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Edinburgh Fund Managers Group plc Annual Report 2003

Edinburgh
FUND MANAGERS

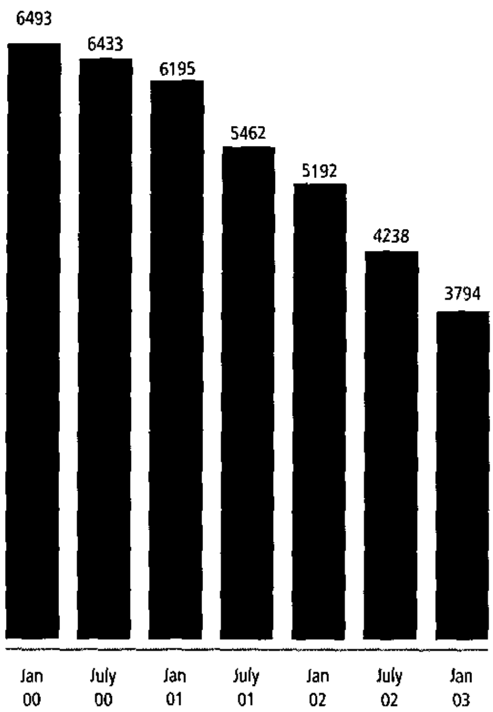
Contents

Summary Financial Information

	Year to 31 January 2003	Year to 31 January 2002
Turnover	£30,682,000	£34,945,000
Pre-tax profit (before goodwill and exceptionals)	£2,779,000	£6,508,000
Earnings per share (before goodwill and exceptionals)	7.0p	16.2p
Dividends per share	—	12.5p
Number of shares in issue	28.5 million	28.5 million
Funds under management	£4.1 billion	£7.1 billion

Performance of FTSE 100

January 2000 to January 2003



I was appointed chairman in February 2003, shortly after the end of the group's financial year. Consequently I report to you on the performance of the business under the previous board and on the approach that the current board and management intend to adopt under my chairmanship.

Charles Nunneley **Chairman**

Chairman's Statement

Key features

New chairman: appointed February 2003, joint managing directors appointed November 2002, new chief investment officer appointed September 2002

Funds under management: at £4.1 billion, down from £7.1 billion largely as a result of market movements and the loss of The Edinburgh Investment Trust mandate

Turnover: down 12% to £30.7 million from £34.9 million

Pre-tax profit: (before goodwill and exceptional items) £2.78 million (2002 – £6.51 million)

Earnings per share: (before goodwill and exceptional items) 7.0p (2002 –16.2p)

Dividend per share: in light of the results for the year, no final dividend will be paid

Average fee rate: improved over the year from 0.46% of average funds under management last year to 0.55% this year

New business: record gross sales achieved by Edinburgh Portfolio, which has become the leading retail fund of funds manager in the UK

Investment awards: 6 awards for investment excellence across key areas of the business

Conditions have been and remain tough for investment management houses in general. However at Edinburgh Fund Managers we now have a very exciting young team to drive the group forward, a new, proven chief investment officer, market leading products with strong sales and, I believe, the opportunity to become much more focused and build on the quality of our existing business.

Business performance

Falling markets have impacted on the funds under management and revenues of Edinburgh Fund Managers as they have on those of other asset management houses. The UK market has now fallen by almost 50% from the market high of 31 December 1999 when the FTSE 100 index closed at 6930. In the year under review the UK and US markets, which represent 83% of our funds under management, fell 31% and 35% respectively. The consequent decline in funds under management was compounded by the decision of The Edinburgh Investment Trust to transfer its mandate of £1.1 billion away from us in July 2002. Revenues for the year fell 12% to £30.7 million and in the second half the group made a loss of £0.3 million at the pre-tax level (before goodwill and exceptionals).

Extensive measures have been taken to reduce the group's cost base to a level sustainable within the current economic environment. In the middle of 2001, following the purchase of Edinburgh Portfolio, Edinburgh's consolidated costs had risen to in excess of £32 million. Over the following 18 months, the closure of our North American offices, staff reductions, and the introduction of tighter, more focused, budgeting controls reduced running costs by approximately £11 million. Staff numbers have fallen from 288 to 220. However we have also had to absorb over £4 million extra expense through increased pension contributions, the cost of the decision to cease soft commission and the cost of servicing the significant influx of new sales of our mutual funds. For timing reasons, the full benefits of these measures were not realised in the year under review.

Expenses associated with the cost cutting measures mentioned above form the major part of the exceptional operating cost charged to the profit and loss account of £2.5 million.

Further savings have been identified within the group as part of our strategic review and will be reported upon in due course.

Awards achieved

Fund	**Award**
Edinburgh Fund of Funds Portfolio	Bloomberg Money Awards for Investment Excellence 2002: Best Managed Fund
Edinburgh North American Fund	Standard & Poor's Fund Awards 2003 (UK) 1st in UK Marketed Funds Equity North American Sector over 10 years Standard & Poor's Fund Awards 2003 (Switzerland) 1st in North American Sector over 10 years
Northern Investors Company	Money Observer Investment Awards 2003 Best Venture & Development Capital Trust
Edinburgh Income and Value Trust plc	Standard and Poor's Fund Awards 2003 (UK) 1st in UK Investment Trusts UK High Income Sector over 3 years
Edinburgh Value Zeros plc	Bloomberg Money Awards for Investment Excellence 2002: Highly commended, Split Capital Investment Trust Section

New business

Gross and net retail sales, primarily through IFAs, remained buoyant and the Edinburgh Portfolio multi manager business consolidated its leading position in the retail market. Edinburgh Portfolio has been ranked one of the top performing investment operations in the UK by a number of specialist publications.

Our continuously expanding IFA franchise has been a particular success story and remains very strong. Gross mutual fund sales reached a record level of £215 million, in sharp and creditable contrast to the depressed market conditions.

In our core investment trust business, conditions were unsuited to the launch of new investment trusts, although the Edinburgh UK Tracker Trust, which regularly trades at a premium, issued some £6.4 million of additional stock and our new venture capital trust, Northern 3 VCT, successfully completed a £14 million share issue. On the institutional side we have made considerable progress in developing our product offering and we have built a very strong and talented investment team in the key UK equities market in particular.

