannot be ignored. With the emphasis on continuity of investment managers and the continued focus on investment performance throughout the industry, the remuneration of investment personnel is critical. It is essential that, in a competitive environment, our people are properly rewarded and I am pleased to report that shareholders approved the various incentivisation schemes at the extraordinary general meeting held on 10 March 1998.

Secondly, as the global marketplace becomes increasingly competitive, the building of a strong brand name is essential. In order to achieve this there is a growing requirement for a significant advertising and promotional spend. However, we

recognise that we have to translate the delivery of consistent investment performance into new business to compensate for this increase in costs.

You will be aware that a number of fund management companies have joined larger financial conglomerates. The board considers that it is premature to judge the effectiveness of these developments and that a strong, independent fund management group should continue to have a promising future.

Lord Macfarlane of Bearsden is retiring from the board at the annual general meeting. Even taking into account his enormous contribution to the business and cultural life of Scotland, he has always been available to advise and contribute to the direction of the group. His colleagues are grateful for his support.

A handwritten signature in dark ink, appearing to read 'C H Ross', written in a cursive style.

**C H Ross**  
*Chairman*

Edinburgh, 24 March 1998

## Chief Executive's Review

1997 was an exciting and significant year for Edinburgh Fund Managers and one in which firm foundations were laid for the continued future expansion of the group. Many strategic, operational and structural changes were made over the year, to enable us to compete effectively into the next millennium. The results have been favourable and we are now better placed to get on with what we do best – namely, managing money for our clients and adding value for our shareholders.



Looking to the year ahead, our immediate task is to increase the size of funds under management whilst continuing to deliver consistent, above average investment performance.

The most significant events in 1997 included:

- The British Investment Trust liquidation and share buy-back;
- American Trust new investment mandate;
- Edinburgh Dragon Trust continuation vote;
- Investment Performance, Process and Team Structure;
- Sales and Marketing Strategy.

### Corporate Activity

#### The British Investment Trust liquidation and share buy-back

In the first half of the year, we bought back 25% of The British Investment Trust's holding in the Edinburgh Fund Managers Group when the trust was liquidated, at a cost of £14.9 million, and assisted with the placing of the balance, in a move to widen and stabilise our shareholder base. Thereafter, we spent a further £5 million on buying back our own shares, taking the total cost of our buy-backs to £19.9 million. This reduced the issued share capital by 11.7%. The minority shareholders of BIT became unitholders of the specifically created Edinburgh Global Value unit trust which began trading in May 1997. The trust is currently worth £62 million, and has a strong performance record.

#### American Trust new investment mandate

In June of last year, American Trust (now known as Edinburgh US Tracker Trust) became the first UK-listed, North American, indexed investment trust, tracking the S&P 500. The move was taken to narrow the discount and enhance shareholder value. We have subsequently seen the discount narrow from 20% to around 5%, with the £420 million trust closely tracking the S&P 500 Index.

#### Edinburgh Dragon Trust continuation vote

Edinburgh Dragon Trust secured a continuation vote at the end of last year as its ten year mandate came to an end. The trust, which is the largest to specialise in the Far East and which recently received a Micropal Award for coming first in its sector over one year, has had its life extended to the end of the year 2000. At the same time, it was also granted the ability to buy back its own shares if the discount were to reach an unacceptable level.

### Investment Performance, Process and Team Structure

#### Investment performance

1997 was an excellent year for investment performance across our entire range of institutional, pension and retail funds. Our UK balanced pension funds returned 17% over the year, well ahead of the industry average of 15.6%. In addition, the vast majority, almost 90%, of our US client portfolios outperformed their benchmarks over 1997. More than three-quarters of our unit trusts outperformed their rivals over three years, while over 70% of our investment



## Chief Executive's Review

trusts outperformed both their rivals and their benchmarks over the year.

### Investment process

An enormous amount of work was carried out in 1996 to develop our enhanced investment process. We have already been able to see the benefits of this coming through in the 1997 performance figures outlined above. Although we are a value investor, we take a flexible and pragmatic approach to managing money. This approach combines quantitative and qualitative stock selection with fundamental geographical and economic analysis.

### Investment team structure

We have added no less than eight investment professionals to our fund management team over the past year, three of whom are senior appointments, and have restructured the reporting lines in the process.

We have divided the investment division into Emerging Markets, now headed by Investment Director Richard Muckart, and Developed Markets, headed by newly recruited Investment Director Iain Beattie. These two experienced individuals report to Mike Balfour, the Chief Investment Officer. As an added incentive, we have recently introduced a team-based bonus scheme, to reward our investment professionals for consistent performance.

### Sales and Marketing Strategy

We have also reinforced our IFA sales team by attracting completely fresh blood, making a number of key appointments of outstanding sales personnel from elsewhere in the industry. Having appointed a new Head of Retail Sales, we are now looking to appoint a Head of Institutional Sales.

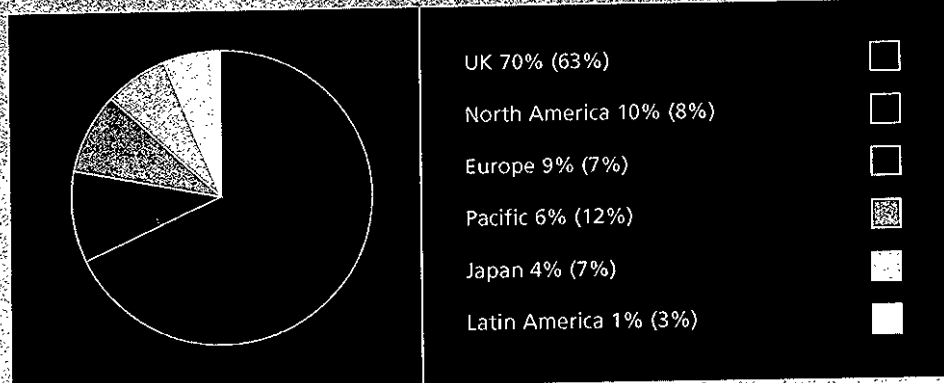
We have strengthened our marketing department, as well as doubling our advertising and marketing spend from £1 million last year to £2 million for the coming year. In the long run, we expect the initiative to boost our bottom line significantly.

Brand awareness benefits every part of the business – supporting shareholders, investors and IFAs alike. Within this strategy, sponsorship also plays a significant part in name recognition, which is why we decided last year to support golfer Raymond Russell in a three-year sponsorship programme.

### New Initiatives and Product Updates

1996 and 1997 were extremely encouraging for us in terms of successful product development. We have mastered that often elusive chemistry of listening to our customers and designing products which the market actually wants. We aim to continue this process over the year ahead, as well as implementing aggressive growth and marketing plans.

Funds under management – by geographic distribution



## Chief Executive's Review

I am very pleased to say that our new Managed Growth Portfolio unit trust, which was launched in the summer of 1997, has been extremely well received and has attracted over £11 million in just six months from both IFAs and individual investors.

Our private client business is proportionately the fastest growing division of the company, enjoying record inflows of funds. Over the past year, private client funds increased from £179 million to £228 million and the number of new client portfolios increased significantly.

### Investment trusts

In addition to the specific corporate activities mentioned earlier, Edinburgh Fund Managers has taken a great deal of time and effort to meet shareholders to keep them up to date. We believe that a proactive approach to investor communication is an important part of the overall service we provide.