Future strategy

We are carrying out a thorough review of our business strategy with the intention of focusing our resources on our areas of excellence and strength. These include, in particular, the expanding retail IFA franchise, the core investment trust business, our high quality and high margin venture capital business, Northern Venture Managers, and specialist institutional mandates concentrating particularly on UK equity and venture capital portfolios. We are actively seeking opportunities to dispose of parts of the business which do not match our strategy, and this will have the added benefit of strengthening our balance sheet.

We strongly believe that there is a substantial market for high value specialist products in both retail and institutional markets, and for the smaller specialist investment houses with top quality teams that best provide them. Our past success in nurturing our top performing and growing fund of funds and venture capital businesses has confirmed our view that such businesses can flourish in even the most difficult market conditions.

These businesses provide enhanced margins and the group has moved its average fee rate from 0.46% of average funds under management in 2001/02 to 0.55% for 2002/03.

This twin pronged approach of specialist mandates and high margin products, together with rigorous control of costs, should enable us to rebuild funds under management and enhance revenues to create a strong platform for the business and value for shareholders. That will not happen overnight, because investment markets remain tough and uncertain, but excellent progress has been made already.

Dividend

At the interim stage we said that we would review our dividend policy at the year end. In light of the results for the full year, and the present very uncertain outlook for markets and the world economy, the board does not believe it prudent to pay a dividend for the year to 31 January 2003.

Review and outlook for business areas

1. Mutual funds

Our mutual funds, and in particular the Edinburgh Portfolio fund of funds range of products, have remained top sellers in a competitive environment due to the excellent performance in the fund range and the group's marketing team. During 2002/03 Edinburgh Portfolio saw net new business inflows with funds under management growing to £580 million. From the ISA season through to the summer, gross sales averaged over £1 million a day, and Edinburgh Managed Growth Portfolio was one of the top 20 selling funds among IFAs in the third and fourth quarters of 2002. Edinburgh Portfolio was rated the most recommended fund of funds provider in research conducted by Keydata and was also ranked the top performing larger investment group across all sectors over one year by Professional Adviser, while the Edinburgh Fund of Funds Portfolio was named 'Best Managed Fund' at the Bloomberg Money Awards for Investment Excellence in November 2002.

Our range of directly managed unit trusts has seen improving performance over the last 12 months, and Edinburgh North American Fund was recently awarded first place for 10 year performance by Standard and Poor's in both the UK and Switzerland.

2. Investment trusts

The investment trust sector as a whole has endured a difficult year, compounded by the problems of split capital trusts. We have been fortunate in having relatively limited exposure to the split capital sector. Indeed Edinburgh Income and Value Trust won awards during the year for investment performance. Investment trusts remain a very important and valued part of our business and continue to represent around one third of our funds under management despite the disappointing loss of the mandate for The Edinburgh Investment Trust.

Our investment trust marketing programme, in particular the regular savings and children's products, continues to attract good levels of public support for our client trusts. The value and merits of these funds to investors have in no way been diminished by recent market conditions, and, as noted above, the Edinburgh UK Tracker Trust has been able to issue new stock. We are confident that the sector will remain resilient and hope to be able to expand our range of funds when market conditions allow.

Analysis of funds under management at 31 January 2003

By geographic split	By client
UK 69%	Investment Trusts 35%
North America 14%	Institutional 32%
Europe 8%	OEICs/Unit Trusts 22%
Pacific 7%	Private Clients 7%
Japan 2%	Venture Capital 4%

3. Venture capital

The group's specialist venture capital division, Northern Venture Managers (NVM), ended the year with £138 million under management and enjoyed a strong year and excellent deal flow despite difficult conditions. The division's flagship trust, Northern Investors Company, was named 'Best Venture and Development Capital Trust' at the Money Observer Investment Awards 2003, and has posted top quartile performance over one, three, five and ten years. In June 2002 NVM completed a £14 million share issue for Northern 3 VCT and a further tranche is currently in progress. Investment activity was buoyant with 16 new investments completed and a total of £26 million committed during the year. NVM has now raised more than £70 million since the start of 2000. The outlook for raising new venture capital funds in 2003 is unquestionably tough but we have one of the best brands in the market and have developed a good network of supporting advisers and distributors.

4. Institutional business

Central to our strategy for building new sales in the institutional market is the development of focused specialist capability in the areas of key strategic importance in this market, where we have particular strengths. Work is already well advanced in the UK equities sector, building on the established expertise of our UK institutional desk. The group is also researching the promotion of its strong venture capital and multi manager capability and track record in the institutional market.

Board appointments

Following the changes to the board in November 2002, Anne Richards and Rod MacRae were appointed as joint managing directors. I joined the board as non-executive chairman in February this year. It is our intention to make two further non-executive appointments in the near future to bring the board up to full strength.

Summary

The past year has undoubtedly been a very difficult one for the group. At the same time, core areas of the business have proved their resilience despite those difficulties and in very testing market conditions. The group and its new leadership team have already made substantial progress in rationalising and refocusing the business. They have a very clear mission and business plan. The group has the talent it requires for success, and a determination to deliver value to shareholders and to clients. We are confident that success will be achieved, even though the outlook for the world and its stock markets in the coming year is as uncertain and challenging as it has been in recent years. I am grateful to our valued clients and intermediaries for their continuing support, and to our staff at all levels for their dedication and hard work.

C K R Nunneley
Chairman
Edinburgh, 26 March 2003

"We are confident that success will be achieved, even though the outlook for the world and its stock markets in the coming year is as uncertain and challenging as it has been in recent years"

Operating and Financial Review

Key performance indicators

Funds under management, investment performance, effective fee rates and costs are the primary key performance indicators used by the directors in managing the business.

Investment performance

The year to 31 January 2003 covers one of the most turbulent periods in markets for a generation. Investment performance against this background has shown steady improvement towards the end of the period in relative terms, although in absolute terms the majority of client portfolios showed significant falls reflecting the steep decline in market levels.

Performance in our retail funds has generally been good with 72% of funds above median over the year to 31 January 2003. Longer term performance is also improving, with 61% of funds ahead over 5 years. Edinburgh Portfolio Limited, our fund of funds business, has shown particularly strong performance, which has been reflected in the steady flow of new assets over the past year.

Performance in our Institutional and Investment Trust businesses has been more mixed. In general, our range of income related and tracker products have performed well. Our flagship Asia Pacific fund, Edinburgh Dragon Trust, has shown strong performance over both the short and long term and is ahead of benchmark over one, three and five years.

We have continued to strengthen the investment team through the course of the year, with the recruitment of a new chief investment officer, a senior Asia Pacific fund manager and an additional two analysts to the Fund of Funds team. In the coming 12 months we aim to continue to invest in our investment staff through selective recruitment in key areas.

We are pleased that the improved performance in a number of key areas within our Investment Trust and Retail Business has been recognised through awards made by external agencies including Bloomberg Money Awards and Standard & Poor's Fund Awards. In addition, a recent survey conducted by Keydata highlighted Edinburgh Portfolio as the top choice for IFAs for Fund of Funds investment.

We believe these awards underline the high quality of our staff and we look to build further on these successes in the coming year.

Financial summary

Revenues

Revenues are directly related to funds under management and fee rates. Average funds under management fell by 26% from £7.6 billion to £5.6 billion and the effective fee rate on average funds under management during the year rose by 19% from 0.46% to 0.55%.

During the year revenues fell by 12% from £34.9 million to £30.7 million. An additional £1.9 million in respect of a full year of revenues from Edinburgh Portfolio, which was acquired in July 2001, was offset by a reduction of £2.2 million from the loss of The Edinburgh Investment Trust. The remainder of the fall reflects the effect of market falls in the past two years and the timing of new business inflows.

Operating costs

Operating costs (excluding goodwill and exceptionals) at £27.6 million were marginally lower than the previous year's £28.2 million. During the year we reduced costs on an annualised basis by £5 million of which £1.9 million was achieved in the year. In the previous year we announced annualised cost savings of over £5 million and that last year's costs reflected only part of those savings. Costs this year have seen the full benefit of those savings.

The year to 31 January 2003 covers one of the most turbulent periods in markets for a generation.

Against these savings there is the effect of the full year's costs arising from the acquisition of Edinburgh Portfolio of £2.5 million and the additional costs of the increased new business, principally third party management and administration costs, additional costs following the decision to end soft commission arrangements and increased pension costs. The pension costs were increased by over 60% from November 2002 following a pension scheme funding update at 31 July 2002. The results of the formal actuarial valuation as at 31 January 2003 will have an additional impact on costs going forward but the details will not be known until the results of the valuation have been received.

Overall, costs (excluding goodwill and exceptionals) as a percentage of average funds under management increased to 0.49% from 0.37% last year. The cost income ratio has risen from 81% to 90%.

Exceptional costs

Certain costs were incurred during the year which are deemed to be of an exceptional nature and are not part of the normal operational costs attributable to the business. These related to redundancy payments to staff and associated costs to effect the reduction of the group's cost base, additional expenses relating to the integration of Edinburgh Portfolio and the cost of advice in connection with an offer for the group.

Goodwill amortisation

The goodwill charge arises from writing off to the profit and loss account, over twenty years, the excess of the cost of acquiring companies over the tangible net assets of those companies at the date of acquisition. Last year's goodwill charge included the goodwill on the acquisition of Edinburgh Portfolio from July 2001. This year's figure includes a full year's charge for Edinburgh Portfolio.

Operating profit

Operating profit (excluding goodwill and exceptionals) fell by 54% over the past year from £6.8 million to £3.1 million.

Investment gains and losses

During the year we realised a small gain on disposal of investments compared with a loss of £0.2 million last year. Another investment was written down at a cost of £0.4 million and our own shares held within our employees' benefit trust were also written down by £0.9 million, to market value at 31 January 2003. Their total cost of £1.3 million is disclosed separately and has been treated as exceptional.

Other income

Other income is principally interest received

Market returns year to 31 January 2003

Region	Percentage movement (Sterling adjusted)
UK	-31.0%
UK Smaller Companies	-31.4%
US	-34.9%
Europe (ex UK)	-30.4%
Japan	-19.0%
Pacific (ex Japan)	-23.3%
Emerging Markets	-23.8%

on cash deposits and is lower due to the fall in interest rates.

Interest payable

The interest payable was higher than last year. This was a direct result of a full year of interest following the acquisition of Edinburgh Portfolio.

Pre-tax profit

Pre-tax profit (before goodwill and exceptionals) fell by 57% from £6.5 million in the year to January 2002 to £2.8 million.

After goodwill and exceptionals there was a pre-tax loss of £2.0 million compared with last year's profit of £2.8 million.

Taxation

Tax relief is approximately 15% of pre-tax losses after taking into account various items for which tax relief is not available and credit for £0.4 million of tax losses brought forward. In 2001/02 the effective tax rate was 42%.

Earnings per share

Earnings per share (before goodwill and exceptionals) fell by 57% from 16.2p to 7.0p. Earnings per share (after goodwill and exceptionals) were down from 5.7p to a loss of 6.1p.

Cash and borrowings

Our net borrowings as at 31 January 2002 were £3.4 million. During the year we refinanced our bank overdraft with a six year term loan of £13.5 million, and paid out £3.0 million in respect of the balance of the consideration due following the acquisition of Edinburgh Portfolio. At 31 January 2003 our net cash was £10.6 million and the amount outstanding on the term loan was £13.3 million.

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 value of assets managed. Where client portfolios are invested overseas there is also a 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, bank overdraft, term loan and the unsecured guaranteed loan notes.

Detailed information relating to the risk profile of these financial instruments is shown in note 26 to the financial statements.

As part of our OEIC and 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 may be used. There were no open derivatives positions at the year end.

Board of Directors

C K R Nunneley
Non-Executive Chairman
Charles Nunneley (67) is chairman of The National Trust, Monks Investment Trust and JP Morgan Fleming Income & Capital Investment Trust. He was previously deputy chairman of Flemings and Clerical Medical and General Life Assurance Society and chairman of Save & Prosper and IMRO.
Date of appointment: 5 February 2003

R M MacRae **Executive Director**
Rod MacRae (39) is chief operating *officer and joint managing director.* He is a chartered accountant and joined Edinburgh Fund Managers in 1991.
Date of appointment: 20 May 2002

A H Richards **Executive Director**
Anne Richards (38) is chief investment *officer and joint managing director.* She was previously managing director and head of the Alpha team at Merrill Lynch Investment Management.
Date of appointment: 2 September 2002

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 January 2003.

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, venture capital 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 and the operating and financial review on pages 2 to 9.

Dividends

No interim dividend was paid (2002–4.0p) and no final dividend is proposed (2002–8.5p) for the year to 31 January 2003.

The group's profit and loss account deficit for the year of £1,731,000 will be transferred from reserves.