1997 has also seen an improvement in investment trust performance, with over 70% of funds outperforming their benchmarks.

The Investment Trust Pension, which was launched in May 1996, and the PEP and regular savings plan, which were revamped last year, have now attracted over £200 million from more than

36,000 investors. Our aim is to build on this success by maintaining the consistency of service and performance whilst promoting these products to an ever-wider target audience.

### Unit trusts

A complete review of our unit trust range during the year has resulted in a decision to consolidate our fund range, with a series of proposed amalgamations in the year ahead, subject to unit holder approval.

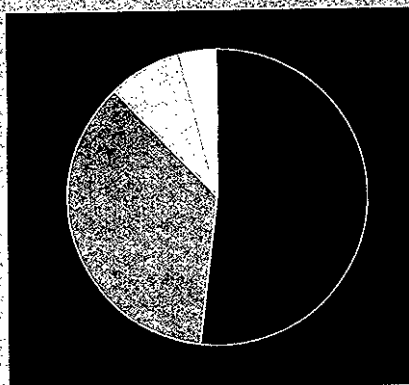
Our outstanding unit trust performance has been the focus of an extensive advertising campaign during 1997. Not only are six of our unit trusts in the top quartile over one year, but we have a greater percentage of our unit trusts in the first and second quartile over 1,2,3,4, and 5 years, than all but one of the UK's top 10 unit trust managers.

With the current proposed changes to the savings and investment industry and its products, we believe that we are well placed to take advantage of opportunities presented by the new OEICs and proposed ISAs.

### Institutional business — UK

1997 saw a significant improvement in the investment performance of our UK pension fund business. Coupled with this, we put considerable

Funds under management — by client



Investment Trusts 52% (56%)  
 Institutional Clients 36% (32%)  
 Unit Trusts 8% (9%)  
 Private Clients & Charities 4% (3%)

## Chief Executive's Review

effort into working with our institutional clients to build strong relationships for the future.

We perceive the UK pension fund market to be a key area in our plans for future growth. To achieve this objective, we are currently looking to recruit a Head of Institutional Sales to develop our business in this market.

### **Institutional business - International**

We enjoyed a very good year in Canada in terms of new business volumes. Within the Canadian market, there are a limited number of companies like Edinburgh Fund Managers who have truly global equity experience and we view this as a strong selling point. With this in mind, we have ambitious plans to secure ourselves a strong foothold in North America and continue to strengthen our penetration of the Canadian market. Over the next 12 to 18 months we will be actively seeking to win mandates from organisations who have a need for that international expertise.

### **Staff**

On your behalf, I would like to thank our staff for their enthusiasm, commitment and hard work during the past year. They are looking forward to the challenges of the next 12 months.

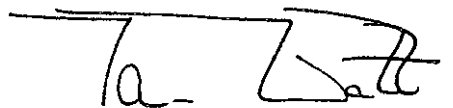
## The Way Ahead

### **Investment performance and new business**

Quite simply, maintaining our strong investment performance and attracting new business are our two core aims for 1998, and we are very well placed to achieve both. Industry events and changes taking place offer us a helping hand. Greater consolidation is taking place in the market, which results in bigger organisations. One concern is that the needs of their clients may be neglected during this process. The key focus for management is capitalising on this opportunity to benefit our clients, shareholders and staff.

### **Focus**

Our strategy for the year ahead is clear. Our aim is twofold; to put new business on the books by having the foresight to take advantage of industry changes, and to continue to deliver consistent, above average investment performance. Recruiting and retaining quality people and employing a disciplined investment process are key to achieving these goals.







**I A Watt**  
Chief Executive

Edinburgh, 24 March 1998



## Operating and Financial Review

-  Profit before tax up 35% from £12.6 million to £17.0 million.
-  Reduction of 11% in earnings per share excluding exceptional items.
-  Turnover reduced by 4%.
-  Increase of 9% in operating costs.

### Operating Review

Overall, 1997 was a very encouraging year for Edinburgh Fund Managers, considering the two potentially dampening influences of The British Investment Trust ('BIT') liquidation in the first half, and the Asian crisis in the second half. These affected both our funds under management and the associated fee income. The buy back of 11.7% of our shares had a negative impact on cash flow but had a small positive effect on earnings per share.

Although the UK, US and European markets rose by over 20%, smaller company stocks did not perform as well. The UK smaller company sector only showed a 2% gain. The Asian crisis caused a drop in Pacific markets of 42% in sterling terms and effectively halved our exposure to the Pacific region, from 12% to 6% of funds under management.

At the same time, our UK exposure has increased from 63% to 70%, compared to just 48% in 1996. As fees from managing UK investments are lower than those generated from specialist funds investing in the Pacific Basin, revenues were also lower.

Following the British Coal Pension Schemes' decision to liquidate the £900 million BIT, the minority shareholders have now become

unitholders in the £62 million Edinburgh Global Value unit trust. Despite this net loss, funds under management only suffered a marginal decline of 5% from £7.6 billion to £7.3 billion.

### Results for the Year

#### Turnover

The combination of the above resulted in a fall in turnover of 4% from £31.1 million in 1997 to £30.0 million in 1998. In the previous year, the revenue from BIT was 7.5% of turnover. This year fees were only received in the first quarter. The indexation of American Trust (now US Tracker) also meant a reduction in fees. Overall turnover as a percentage of funds under management fell marginally from 0.43% to 0.41%. Investment trusts continued to account for over half of our revenues, with increased revenues coming from pension funds (which had a much higher weighting to the growth markets in the year) and our private client business which generated the largest growth in income, rising 28%.

#### Costs

Operating costs have risen by 9% over the past year, from £14.6 million to £16.0 million, largely as a result of the inclusion of additional costs of Dunedin Fund Managers for 12 months rather than 10½ months in the previous year. The proposed increase in marketing spend will increase costs next year.

### Market Returns (year to 31 January 1998)

Region	Percentage movement	
	Local currency	Sterling adjusted
UK	+22	+22
UK Smaller Companies	+2	+2
US	+25	+22
Europe (ex UK)	+38	+23
Japan	-9	-13
Pacific (ex Japan)	-32	-42
Latin America	+11	+2



## Operating and Financial Review

Costs as a percentage of funds under management have increased slightly at 0.22% compared to 0.20% the previous year, but remain well below those of our main competitors.

### Operating profit

Operating profit fell by 15.1% over the year to 31 January 1998 from £16.5 million (excluding exceptional items) to £14.0 million.

### Interest and other income

The cost of the share buy backs of £19.9 million was met principally out of cash reserves which led to a reduction in the interest received. The balance was financed by an overdraft for which an additional interest cost of £391,000 was incurred. The £4.4 million overdraft balance at the year end is expected to be repaid in full over the coming year.

The compensation received from the BIT liquidation (net of related costs) has been treated as other income and due to the exceptional nature is identified separately.

### Pre-tax profit

Pre-tax, pre-exceptional profit fell by 19%, taking into account the compensation we received from

the loss of the management contract of BIT of £2.4 million.

### Taxation

The effective tax rate of 30.2% is lower than that of the 33.6% seen last year, following the reduction in corporation tax to 31% from 1 April 1997, and an overprovision in the previous year.