Directors

The board comprises a non-executive chairman and two executive directors.

Mr A F MacDonald resigned from the board on 14 March 2002, Mr A Watson resigned on 24 September 2002, Messrs J R Wright, J W Blair, A D M MacDonald and Sir Angus Grossart resigned on 28 November 2002 and Mr I A Watt's directorship with the company terminated on 28 November 2002.

Mr R M MacRae was appointed a director on 20 May 2002 and Ms A H Richards was appointed on 2 September 2002. Mr R M MacRae and Ms A H Richards were appointed joint managing directors on 28 November 2002.

Mr C K R Nunneley was appointed non-executive chairman on 5 February 2003.

In accordance with the articles of association, Mr R M MacRae, Ms A H Richards and Mr C K R Nunneley will seek appointment at the annual general meeting.

Biographical details of directors standing for appointment are given on page 10.

Directors' interests in the company

The names of the directors and their holdings in the company's shares are shown in the table below. All interests are beneficially held. Other than those disclosed below, no director had any interests in the share capital of any group company.

Mr R M MacRae will receive an additional 1,246 shares in May 2003 and 2,943 in May 2005 arising from previous years' bonus elections through the Annual Incentive Scheme.

Ms A H Richards was awarded the 130,363 shares on a restricted basis. Details are given on pages 23 and 24.

The company has not been notified of any changes in the directors' holdings between 31 January 2003 and 26 March 2003.

Details of directors' share options are given on pages 22 and 23 of the directors' remuneration report.

	Ordinary Shares at 31 January	
	2003	**2002***
R M MacRae	8,273	3,367
A H Richards	130,363	—

* if later, date of appointment

Directors' fees

The maximum aggregate of the directors' fees and benefits in kind for their services was last set at £130,000 at the 2000 annual general meeting. A resolution will be proposed at the annual general meeting to increase the maximum aggregate fees and benefits of the directors to £175,000 per annum which will provide the board flexibility in appointing new non-executive directors.

Directors' and officers' insurance

The company maintains insurance cover in respect of directors' and officers' liability.

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

The substantial interests notified to the company as at 26 March 2003 are shown in the table below.

Holder	% of share capital held
Hermes Investment Management (on behalf of clients)	29.2
Artemis Investment Management Ltd	10.4
Liberty Wanger Asset Management	5.2
Prudential	5.1
Legal & General Investment Management	3.8
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 2003 represented 14 days' average purchases.

Employment policies

The group is committed to the principle of equal opportunity in employment. The group seeks to ensure that all its employment policies are fair and equitable and that entry into and progression within the group are determined solely by application of job criteria, personal ability and competence. Edinburgh Fund Managers will recruit, train, promote and transfer employees on the basis of the skills, relevant qualifications, experience, aptitude and ability they can bring to the job. The group will treat all employees with dignity and respect, free from discrimination, victimisation or harassment.

Should the group invest in new or refurbished premises, access and facilities for those employees with disabilities will continue to be taken into account. Wherever reasonable and practicable, the group will retain an existing employee who becomes disabled during their period of employment and provide fair opportunities for their career advancement.

The group is committed to employee participation and uses a variety of methods to inform, consult and involve its employees. Employees participate directly in the success of the business through The Edinburgh Fund Managers Share Incentive Plan. At 31 January 2003, 171 employees owned shares in the company through this scheme.

Corporate Social Responsibility

During the year the board established a Corporate Social Responsibility Committee to provide the group with a framework for ensuring that all aspects of social, environmental and ethical matters are reviewed. Key business risks identified in this area are reviewed by the compliance and risk committee, the group's senior risk oversight body, as part of overall business risk assessment.

The board recognises its responsibility to the community and during the year the group became a member of Scottish Business in the Community to enable employees to become more involved with their local communities.

There is no formal environmental management system in place as the board believes that, at this stage, it would not be possible for the group to justify the expense of implementation, monitoring and reporting. Employees are encouraged to minimise waste, particularly in the office environment where technology is increasingly used to reduce the amount of paper consumed. Employees are encouraged to use public transport both when travelling on business and to and from work.

The group has adopted and maintains high standards in its health and safety policy.

Charitable donations

During the year the group made charitable donations of £14,000.

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.

Purchase of own shares

At the annual general meeting to be held on 4 June 2003, special resolution 8 will be proposed to renew the company's authorisation 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 2.85 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 26 March 2003, the company had 1,861,284 options to subscribe for shares outstanding (representing 6.5% of the issued share capital of the company as at 26 March 2003). If the outstanding amount of the existing buyback authority conferred at the 2002 AGM is utilised in full prior to the 2003 AGM and the buyback authority is renewed at the 2003 AGM and is then utilised in full, the options outstanding at 26 March 2003 would represent 8.1% 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 would be in the best interests of shareholders generally.

No share buybacks were undertaken by the company during the year to 31 January 2003.

By order of the board
Lynn Mathewson
Secretary
Edinburgh, 26 March 2003

Lynn Mathewson

Directors' Report on Corporate Governance

The group is committed to high standards of corporate governance. 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') have been applied.

Directors

Until 28 November 2002, the board consisted of a non-executive chairman, up to five other non-executive directors and up to three executive directors. All of the non-executive directors, with the exception of Mr Watson, were considered by the board, at that time, to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

Following the resignation of all of the non-executive directors and the termination of Mr I A Watt's directorship on 28 November 2002 there remained two executive directors.
A non-executive chairman was appointed on 5 February 2003 who is considered to be independent of management. It is intended to appoint two further independent non-executive directors.

The board meets formally on a regular basis and, during the year, it met formally on fourteen occasions. 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.

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

Until 28 November 2002 appointments to the board were considered by the nominations committee. Following the resignation of the members of the nominations committee on 28 November 2002, the board has been responsible for the appointment of directors. A nominations committee will be re-established as soon as another independent non-executive director has been appointed.

The nominations committee met on four occasions during the year.

The names of the directors who served on the remuneration, audit and nominations committee for the period to 28 November 2002, together with the principal terms of reference of the committees are given on page 16.

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 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 directors' remuneration report on pages 17 to 24.

Following the resignation of the members of the remuneration committee on 28 November 2002, the responsibility for determining the group's remuneration policy and the remuneration packages of the executives has reverted to the board. No changes have been made in that period either to the group's remuneration policy or the executives' remuneration packages.

A remuneration committee will be re-established as soon as another independent non-executive director has been appointed.

Relations with shareholders

The company places a great deal of importance on communication with its shareholders. 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.

At its annual general meeting, the company complies with the provision of the code relating to the disclosure of proxy votes and the separation of resolutions. The timing of the despatch of the formal notice of the annual general meeting complies with the code.

Accountability and audit

The respective responsibilities of the directors and the auditors in connection with the financial statements appear on pages 25 and 26. The statement of the directors on the going concern basis appears on page 12.

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. Until 28 November 2002, the audit committee received reports from the compliance and risk committee setting out key business risks and considered possible financial, operational and compliance controls. The audit committee also received regular reports from the compliance and risk function, external auditors and management which included recommendations for improvement. The audit committee's role in this area was confined to a high level review of the arrangements for internal control. Following the resignation of the members of the audit committee on 28 November 2002, the compliance and risk committee has assumed the role of audit committee. An audit committee will be re-established as soon as another independent non-executive director is appointed.

The board's agenda includes a regular item for consideration of risk and control. At its March 2003 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 2003.

The audit committee met twice during the year and the compliance and risk committee, in its role as audit committee, met once and considered reports from the external auditors, as well as from management. These meetings were attended by senior members of staff and the company's external auditors.

During the period to 28 November 2002 the audit committee kept the scope and effectiveness of the external audit under review. The independence and objectivity of the external auditors was also considered on a regular basis, with particular regard to the level of non-audit fees. Since 28 November 2002, until the appointment of the new chairman, the compliance and risk committee has assumed this responsibility. The split between audit and non-audit fees for the year under review appears on page 34. This shows statutory audit work and other work which is required to be done by the auditors (covering FSA audit reviews, interim audit reviews and auditing the FRAG 21 report) and additional work which included costs of an information technology security review and tax advice. The level of these additional fees is not considered to affect independence or objectivity.

Compliance statement

The board confirms that, following the resignation of all of the non-executive directors on 28 November 2002, the company has not complied with the following provisions set out in Section 1 of the Combined Code. All other provisions have been complied with throughout the year.

References are to paragraphs of the Combined Code.

From 28 November 2002 until the appointment of the chairman on 5 February 2003, there were no non-executive directors (A2.1, A3.1-2).

The company does not currently have a nominations committee (A5.1).

The company does not currently have a remuneration committee (B1.1-3, B1.9-10, B2.1-6, C2.3).

The company does not currently have an audit committee (C2.3, D3.1-2).

The company is actively seeking to appoint two further independent non-executive directors.

The nominations, remuneration and audit committees will be re-established as soon as another independent non-executive director is appointed.

Board committees

Membership of the board committees up to 28 November 2002 and a summary of their terms of reference are set out below:

Audit committee	**Nominations committee**	**Remuneration committee**
To assist the board in discharging its duties and responsibilities for financial reporting, corporate governance, internal control and appointment and remuneration of the independent auditors.	To consider and recommend to the board the appointment of directors.	To monitor, review and recommend the group's remuneration policy (as set out on page 17). To determine, on behalf of the board, the remuneration packages of the executives of the group.
Sir Angus Grossart *(Chairman)**	J R Wright *(Chairman)**	Sir Angus Grossart *(Chairman)**
J W Blair*	J W Blair*	A D M MacDonald*
A D M MacDonald*	Sir Angus Grossart*	A Watson‡
J R Wright*	A Watson‡	J R Wright*
	A F MacDonald†	A F MacDonald†

† Resigned 14 March 2002
‡ Resigned 24 September 2002
* Resigned 28 November 2002

By order of the board
Lynn Mathewson
Secretary
Edinburgh, 26 March 2003

Directors' Remuneration Report

Remuneration committee

Until 28 November 2002, the group's remuneration policy and the specific remuneration packages of the executive directors, including those of subsidiary undertakings (the "executives"), were determined by the remuneration committee (the "committee") on behalf of the board.

Membership of the committee during the period to 28 November 2002 is given on page 16. The members of the committee, with the exception of Mr A Watson, were considered by the board at that time to be independent.

Following the resignation of the members of the committee on 28 November 2002, the responsibility for determining the group's remuneration policy and the remuneration packages of the executives has reverted to the board. No changes have been made in that period either to the group's remuneration policy or to the executives' remuneration packages.

A new independent non-executive chairman, Mr C K R Nunneley, was appointed in February 2003. The company is actively seeking to appoint two further new independent non-executive directors with the requisite knowledge, skill and experience. The committee will be re-established as soon as another independent non-executive director is appointed.

The re-constituted committee will be chaired by Mr C K R Nunneley and will have detailed written terms of reference. Broadly, it will be established to:

(i) recommend to the board the group's policy on executives' remuneration;

(ii) ensure that executives' remuneration packages are sufficiently attractive, but do not go further than is necessary, to attract, retain and motivate high-calibre individuals;

(iii) ensure that a significant proportion of executives' remuneration is linked to the group's corporate, and their individual, performance;

(iv) ensure that the remuneration policy of the group is determined by a committee consisting of only independent non-executive directors who have no personal interest in the level of remuneration of the executives and who will have due regard to creating shareholder value; and

(v) ensure that full consideration has been given to Section 1B of the Combined Code.

In the period from 1 February 2002 to 28 November 2002 the Committee received advice from Shepherd+Wedderburn and Investec in relation to the Restricted Shares awarded to Ms A H Richards, details of which are given on pages 23 and 24.

Policy on executives' remuneration

The board is committed to pursuing a strategy for continued improvement in the financial performance of the group and recognises the importance of the group's remuneration policy in achieving this objective. The group's policy for the forthcoming financial year is to provide a remuneration package which is competitive in the asset management sector in order to attract, retain and motivate high calibre people. That package will seek to align the interests of executives more closely with those of the company's shareholders by incentive payments which recognise shareholder value and encourage employees to acquire and retain an equity stake in the company.

Following the appointment of Mr C K R Nunneley as the independent non-executive chairman of the company in February 2003, the remuneration policy of the group is under review. That review will be taken forward by the committee as soon as it is re-established and will include all elements of executives' remuneration packages. The committee will take such independent professional advice as it considers necessary or desirable to ensure that the current remuneration practices of comparable companies are taken into account.

The remuneration and terms of appointment of any new non-executive directors will be determined by the board within the limits set by the company's articles of association.