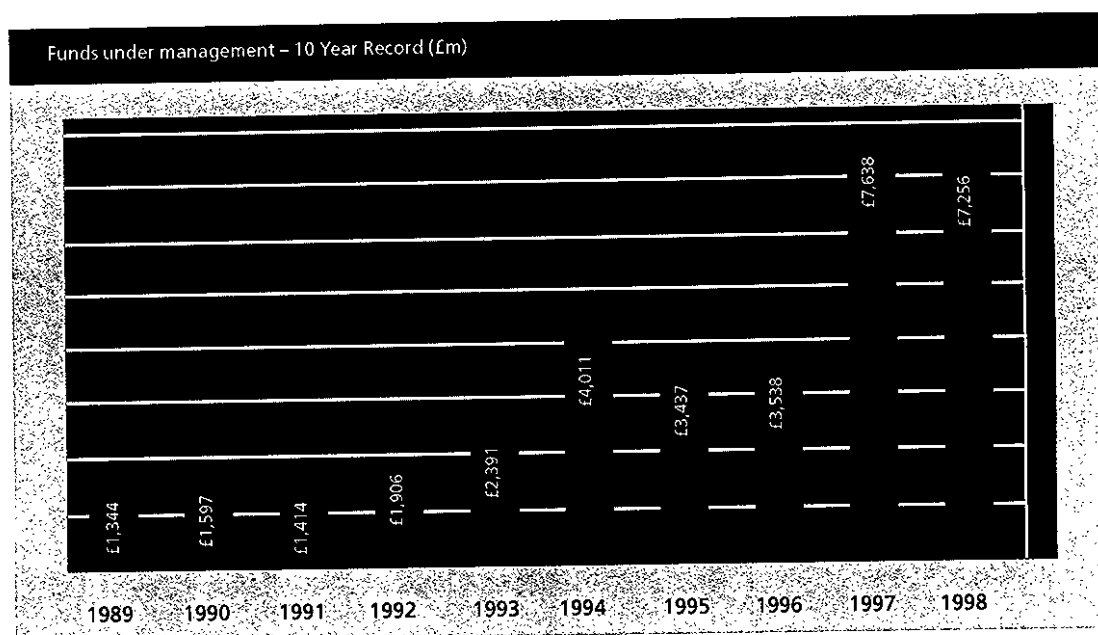
### Earnings per share

Earnings per share were up 48% from 28.1p to 41.5p, although earnings per share, excluding exceptionals, fell 11% from 40.2p to 35.6p.

The proposed final dividend of 17p makes a total of 25p for the year and is unchanged from last year. The overall cost, however, is lower because there are fewer shares in issue.

### Capital and reserves

Our net cash balances totalled £8.9 million, at 31 January 1998, compared to £34 million the previous year. However, cash balances at the end of January 1997 were approximately £10 million higher than in the previous year, due to an unusually high level of unit trust activity at the year end. This, combined with the £19.9 million



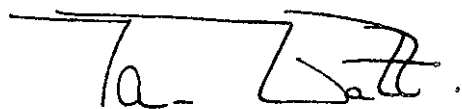
## Operating and Financial Review

share buy back, of which £15 million came from cash resources, explains the lower cash figure.

### Technology, the Millennium Bug and the Euro

The year 2000 project is being addressed as a top priority as is the EMU. Edinburgh Fund Managers is on target to have completed the millennium project by the end of 1998 at a cost to the group of £250,000. As a global fund management company, we are better placed than many organisations because we are already dealing in multiple currencies. The introduction of the Euro as a valuation and settlement currency will, therefore, require only minor systems changes to be implemented for the first phase.

Going forward, we believe that we are well positioned to take advantage of the opportunities that the next millennium will bring.



**I A Watt**  
*Chief Executive*

Edinburgh, 24 March 1998



## Corporate Information

### Registered Office

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

### Registrars

Computershare Services plc  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Telephone: 0131-523 6666

### Bankers

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

### Auditors

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

### Joint Stockbrokers

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

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



## Board of Directors

**C H Ross***Chairman*

C H Ross CA is chairman of Edinburgh Oil and Gas.

**Sir Angus Grossart***Deputy Chairman*

Sir Angus Grossart CBE, LLD, FRSE, DL is chairman and managing director of Noble Grossart, chairman of The Scottish Investment Trust and Edinburgh US Tracker Trust, vice chairman of The Royal Bank of Scotland and a director of a number of other companies.

**I A Watt***Chief Executive*

I A Watt is an associate of the Institute of Bankers in Scotland. He is also a director of Edinburgh New Tiger Trust and Edinburgh Dragon Trust.

# the board

**J W Blair***Director*

J W Blair BA, LLB, WS is senior partner of an Edinburgh legal firm.

**Lord Macfarlane of Bearsden***Director*

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

**A D M MacDonald***Director*

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



## Directors' Report

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 January 1998.

### Business of the group

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

### Review of activities

A review of the business and likely future developments of the group are given in the chairman's statement, the chief executive's review and the operating and financial review on pages 2 to 9.

### Share capital

On 7 April 1997, the company bought back 2,645,000 ordinary shares from The British Investment Trust PLC and, during June and July 1997, 1,005,000 ordinary shares were bought back from the market. The total consideration for these shares, which were cancelled, was £19,863,000.

During the year to 31 January 1998, the issued share capital was increased by 75,347 ordinary shares as a result of the exercise of options under both the company's executive and savings-related share option schemes. Since 31 January 1998, a further 68,559 have been issued under the company's savings-related share option scheme.

Details of the authorised and issued ordinary share capital are shown on page 33.

### Dividends

The directors recommend that a final dividend of 17p (1997-17p) per share be paid on 20 May 1998 to holders of ordinary shares on the register on 14 April 1998 making a total payment of 25p (1997-25p) per share for the year.

The group's profit and loss account surplus for the year of £5,353,000 will be transferred to reserves.

### Directors

The board comprises one executive director and five non-executive directors. Their interests in the company's shares are listed on page 16.

In accordance with the articles of association, Mr J W Blair retires from the board at this time and is eligible for re-election.

Lord Macfarlane of Bearsden will retire at the conclusion of the annual general meeting.

### Payment policy

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

The amount owed to trade creditors at 31 January 1998 represented 10 days' average purchases.

### Going concern

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

Holder	% of share capital held
Hermes Investment Management	11.4
M&G Investment Management	9.1
General Accident	9.0
Prudential Corporation	8.8
Regent Pacific Corporate Advisory	3.6
NFU Mutual Insurance Society	3.2

## Directors' Report

### Substantial share interests

At 24 March 1998, the interests as noted in the table opposite in the ordinary share capital had been notified to the company.

### Charitable donations

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

### Auditors

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

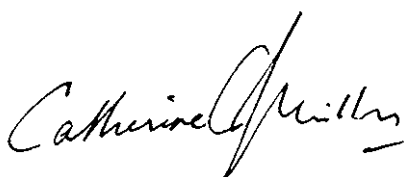
### Annual general meeting

At the annual general meeting to be held on 19 May 1998, the following two resolutions will be proposed to give the directors limited power to allot shares in disapplication of statutory pre-emption rights and give the company the authority to purchase its own shares:

- Special resolution 6 will be proposed for the purpose of empowering the directors to allot unissued ordinary shares for cash without applying pre-emption rights if the issue is either made in connection with a rights issue or does not exceed 5% of the issued ordinary share capital.
- Special resolution 7 will be proposed to authorise the company to make market purchases of its own shares. This authority, if conferred, will only be exercised if to do so would result in an increase in earnings per share and is in the best interests of shareholders generally.