Policies on individual elements of remuneration

Salaries and benefits

The salaries of executives are determined after a review of their performance and with reference to external market research. It is the aim of the board to reward executives competitively and on the broad principle that salaries (together with other benefits) should be based around the median remuneration paid to those with similar responsibilities in fund management companies in Scotland. Due to the current operating environment, however, salaries have been frozen for the time being. A company car or cash equivalent and private medical benefits are also provided.

Executives are members either of the Edinburgh Fund Managers Group plc Retirement and Death Benefits Plan ("Group Pension Plan") or of defined contributions schemes. The Group Pension Plan is non contributory and the normal retirement age is sixty, which enables members to achieve up to the maximum pension benefit of two thirds of final pensionable salary at normal retirement age after forty years' service. For death before retirement, a capital sum of four times pensionable salary is payable.

Share Incentive Plan

The Share Incentive Plan ("SIP") is intended to encourage share ownership by employees. It is designed to be available to all employees, subject to a minimum period of service. The company presently offers Partnership Shares and Matching Shares (on a one for one ratio) under the SIP.

In addition, employees are awarded free shares if performance targets set by the company are achieved. No free shares will be awarded in respect of the year to 31 January 2003.

Savings-related share options

The company has previously granted options under the 1995 Savings-Related Share Option Scheme, a scheme where participation is available to all employees, subject to a minimum period of service.

Executive share options

In the period to 28 November 2002, 237,784 discretionary executive options were granted under the 1998 Unapproved Executive Share Option Scheme (the "Executive Scheme") on the recommendation of the committee. There have been no grants of options since that date.

Options granted under the Executive Scheme have a seven year life and cannot be granted at a discount.

Ordinary options granted under the Executive Scheme 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 group exceeds the percentage increase in the retail price index over three consecutive years by at least 3% per annum compounded annually. Ordinary options granted to an executive, in aggregate with the market value at the date of grant of all other executive options granted to that executive in the last ten years, may not exceed four times the executive's relevant earnings.

Super options may be granted in excess of the limit referred to above, up to a maximum of eight times the executive's relevant earnings. Only one half of the super options can be exercised between the third and sixth anniversary of the date of grant. The exercise of super options is subject to the growth in the group's earnings per share over five 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 and without the performance criteria being achieved. These include takeover, death, retirement, redundancy and at the discretion of the board.

It is recognised that the Executive Scheme does not now reflect institutional guidelines or market practice in a number of important aspects. The closure of the Executive Scheme and the introduction of both a new executive scheme and a long term incentive plan which reflect institutional guidelines and current best practice is under consideration. As part of that process the board (or the committee once it is re-established) will review the performance conditions to be attached to options or long term awards granted by the company in the future. The company has engaged KPMG and Shepherd+Wedderburn to assist in that review to ensure, in particular, that any options or long term awards granted are subject to challenging performance conditions which, in so far as possible, are a genuine reflection of the financial performance of the group in the relevant performance period. Shareholders will be consulted in due course in relation to these proposals.

Any new schemes will require to be approved by shareholders. If the introduction of new schemes proceeds, the relevant circular to shareholders will include (amongst other things):

(i) a detailed summary of the performance conditions to which an executive's entitlement will be subject;

(ii) an explanation as to why those performance conditions have been chosen; and

(iii) details of the methods to be used in assessing whether any such performance conditions are met.

The company's policy on the grant of options or awards under any new schemes approved by shareholders will be set out in that circular.

Bonuses

Deferred bonuses were awarded to certain executives for the two years ending 31 January 2003 and 2004. These bonuses were put in place to retain certain executives during a period of corporate uncertainty at the start of 2002.

The payment of all deferred bonuses is conditional upon the executive being employed by a group company, and not under notice of termination of contract where such notice has been given by the executive, throughout the relevant financial year and at the payment date.

Mr R M MacRae has waived his deferred bonus of £36,000 in respect of the year to 31 January 2003. He is entitled to a deferred bonus of £48,000 for the year to 31 January 2004, payable in May 2004.

As part of her remuneration package, Ms A H Richards is entitled to a bonus of £200,000 in respect of the year to 31 January 2003, payable in May 2003, and £120,000 in respect of the year to 31 January 2004, payable in May 2004. The bonuses are conditional on Ms A H Richards being employed by a group company, and not having given notice to terminate her employment on the payment date.

Executives within the business development and investment divisions have objectively measurable performance targets and can earn a pre determined minimum bonus if the performance targets are met. There is also a discretionary bonus scheme for executives outwith these divisions. All bonuses are subject to an upper limit of two times salary.

Annual Incentive Scheme

Executives may elect through the company's Annual Incentive Scheme to take all or part of their bonus, after deduction of tax, in shares of the company, in which case 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 ("Matching Shares").

Service contracts

The company's policy regarding service contracts is that all executives should be offered rolling contracts of no longer than twelve months. Where commercially necessary to recruit a high-calibre individual or to protect the company's interests, a service contract may be for a longer initial period reverting to a twelve month notice period thereafter.

Directors' service contracts

Director	Date of contract	Unexpired term	Notice period	Provision for compensation
Mr R M MacRae (appointed 20 May 2002)	29.8.97	12 months	Rolling 12 months	Salary & benefits
Ms A H Richards (appointed 2 September 2002)	2.9.02	19 months	Initially two years reducing to rolling 12 months after the first year of employment	Salary, benefits, bonus payable 2003 and 2004
Mr I A Watt (directorship terminated 28 November 2002)	1.2.97	Nil	Rolling 12 months	Salary & benefits See page 20

The current executives have service contracts with the company's subsidiary, Edinburgh Fund Managers plc. With the exception of Ms A H Richards, the chief investment officer ("CIO"), service contracts are rolling contracts of no more than twelve months.

There are no service contracts for non-executive directors. Letters of appointment confirm the terms and conditions of their appointment.

Details of the contracts for directors who served during the year are shown in the table on page 19.

In its offer of employment to Ms A H Richards, the company also agreed to grant her (i) super options over the company's ordinary shares and (ii) awards over ordinary shares of the company on a restricted basis ("Restricted Shares") in compensation for the lock-in arrangements of which she had the benefit under her previous employment. Details of the Restricted Shares are given on pages 23 and 24.

Ms A H Richards' remuneration package reflects the pressing business need that the group had for a high calibre CIO and the requirement to compensate her for the loss of benefits on leaving her previous employment.

Mr I A Watt's employment with Edinburgh Fund Managers plc was terminated with effect from 28 November 2002. His directorship of the company terminated on the same date.