By order of the board  
**Catherine C J Miller**  
 Secretary

Edinburgh, 24 March 1998




## Report of the Remuneration Committee

### Composition of the remuneration committee

The members of the remuneration committee ('committee') are given on page 17.

### Compliance

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

### Remuneration policy

The remuneration of executive directors, including those of subsidiary undertakings, ('executives') is determined by the non-executive members of the board after considering recommendations from the committee.

At an extraordinary general meeting held on 10 March 1998 ('EGM'), shareholders gave their approval for the adoption of several new employee incentive schemes. The board is committed to pursuing a strategy for 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 its objective. The policy is to align the interests of the company's employees more closely with those of the company's shareholders by encouraging employees to acquire and retain an equity stake in the company. The remuneration of non-executive directors is determined by the full board within the limits set by the company's articles of association.

### Directors' service contracts

The executive director's service agreement 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 and private medical benefits are provided.

### Executive share options

An unapproved executive share option scheme was endorsed by shareholders at the EGM. Under the scheme, ordinary options or super options may be granted 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 exceed 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 1998, bonuses were awarded, at the discretion of the board, to certain executives in recognition of particular achievements during the year.

## Report of the Remuneration Committee

### Directors' emoluments

	Basic salary £000	Bonus £000	Fees £000	Benefits £000	Total emoluments excluding pensions	
	1998 £000	1997 £000				
<b>Executive</b>						
I A Watt	190	50	—	9	249	219
<b>Non-executive</b>						
J W Blair	—	—	10	—	10	10
J R Cowan (resigned May 1996)	—	—	—	—	—	3
Sir Angus Grossart	—	—	10	—	10	10
A D M MacDonald	—	—	10	—	10	10
Lord Macfarlane of Bearsden	—	—	10	—	10	10
C H Ross	—	—	30	—	30	30
Total 1998	190	50	70	9	319	292
Total 1997	155	50	73	14	292	

At the EGM shareholders approved the adoption of a new annual incentive scheme. Executives with objective measurable performance can earn a pre-determined minimum bonus if a challenging performance target is met. A discretionary annual bonus scheme has also been introduced 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 annual bonuses are subject to upper limits.

Executives may now elect to take all or part of their bonus net of tax in shares of the company whereby the company will buy the shares in the market and deposit them with an Employees' Benefit Trust. If the shares are held for a minimum of three years in the Trust the executive will receive an enhancement of up to 60% of the 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 benefits being paid based on final pensionable salary adjusted to reflect early or late payments respectively. The pension will be increased after retirement in line with inflation up to 5% per annum with 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-two at 31 January 1998, amounts to £109,000 (1997-£82,000). This change reflects the salary increase he received during the period. The additional pension earned in excess of inflation (at the rate of 3.2%) during the year amounted to £25,000.



## Report of the Remuneration Committee

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

	1998			1997		
	Share options			Share options		
	Ordinary shares	Executive	Savings-related	Ordinary shares	Executive	Savings-related
J W Blair	9,000	—	—	9,000	—	—
J W Blair (non beneficial)	2,150	—	—	2,150	—	—
Lord Macfarlane of Bearsden	16,000	—	—	16,000	—	—
C H Ross	500,000	—	—	500,000	—	—
I A Watt	136,288	60,100	—	125,468	60,100	8,549

### Directors' share options

	31.1.97	Options granted	Options exercised	31.1.98	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*	726.0p	6.10.98	5.10.05
	25,000	—	—	25,000*	592.5p	1.10.99	30.9.06
<b>Total</b>	<b>60,100</b>	<b>—</b>	<b>—</b>	<b>60,100</b>			

### Directors' interests

The interests detailed above are beneficially held by the directors unless otherwise stated. Other than those disclosed above, no director had any interests in the share capital of any group company. The company has not been notified of any changes in the above holdings between 31 January 1998 and 24 March 1998.

### Directors' share options

No options lapsed during the year. The market price on the date the savings-related share options were exercised was 457.5p. The gain on exercise of options during the year amounted to £21,000. The market price of the shares at 31 January 1998 was 448.5p and the range during the year was 442.5p to 598.5p.

\* 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% per annum over the same period.

*Sir Angus Grossart*

On behalf of the board

**Sir Angus Grossart**

Chairman,

Remuneration committee

Edinburgh, 24 March 1998

## Corporate Governance

### Compliance

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

### Internal control

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

### Board committees

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

### Audit committee

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

### Nominations committee

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

### Remuneration committee

The committee is responsible for reviewing the group's remuneration policy (as set out on page 14) and, within that policy, for making recommendations to the board, whose non-executive members determine the remuneration packages of the executives of the group. It is also responsible for monitoring the group's incentive schemes (including share option schemes) for executives and employees.

Audit committee	Nominations committee	Remuneration committee
Sir Angus Grossart ( <i>Chairman</i> )	C H Ross ( <i>Chairman</i> )	Sir Angus Grossart ( <i>Chairman</i> )
J W Blair	J W Blair	Lord Macfarlane of Bearsden
A D M MacDonald	Sir Angus Grossart	C H Ross
C H Ross		



## Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and 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;

- 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.

## Review Report by KPMG Audit Plc on Corporate Governance Matters

### To Edinburgh Fund Managers Group plc

In addition to our audit of the accounts, we have reviewed the directors' statements on page 17 on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to any non-compliance with the disclosure requirements of the Listing Rules 12.43(j) and 12.43(v).

### Basis of opinion

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

### Opinion

With respect to the directors' statements on internal financial control on page 17 and going concern on page 12, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 17 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

**KPMG Audit Plc**  
Chartered Accountants

Saltire Court  
Edinburgh  
24 March 1998

*KPMG Audit Plc*

## Report of the Auditors

### To the members of

#### Edinburgh Fund Managers Group plc

We have audited the financial statements on pages 20 to 35. We have also examined the amounts disclosed relating to emoluments, share options and long-term incentive scheme interests of the directors which form part of the report of the remuneration committee on pages 14 to 16.