Total cumulative shareholder return for the five year period to 31 January 2003

Rebased to 100 on 1 February 1998

A compromise agreement was entered into with Mr I A Watt under the terms of which he is entitled to receive a payment of £460,000.

Total shareholder return

The graph below charts the total cumulative shareholder return for a holding of the company's shares against the FTSE All-Share index for the five year period to 31 January 2003. The company considers that this is the most appropriate index against which to measure company performance.

The auditors are required to report on the information contained in the following section of the report ending on page 24.

Emoluments and compensation

The emoluments in respect of qualifying services and compensation of each person who served as a director during the year were as shown in the table opposite.

Benefits receivable consist of a car allowance and private healthcare.

Mr I A Watt had been entitled to receive 12 months' notice of termination of employment in terms of his service contract. The payment made to him of £460,000 compensates him for the loss of salary, bonus and other benefits which would otherwise have been payable during his notice period. He also retained the right to exercise his 255,000 executive share options within one year. Details of the executive share options are given on page 22. In addition he was entitled to retain the relevant portion of his Matching Shares through the Annual Incentive Scheme which amounted to 4,497 shares.

Directors' pensions

Details of the entitlements of those who served as directors during the year are shown on page 21.

Mr R M MacRae was appointed a director on 20 May 2002. The increase in transfer value in the table opposite is from 1 February 2002 to 31 January 2003.

Directors' emoluments and compensation

	Basic salary £000	Bonus £000	Fees £000	Benefits £000	Compensation for loss of office £000	2003 £000	2002 £000
Executive							
I A Watt (directorship terminated 28 November 2002)	202	—	—	10	460	672	357
R M MacRae* (appointed 20 May 2002)	84	—	—	9	—	93	—
A H Richards* (appointed 2 September 2002)	62	200	—	5	—	267	—
Non-executive							
J W Blair (resigned 28 November 2002)	—	—	12	—	—	12	15
Sir Angus Grossart (resigned 28 November 2002)	—	—	14	—	—	14	17
A D M MacDonald (resigned 28 November 2002)	—	—	12	—	—	12	15
A F MacDonald (resigned 14 March 2002)	—	—	2	—	—	2	15
A Watson (resigned 24 September 2002)	—	—	10	—	—	10	11
J R Wright (resigned 28 November 2002)	—	—	33	—	—	33	28
Total	348	200	83	24	460	1,115	458

* Salary from date of appointment

Directors' pensions

	(1) Gross increase in accrued pension £000	(2) Increase in accrued pension net of inflation £000	(3) Total accrued pension 31.1.03 £000	(4) Value of net increase in accrual over period £000	(5) Total change in transfer value during period £000	(6) Value of accrued pension at 31.1.03 £000	(7) Value of accrued pension at 31.1.02 £000
R M MacRae	2	2	22	11	23	148	125
A H Richards	1	1	1	4	4	4	—
I A Watt	3	1	154	15	558	2,738	2,180

Notes:

(a) Pension accruals shown are the amounts which would be paid annually on retirement based on service to 31 January 2003 for Mr R M MacRae and Ms A H Richards and to 28 November 2002 for Mr I A Watt.

(b) The values of the accrued pensions have been calculated in accordance with Actuarial Guidance Note GN11.

(c) The value of net increase (4) represents the incremental value to the director of their service during the year, calculated on the assumption that service terminated at 31 January 2003 for Mr R M MacRae and Ms A H Richards and at 28 November 2002 for Mr I A Watt. It is based on the accrued pension increase (2).

(d) The change in value (5) includes the effect of fluctuations due to factors beyond the control of the company and directors, such as stock market movements.

(e) The values of the accrued pensions do not represent sums payable to the individuals.

Directors' share options

Details of the share options of those directors who served during the year are as shown in the tables below.

No director exercised options during the year.

The EFM Group Executive Share Option Scheme ("the EFM Scheme") was closed for future grants of options during 1995. Exercise of options under this scheme is not subject to any performance criteria and the options have a ten year life.

Executive share options

	31.1.02 (or later date of appointment)	Options granted	31.1.03	Exercise price (p)	Date from which exercisable	Expiry date
I A Watt						
1995 Scheme	10,000	—	10,000	726.0	29.11.02	28.11.03
1998 Scheme	25,000	—	25,000	592.5	29.11.02	28.11.03
	100,000	—	100,000	532.5	29.11.02	28.11.03
	100,000	—	100,000	407.5	29.11.02	28.11.03
	20,000	—	20,000	661.0	29.11.02	28.11.03
Total	255,000	—	255,000			
R M MacRae						
EFM Scheme	10,000	—	10,000	604.0	11.7.98	27.05.04
1995 Scheme	5,000	—	5,000	726.0	6.10.98	05.10.05
	7,000	—	7,000	592.5	1.10.99	30.09.06
1998 Scheme	28,000	—	28,000	532.5	25.3.01	25.03.05
	50,000	—	50,000	407.5	4.5.04	04.05.06
	20,000	—	20,000	661.0	31.3.05	31.03.07
Total	120,000	—	120,000			
A H Richards						
1998 Scheme	—	197,784	197,784	123.5	7.10.07	06.10.09

Savings-related share options

	31.1.02 (or later date of appointment)	Options granted	Options lapsed	31.1.03	Exercise price (p)	Date from which exercisable	Expiry date
R M MacRae	2,136	—	—	2,136	316.0	1.6.04	1.12.04
I A Watt	5,340	—	5,340	—	316.0	—	—

The Edinburgh Group 1995 Executive Share Option Scheme ("the 1995 Scheme") was closed for future grants of options during 1998. Under this scheme, 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. Options held under the 1995 Scheme have a ten year life.

The options held by directors under the Edinburgh Fund Managers Group 1998 Unapproved Executive Share Option Scheme ("1998 Scheme") are all super options with the exception of Mr R M MacRae's 28,000 options with an exercise price of 532.5p, which are ordinary options. Details of the performance criteria for ordinary and super options are given under executive share options on page 18.

As part of his compensation for loss of office, Mr I A Watt has retained the right to exercise his executive options within one year of the termination of his employment and, in accordance with the rules of the schemes, the performance criteria are waived.

The highest and lowest prices of the company's shares during the year were 575p and 105p respectively. The price at the year end was 130p.