#### Respective responsibilities of directors and auditors

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

#### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 January 1998 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

24 March 1998



# Consolidated Profit and Loss Account

for the year ended 31 January 1998

	Notes	1998 £000	1997 £000
TURNOVER	2	30,014	31,129
ADMINISTRATIVE EXPENSES			
Ordinary	3	15,977	14,604
Exceptional	3	—	5,408
		<u>15,977</u>	<u>20,012</u>
OPERATING PROFIT		14,037	11,117
Loss on disposals of investments	5	(68)	(34)
Other income – ordinary	6	969	1,475
– exceptional	6	2,414	—
		<u>3,383</u>	<u>1,475</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		17,352	12,558
Interest payable	7	391	—
		<u>16,961</u>	<u>12,558</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		16,961	12,558
TAXATION	8	5,127	4,222
		<u>11,834</u>	<u>8,336</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		11,834	8,336
Minority interest		9	7
		<u>11,825</u>	<u>8,329</u>
Profit for the financial year		11,825	8,329
DIVIDENDS	9	6,472	9,797
		<u>5,353</u>	<u>(1,468)</u>
Retained profit/(loss) for the year	17	5,353	(1,468)
EARNINGS PER SHARE	10	41.5p	28.1p
EARNINGS PER SHARE (before exceptional items)	10	35.6p	40.2p

## Consolidated Balance Sheet

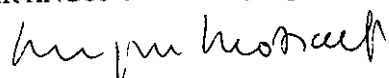
at 31 January 1998

	Notes	1998 £000	1997 £000
<b>FIXED ASSETS</b>			
Tangible assets	11	980	1,249
Investments	12	6,419	8,039
		<u>7,399</u>	<u>9,288</u>
<b>CURRENT ASSETS</b>			
Stock of units		843	3,139
Debtors	14	8,702	10,961
Cash and deposits		13,286	34,232
		<u>22,831</u>	<u>48,332</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Bank overdraft		4,401	—
Taxation and social security		3,963	5,782
Other creditors	15	9,168	19,898
Proposed final dividend		4,710	5,317
		<u>22,242</u>	<u>30,997</u>
<b>NET CURRENT ASSETS</b>		<u>589</u>	<u>17,335</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>7,988</u>	<u>26,623</u>
Minority interest		120	121
		<u>7,868</u>	<u>26,502</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	1,385	1,564
Reserves	17	6,483	24,938
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>7,868</u>	<u>26,502</u>

Approved by the board on 24 March 1998 and signed on its behalf by:

C H ROSS, Chairman

SIR ANGUS GROSSART, Deputy Chairman



# Company Balance Sheet

at 31 January 1998

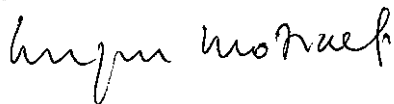
	Notes	1998 £000	1997 £000
<b>FIXED ASSETS</b>			
Investments	12	5,727	7,497
Subsidiary undertakings	13	85,477	85,477
		<u>91,204</u>	<u>92,974</u>
<b>CURRENT ASSETS</b>			
Debtors	14	4,177	5,143
Cash and deposits		—	11,157
		<u>4,177</u>	<u>16,300</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Bank overdraft		4,401	—
Taxation and social security		962	1,337
Other creditors	15	6,281	10,904
Proposed final dividend		4,710	5,317
		<u>16,354</u>	<u>17,558</u>
<b>NET CURRENT LIABILITIES</b>		<u>(12,177)</u>	<u>(1,258)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>79,027</u>	<u>91,716</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	1,385	1,564
Reserves	17	77,642	90,152
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>79,027</u>	<u>91,716</u>

Approved by the board on 24 March 1998 and signed on its behalf by:

C H ROSS, Chairman



SIR ANGUS GROSSART, Deputy Chairman



## Statement of Total Recognised Gains and Losses

for the year ended 31 January 1998

	1998 £000	1997 £000
Profit for the financial year	11,825	8,329
Movement in revaluation of investments	(4,310)	(645)
Minority interest in revaluation of investments	10	21
Currency translation differences	(1)	(4)
Total recognised gains and losses relating to the year	<u>7,524</u>	<u>7,701</u>

## Note of Historical Cost Profits and Losses

for the year ended 31 January 1998

	1998 £000	1997 £000
Reported profit on ordinary activities before taxation	16,961	12,558
Realisation of investment revaluation gains of prior years	1	344
Historical cost profit for the year before taxation	<u>16,962</u>	<u>12,902</u>
Historical cost profit/(loss) for the year after taxation, minority interest and dividends	<u>5,354</u>	<u>(1,237)</u>

## Reconciliation of Movement in Shareholders' Funds

for the year ended 31 January 1998

	1998		1997	
	Consolidated £000	Company £000	Consolidated £000	Company £000
Profit for the financial period	11,825	17,594	8,329	10,187
Dividends	<u>6,472</u>	<u>6,472</u>	<u>9,797</u>	<u>9,797</u>
Retained profit/(loss) for the period	5,353	11,122	(1,468)	390
Other recognised gains and losses	(4,301)	(4,125)	(628)	(700)
Issue of shares	177	177	77,336	77,336
Buy-back of shares	(19,863)	(19,863)	—	—
Goodwill arising on acquisition of Dunedin	—	—	(75,177)	—
Net (reduction)/addition to shareholders' funds	(18,634)	(12,689)	63	77,026
Shareholders' funds at 31 January 1997	<u>26,502</u>	<u>91,716</u>	<u>26,439</u>	<u>14,690</u>
Shareholders' funds at 31 January 1998	<u>7,868</u>	<u>79,027</u>	<u>26,502</u>	<u>91,716</u>



## Consolidated Cash Flow Statement

for the year ended 31 January 1998

	Notes	1998 £000	1997 £000
Cash inflow from operating activities	(a)	8,371	23,725
Returns on investments and servicing of finance	(b)	517	1,407
Taxation		(4,516)	(5,442)
Capital expenditure and financial investment	(c)	(2,953)	(2,148)
Acquisitions and disposals	(d)	—	(77,676)
Equity dividends paid		(7,079)	(7,775)
		(5,660)	(67,909)
Cash outflow before financing		(19,686)	77,336
Financing	(e)	(25,346)	9,427
(Decrease)/increase in cash in the period	(f)		

## Notes to the Consolidated Cash Flow Statement

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

Operating profit	14,037	11,117
Depreciation charges	575	609
(Gain)/loss on disposal of fixed assets	(112)	398
Other income – ordinary	67	37
– exceptional	2,414	—
Decrease/(increase) in stock of units	2,296	(1,642)
Decrease in debtors	688	2,782
(Decrease)/increase in creditors	(11,594)	10,424
	<u>8,371</u>	<u>23,725</u>
Net cash inflow before exceptional items	5,957	27,707
Inflow/(outflow) related to exceptional items	2,414	(3,982)
Cash inflow from operating activities	<u>8,371</u>	<u>23,725</u>

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

Interest received	899	1,312
Dividends received	9	95
Interest paid	(391)	—
Cash inflow from investment and servicing of finance	<u>517</u>	<u>1,407</u>

# Consolidated Cash Flow Statement

for the year ended 31 January 1998

	1998 £000	1997 £000		
<b>(c) Capital expenditure and financial investment</b>				
Purchase of tangible assets	(526)	(380)		
Purchase of investments	(7,102)	(5,768)		
Sale of tangible assets	332	727		
Sale of investments	4,343	3,273		
Cash outflow from capital expenditure and financial investment	<u>(2,953)</u>	<u>(2,148)</u>		
<b>(d) Acquisitions and disposals</b>				
Purchase of subsidiary undertaking	—	(84,463)		
Net cash acquired with subsidiary	—	5,105		
Sale of Dunedin Ventures	—	1,282		
Sale of trade investment	—	400		
Cash outflow arising on acquisitions and disposals	<u>—</u>	<u>(77,676)</u>		
<b>(e) Financing</b>				
Issue of shares	177	77,336		
Buy-back of shares	(19,863)	—		
	<u>(19,686)</u>	<u>77,336</u>		
<b>(f) Analysis of net debt</b>				
	31 January 1997 £000	Cash flow £000	Exchange movement £000	31 January 1998 £000
Cash and deposits	34,232	(20,945)	(1)	13,286
Bank overdraft	—	(4,401)	—	(4,401)
Net funds	<u>34,232</u>	<u>(25,346)</u>	<u>(1)</u>	<u>8,885</u>

## Notes to the Financial Statements

### 1 Accounting policies

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

#### Basis of preparation

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

#### Basis of consolidation

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. Prior to the implementation of FRS 10, the excess of the cost of the shares in subsidiary undertakings acquired over the fair value of their net assets was charged directly to reserves as goodwill which was then written off against capital reserves. The cost of management contracts was also written off against reserves in the year of acquisition.

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

#### Turnover

Turnover represents the amount receivable for the year in respect of income from fund management services and the net profit derived from unit trust 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 funded defined benefit pension schemes. Contributions are calculated by external actuaries and charged to the profit and loss account over the estimated service lives of the employees.

#### Depreciation

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

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

#### 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.

## Notes to the Financial Statements

### 1 Accounting policies (continued)

#### Foreign currencies

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

#### Stock of units

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

	1998 £000	1997 £000
<b>2 Turnover</b>		
Fund management income	29,468	30,544
Net profit from unit trust trading	546	585
Turnover – continuing operations	<u>30,014</u>	<u>31,129</u>

### 3 Administrative expenses

Administrative expenses include:

Remuneration paid to the auditors		
and their associates – audit fees	37	38
– other (see note)	63	33
Depreciation	575	609
Operating lease payments – land and buildings	<u>462</u>	<u>392</u>

Audit fees paid in respect of the parent undertaking amounted to £5,000 (1997–£4,000).

Note:

The exceptional income disclosed in note 6 is net of an amount of £10,000 which was paid to the auditors. During the previous year, additional fees of £69,000 were paid to the auditors which formed part of the exceptional expenses and the cost of acquisition.

Exceptional administrative expenses in the previous year all related to the acquisition of Dunedin Fund

Managers and comprised:

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

## Notes to the Financial Statements

	1998 £000	1997 £000
<b>4 Director and employee information</b>		
Average number of employees of the group (excluding non-executive directors) 204 (1997-198)		
Salaries and bonuses	7,214	5,951
Social security costs	678	605
Pension scheme costs	949	805
Other pension costs	28	19
	<u>8,869</u>	<u>7,380</u>
Directors' remuneration (including pension contributions)		
Fees	70	73
Other emoluments	281	245
	<u>351</u>	<u>318</u>
Detailed information concerning directors' emoluments, shareholdings and options is shown in the report of the remuneration committee on pages 14 to 16.		
<b>5 Loss on disposal of investments</b>		
Realised (loss)/gain on investments	(69)	310
Loss/(gain) brought into account at 31 January 1997	<u>1</u>	<u>(344)</u>
	<u>(68)</u>	<u>(34)</u>
<b>6 Other Income</b>		
Ordinary	5	81
Income from listed investments	4	14
Income from unlisted investments	893	1,343
Interest	67	37
Other	<u>969</u>	<u>1,475</u>
Exceptional		
Compensation, net of expenses, for the loss of the management contract of The British Investment Trust has been treated as an exceptional item.	<u>2,414</u>	<u>—</u>
<b>7 Interest payable</b>		
Interest on bank overdraft	<u>391</u>	<u>—</u>

## Notes to the Financial Statements

**8 Taxation**

	1998 £000	1997 £000
Corporation tax at 31.3% (1997-33%) on net profit for year	5,483	4,170
Tax on franked investment income	123	153
Transfer to deferred taxation	(307)	(42)
Overprovision in previous year	(172)	(59)
	<u>5,127</u>	<u>4,222</u>
The tax charge is after provision for tax/(tax relief) on the exceptional items	<u>730</u>	<u>(1,818)</u>

**9 Dividends**

Interim dividend of 8.0p (1997-8.0p) per share paid 3 November 1997	2,212	2,502
Final dividend of 17.0p (1997-17.0p) per share payable 20 May 1998	4,710	5,318
	<u>6,922</u>	<u>7,820</u>
Dividends paid in respect of the year to 31 January 1998	(450)	—
Overprovision of dividend in prior year (see (a) below)	—	1,977
Dividends paid on 11,631,891 new shares issued in March 1996 (see (b) below)	<u>6,472</u>	<u>9,797</u>

The proposed final dividend will be paid on 20 May 1998 to shareholders on the register at the close of business on 14 April 1998. The ex-dividend date will be 6 April 1998.

(a) On 7 April 1997 2,645,000 shares were bought back. As this date was prior to the ex-dividend date, the dividend on these shares was not paid.

(b) These shares were entitled to the 17p dividend in respect of the year to 31 January 1997 and the dividend on these was shown through the profit and loss account for the year to 31 January 1997.

## Notes to the Financial Statements

	1998 £000	1997 £000
<b>10 Earnings per share</b>		
Profit after taxation and minority interests	11,825	8,329
Adjustments		
Exceptional items	(2,414)	5,408
Taxation attributable	730	(1,818)
	<u>(1,684)</u>	<u>3,590</u>
Profit before exceptional items and after taxation and minority interests	<u>10,141</u>	<u>11,919</u>
Weighted average number of shares in issue	<u>28,492,101</u>	<u>29,658,580</u>
Earnings per share	41.5p	28.1p
Adjustments for exceptional items	(5.9p)	12.1p
Earnings per share (before exceptional items)	<u>35.6p</u>	<u>40.2p</u>

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

	Cost £000	Depreciation £000	Net Book Value £000
<b>11 Tangible Assets</b>			
Consolidated			
At 31 January 1997	2,766	1,517	1,249
Additions	526	—	526
Disposals	(627)	(407)	(220)
Depreciation charge for the year	—	575	(575)
At 31 January 1998	<u>2,665</u>	<u>1,685</u>	<u>980</u>

Tangible assets comprise office furniture and equipment and motor vehicles.

The group is committed to operating lease payments in the year ending 31 January 1999, in respect of office premises which expire between two and five years, amounting to £50,000 (1997-£83,000) and, over five years, amounting to £442,000 (1997-£408,000).

## Notes to the Financial Statements

## 12 Investments

	Consolidated £000	Company £000
Market value 31 January 1997	8,039	7,497
Unrealised appreciation 31 January 1997	(480)	(533)
Cost 31 January 1997	8,519	8,030
Additions at cost	7,102	6,748
Disposals at cost	(4,409)	(4,392)
Cost 31 January 1998	11,212	10,386
Unrealised appreciation 31 January 1998	(4,793)	(4,659)
Market value 31 January 1998	6,419	5,727

	Consolidated £000	1998 Company £000	Consolidated £000	1997 Company £000
Listed — UK	5,983	5,424	7,580	7,187
Unlisted	436	303	459	310
	<u>6,419</u>	<u>5,727</u>	<u>8,039</u>	<u>7,497</u>

Company  
£000

## 13 Subsidiary undertakings

Cost 31 January 1997 and 1998

85,477

The share capital of the subsidiary undertakings consists solely of equity shares. The following are the principal operating 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 management (UK)	100
Edinburgh Portfolio Managers Limited	Scotland	Investment management (UK)	100
Edinburgh Oil Management Limited	Scotland	Oil and gas management (UK)	78
DFM Holdings Limited	Scotland	Holding company (UK)	100
<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
Taytems Nominees Limited	Scotland	Nominee company (UK)	100

Dunedin Fund Managers Limited and Dunedin Berkeley Management Company Limited were put into members' voluntary liquidation during the year.

## Notes to the Financial Statements

	Consolidated £000	1998 Company £000	Consolidated £000	1997 Company £000
<b>14 Debtors</b>				
<b>Amounts falling due within one year:</b>				
Management fees receivable	3,467	—	3,914	—
Debtors for units sold or cancelled	2,600	—	2,873	—
ACT recoverable	—	—	1,721	800
Other debtors	209	—	393	14
Prepayments	546	—	361	—
	<u>6,822</u>	<u>—</u>	<u>9,262</u>	<u>814</u>
<b>Amounts falling due outwith one year:</b>				
Amounts owed by subsidiaries	—	3,000	—	3,000
Deferred consideration on sale of Dunedin Ventures	399	—	373	—
Deferred taxation:				
ACT recoverable during the year ending 31 January 2000	1,177	1,177	1,329	1,329
Accelerated capital allowances	158	—	(6)	—
Other timing differences	146	—	3	—
	<u>1,880</u>	<u>4,177</u>	<u>1,699</u>	<u>4,329</u>
	<u>8,702</u>	<u>4,177</u>	<u>10,961</u>	<u>5,143</u>

The increase in deferred taxation on accelerated capital allowances and other timing differences from 31 January 1997 to 31 January 1998 of £307,000 has been transferred from the profit and loss account (see note 8).

**15 Other creditors**

Creditors for units repurchased or created	5,032	—	15,423	—
Amount owed to subsidiary	—	6,173	—	10,153
Accruals	2,191	108	4,208	751
Trade creditors	1,945	—	267	—
	<u>9,168</u>	<u>6,281</u>	<u>19,898</u>	<u>10,904</u>

## Notes to the Financial Statements

**16 Called up share capital**

	Number of shares	£000
<b>Authorised</b>		
Ordinary shares of 5p each		
At 31 January 1997 and 1998	<u>45,000,000</u>	<u>2,250</u>
<b>Issued and fully paid</b>		
At 31 January 1997	31,278,845	1,564
Issued during year on exercise of options	75,347	4
Bought back during year	<u>(3,650,000)</u>	<u>(183)</u>
At 31 January 1998	<u>27,704,192</u>	<u>1,385</u>

During the year a total of 15,000 ordinary shares were allotted following exercises of options under the EFM Group Executive Share Option Scheme for a total consideration of £49,000 and a total of 60,347 ordinary shares were allotted following the exercise of options under the EFM Group Savings-Related Share Options Scheme for a total consideration of £128,000.

During the year a total of 3,650,000 shares were bought back for a total consideration of £19,863,000 and cancelled.

Options relating to all share option schemes outstanding at 31 January 1998 to subscribe for ordinary shares were as follows:

Subscription price	Last date when options exercisable	Number of shares	
		1998	1997
<b>Executive share option schemes</b>			
179p	20 May 1998	25,000	25,000
187p	29 May 1999	38,750	38,750
210p	7 June 2000	5,000	5,000
308p	21 June 2002	30,000	40,000
366p	21 June 2003	75,100	90,100
604p	26 May 2004	210,000	255,000
726p	5 October 2005	205,000	240,000
699p	24 March 2006	220,000	245,000
592.5p	30 September 2006	794,000	946,000
547.5p	31 March 2007	67,000	—
		<u>1,669,850</u>	<u>1,884,850</u>
<b>Savings-related share option schemes</b>			
212p	1 June 1998	68,559	140,874
460p	1 December 1999	24,675	25,425
580p	1 June 2001	19,438	24,729
463p	1 June 2002	134,201	148,817
		<u>246,873</u>	<u>339,845</u>



## Notes to the Financial Statements

	Capital redemption reserve £000	Share premium account £000	Capital reserve £000	Special capital reserve £000	Re- valuation reserve £000	Profit and loss account £000	Total £000
<b>17 Reserves</b>							
<b>Consolidated</b>							
At 31 January 1997	—	23	7,777	—	(491)	17,629	24,938
Retained profit for the year	—	—	—	—	—	5,353	5,353
Issue of shares	—	173	—	—	—	—	173
Buy-back of shares	183	—	—	—	—	(19,863)	(19,680)
Transfer from capital reserve	—	—	(7,777)	—	—	7,777	—
Movement in revaluation of investments	—	—	—	—	(4,312)	2	(4,310)
Exchange differences	—	—	—	—	—	(1)	(1)
Movement in minority interest	—	—	—	—	10	—	10
At 31 January 1998	183	196	—	—	(4,793)	10,897	6,483
<b>Company</b>							
At 31 January 1997	—	23	—	75,177	(533)	15,485	90,152
Retained profit for the year	—	—	—	—	—	11,122	11,122
Issue of shares	—	173	—	—	—	—	173
Buy-back of shares	183	—	—	—	—	(19,863)	(19,680)
Movement in revaluation of investments	—	—	—	—	(4,126)	1	(4,125)
At 31 January 1998	183	196	—	75,177	(4,659)	6,745	77,642

The capital redemption reserve represents the nominal value of the shares bought back during the year. This has been transferred from the share capital account following cancellation of these shares.

The transfer from the capital reserve represents the Court approved cancellation of the share premium account of a subsidiary company.

Cumulative goodwill written off to reserves to 31 January 1998 amounted to £84,284,000 (1997-£84,284,000).

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

## Notes to the Financial Statements

### 18 Material contracts and related party transactions

On 11 March 1997 the company announced a proposed sale of The British Investment Trust's 32.5% holding of the share capital of the company via an institutional share placing and share buy back. An extraordinary general meeting was held on 7 April 1997 to approve this share buy back of 2,645,000 shares for a total consideration of £14,944,000 (including stamp duty). Sir Angus Grossart, who is a director of the company, is also a director of Noble Grossart Ltd, the company's financial adviser to this transaction. Noble Grossart Ltd received a fee for their professional services.

As The British Investment Trust was a substantial shareholder, the fund management contracts are deemed to have been related party transactions. During the period from 1 February 1997 to 7 April 1997 the management fees receivable under these contracts amounted to £668,000. No amounts were due at the balance sheet date. During the previous year the fees receivable were £2,723,000 with £233,000 being due at the balance sheet date. Following the liquidation of the British Investment Trust, compensation was received.

Following the acquisition of Dunedin Fund Managers, the venture capital business, which was operated within a subsidiary company, was sold in July 1996 for a consideration of £1,282,000. Dunedin Ventures Limited was bought out by its management team and requires to be disclosed as a transaction with a related party. The management team included directors of Dunedin Ventures Limited, a subsidiary company, who together with other management members acquired a 65% stake.

### 19 Pensions

Retirement benefits based on salary close to retirement are provided for eligible group employees. The assets of the scheme are held under trust separately from those of the group.

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

The pension scheme cost for the year was £949,000 (1997-£805,000), including £17,000 in respect of prepaid contributions, leaving a prepayment of £180,000 at 31 January 1998. The pension charge was after a deduction of £133,000 (1997-£110,000) in respect of the amortisation of the existing surplus. The amortisation is over 14 years, the assumed average remaining service lives of the pensionable employees.

The most recent actuarial valuation as at 1 February 1995 showed that the market value of the scheme's assets was £8,540,000. The actuarial value of those assets represented 109% 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 1998.

### 20 Commitments and contingencies

There were no capital commitments or contingent liabilities at 31 January 1998 (1997-nil).

## Ten Year Record

Year ended 31 January	1989 £m	1990 £m	1991 £m	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m	1998 £m
Funds under management	1,344	1,597	1,414	1,906	2,391	4,011	3,437	3,538	7,638	7,256
Shareholders' funds	9,280	14,145	15,472	15,045	15,711	17,002	21,848	26,439	26,502	7,868
Fund management income	4,825	7,217	7,330	8,738	9,693	17,072	22,339	18,913	30,544	29,468
Net profit from unit trust trading	1,336	837	399	522	1,383	1,415	1,603	709	585	546
Turnover	6,161	8,054	7,729	9,260	11,076	18,487	23,942	19,622	31,129	30,014
Administrative expenses	3,471	4,728	5,629	6,047	7,202	10,643	11,458	9,595	14,604	15,977
Operating profit	2,690	3,326	2,100	3,213	3,874	7,844	12,484	10,027	16,525	14,037
Profit on disposal of investments	—	(136)	76	90	(57)	1,028	214	447	(34)	(68)
Other net income	1,376	1,720	1,981	1,480	1,182	903	1,043	1,496	1,475	578
Profit on ordinary activities before taxation and exceptional items	4,066	4,910	4,157	4,783	4,999	9,775	13,741	11,970	17,966	14,547
Exceptional items	—	—	—	—	—	—	—	799	(5,408)	2,414
Profit on ordinary activities before taxation	4,066	4,910	4,157	4,783	4,999	9,775	13,741	12,769	12,558	16,961
Taxation	1,482	1,792	1,256	1,326	1,616	2,741	4,250	3,997	4,222	5,127
Profit on ordinary activities after taxation	2,584	3,118	2,901	3,457	3,383	7,034	9,491	8,772	8,336	11,834
Minority interest	(3)	43	33	(10)	(12)	11	9	8	7	9
Profit for the financial year	4,499	3,161	2,934	3,447	3,371	7,023	9,482	8,764	8,329	11,825
Earnings per share before exceptional items	16.9p	17.1p	15.9p	18.6p	18.1p	37.2p	49.7p	42.3p	40.2p	35.6p
Dividends per share	10.5p	11.5p	12.0p	13.0p	13.5p	22.0p	24.0p	25.0p	25.0p	25.0p

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

## Shareholder Information

### Financial calendar

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

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

### Annual general meeting

This year's annual general meeting will be held at Donaldson House on **Tuesday 19 May 1998** 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.

### Company PEP

During the year the company has introduced a General and Single Company PEP.

For further information, please call our Helpline on 0800 838 993.



## Corporate Legal Structure

### Edinburgh Fund Managers Group plc

**Chairman:**

Colin Ross

**Chief Executive:**

Iain Watt

**Directors:**

J W Blair

Sir Angus Grossart

A D M MacDonald

Lord Macfarlane of Bearsden

### Edinburgh Fund Managers plc

**Chairman:**

Iain Watt

**Directors:**

Mike Balfour (Chief Investment  
Officer)

Iain Beattie

Graham Brock

Graham Campbell

Alistair Currie

David Currie

Helen Fallow

Alex Gowans

Carole Haddow

Jim Hay

Rod MacRae

David McCraw

Graham McGeorge

Ken McKenna

Ian Massie

Catherine Miller

Harry Morgan

Richard Muckart

Colin Peters

Jamie Sandison

Elizabeth Thom

Nigel Whittingham

### Edinburgh Unit Trust Managers Ltd

**Chairman:**

Iain Watt

**Directors:**

Carole Haddow

Jim Hay (Managing Director)

Jon Hodesdon

Jennifer Lang

Brian Nicholson

Nigel Whittingham

### Edinburgh Portfolio Managers Ltd

**Chairman:**

Iain Watt

**Directors:**

Alan Aitchison

Graham Brock

Harry Morgan (Managing Director)

Robert Seaton



## Notice of Meeting

Notice is hereby given that the third 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 19 May 1998 at 12.15 pm for the following purposes:

### Ordinary resolutions

1. to adopt the report of the directors and the financial statements for the year ended 31 January 1998;
2. to declare a final dividend;
3. to re-elect J W Blair as a director;
4. to re-appoint KPMG Audit Plc as auditors;
5. to authorise the directors to fix the auditors' remuneration.

### Special resolutions

6. that the directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 ('Act') to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to any general authority conferred upon them for the purposes of section 80 of the Act as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:

- (i) to the allotment of equity securities in connection with any rights issue in favour of the holders of ordinary shares on the register on a date fixed by the directors where the equity securities respectively attributable to the interests of all the holders of ordinary shares are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by them on that date, provided that the directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal or practical

problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange; and

- (ii) to the allotment (otherwise than pursuant to paragraph (i) of this resolution) of equity securities up to an aggregate nominal amount equal to 5% of the nominal value of the existing issued share capital of the company as at the date of the passing of this resolution;

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

7. that the company be and it is hereby authorised in accordance with section 166 of the Act to make purchases (within the meaning of section 163 of the Act) of ordinary shares of 5p each in the company ('shares') provided that:

- (i) the maximum number of shares hereby authorised to be purchased is 10% of the issued share capital of the company as at the date of the passing of this resolution;
- (ii) the minimum price which may be paid for a share shall be 5p;
- (iii) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5% above the average of the middle market quotation (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and



## Notice of Meeting

- (iv) unless renewed, the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company to be held in 1999 save that the company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

By order of the board

**Catherine C J Miller,**  
Secretary  
Edinburgh, 31 March 1998



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

### Note

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

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

If approved, the final dividend will be paid on 20 May 1998.



## Form of Proxy

I/We \_\_\_\_\_ BLOCK  
 of \_\_\_\_\_ 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 Tuesday, 19 May 1998 at 12.15 pm and at any adjournment thereof.

	For	Against
Adoption of directors' report and financial statements		
Declaration of final dividend		
Re-election of J W Blair*†		
Re-appointment of KPMG Audit Plc as auditors		
Authorisation of directors to fix the remuneration of the auditors		
Limited disapplication of pre-emption rights		
Authorisation to purchase own shares		

Signed \_\_\_\_\_ Date \_\_\_\_\_

\* Audit committee member

† Nominations 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 0XG

First Fold

Third fold and tuck in

**Head Office**

Edinburgh Fund Managers plc

Donaldson House

97 Haymarket Terrace

Edinburgh EH12 5HD

Telephone: 0131-313 1000



## EDINBURGH FUND MANAGERS GROUP PLC

Annual General Meeting on 19 May 1998 at 12.15 pm

Please complete and return this card if you will be attending the Annual General Meeting.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_ Postcode \_\_\_\_\_





BUSINESS REPLY CARDS  
Licence No EH 3571

2



**EDINBURGH FUND MANAGERS PLC  
COMPANY SECRETARIAL  
DONALDSON HOUSE  
97 HAYMARKET TERRACE  
EDINBURGH EH12 0FR**