Restricted Share Awards granted to Ms A H Richards

Two awards of Restricted Shares were made to Ms A H Richards over an aggregate of 130,363 ordinary shares on 7 October 2002. The principal terms applying to the awards of Restricted Shares are described below. Ms A H Richards is the only executive who has been awarded Restricted Shares by the company.

As noted on page 20 the appointment of Ms A H Richards was in response to a pressing business need to recruit a high calibre CIO. In order to recruit Ms A H Richards it was necessary to award her Restricted Shares on the terms described below which are designed to reflect, and to compensate her for the loss of, certain "lock in" arrangements granted by her previous employer.

In awarding Ms A H Richards' Restricted Shares, the board relied on the exemption from the need to obtain shareholder approval for any such arrangement contained in paragraph 13.13A(b) of the Listing Rules. The board considered the pressing need of the company to appoint a CIO and the need to compensate Ms A H Richards for her "lock in" arrangements to be "unusual circumstances" in terms of that paragraph.

The principal terms applying to the Restricted Shares are as follows:

1. the shares awarded are held by the trustees of the Edinburgh Fund Managers Group Employees' Benefit Trust on behalf of Ms A H Richards.
2. immediately upon grant of the awards Ms A H Richards acquired the right to obtain the benefit of the shares awarded, including the right to dividends and the right to direct the trustees as to how to vote those shares.
3. of the total Restricted Shares awarded, 57,489 (the "First Tranche") will be held by the trustees until 31 January 2006 and 72,874 (the "Second Tranche") will be held until 31 January 2007, after which they will be transferred to Ms A H Richards.
4. the First Tranche will be forfeited if Ms A H Richards leaves employment with the company (other than by reason of death) before 31 January 2004. Similarly, the Second Tranche will be forfeited if she leaves employment with the company (other than by reason of death) before 31 January 2005.
5. all of the Restricted Shares awarded to Ms A H Richards would be transferred to her as soon as practicable after a takeover (or similar event) of the company.
6. in the event of a capitalisation issue, rights issue, open offer, sub-division or consolidation and division or reduction or any other

variation of the share capital of the company, the number of Restricted Shares awarded to Ms A H Richards may be adjusted in such manner as the board may determine.

7. no variation to the terms applying to the Restricted Shares which would be to the advantage of Ms A H Richards can be made without prior shareholder approval (except for minor amendments to benefit the administration of the arrangements, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the company or Ms A H Richards).
8. Ms A H Richards is liable for any income tax or employee national insurance contributions which arise in relation to the awards of the Restricted Shares.

The awards of Restricted Shares are not performance related as no performance conditions were attached to the "lock in" arrangements which Ms A H Richards had with her previous employer.

By order of the board
Lynn Mathewson
Secretary
Edinburgh, 26 March 2003

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

Independent auditors' report to the members of Edinburgh Fund Managers Group plc

We have audited the financial statements on pages 27 to 48. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 25 above, 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 opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. 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 regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 14 to 16 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, 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 and the part of the directors' remuneration report to be audited. 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 and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

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 2003 and of the loss of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Saltire Court
Edinburgh, 26 March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 January 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
TURNOVER	2		30,682		34,945
ADMINISTRATIVE EXPENSES					
– operating expenses	3	(27,551)		(28,159)	
– amortisation of goodwill		(998)		(703)	
– exceptional costs		(2,534)		(3,029)	
			(31,083)		(31,891)
OPERATING (LOSS)/PROFIT			(401)		3,054
Gain/(loss) on disposals of investments	5		59		(180)
Exceptional investment write-downs	6		(1,292)		—
Other income	7		532		718
			(1,102)		3,592
Interest payable	8		(943)		(816)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION					
– before goodwill and exceptionals		2,779		6,508	
– goodwill and exceptionals		(4,824)		(3,732)	
– after goodwill and exceptionals			(2,045)		2,776
Relief/(taxation) on profit on ordinary activities	9		314		(1,167)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			(1,731)		1,609
DIVIDENDS	10		—		(3,507)
Retained loss for the year	22		(1,731)		(1,898)
EARNINGS PER SHARE (before goodwill and exceptional items)	11		7.0p		16.2p
(LOSS)/EARNINGS PER SHARE (after goodwill and exceptional items)	11		(6.1p)		5.7p
FULLY DILUTED (LOSS)/EARNINGS PER SHARE	11		(6.1p)		5.7p

CONSOLIDATED BALANCE SHEET

at 31 January 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
FIXED ASSETS					
Intangible assets – goodwill	12		18,276		18,449
Tangible assets	13		3,120		3,529
Investments	14		3,213		4,696
Own shares	15		199		2,015
			24,808		28,689
CURRENT ASSETS					
Stock of shares and units		14		307	
Debtors	17	6,281		14,752	
Cash and deposits		13,280		9,294	
		19,575		24,353	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
Bank overdraft		2,699		12,649	
Taxation and social security		557		1,635	
Other creditors	18	15,550		17,542	
Proposed final dividend		—		2,385	
		18,806		34,211	
NET CURRENT ASSETS/(LIABILITIES)			769		(9,858)
TOTAL ASSETS LESS CURRENT LIABILITIES			25,577		18,831
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	19		14,365		5,268
PROVISIONS FOR LIABILITIES AND CHARGES	20		117		103
			11,095		13,460
CAPITAL AND RESERVES					
Called up share capital	21		1,426		1,424
Reserves	22		9,669		12,036
EQUITY SHAREHOLDERS' FUNDS			11,095		13,460

Approved by the board on 26 March 2003 and signed on its behalf by:

C K R NUNNELEY, Chairman

R M MACRAE, Director

COMPANY BALANCE SHEET

at 31 January 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
FIXED ASSETS					
Investments	14		15		15
Subsidiary undertakings	16		62,480		106,982
Own shares	15		199		2,015
			62,694		109,012
CURRENT ASSETS					
Debtors	17	8,691		8,477	
CREDITORS: AMOUNTS FALLING *DUE WITHIN ONE YEAR*					
Bank overdraft		2,699		12,649	
Other creditors	18	17,240		14,798	
Proposed final dividend		—		2,385	
		19,939		29,832	
NET CURRENT LIABILITIES			(11,248)		(21,355)
TOTAL ASSETS LESS CURRENT LIABILITIES			51,446		87,657
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	19		14,365		5,268
			37,081		82,389
CAPITAL AND RESERVES					
Called up share capital	21		1,426		1,424
Reserves	22		35,655		80,965
EQUITY SHAREHOLDERS' FUNDS			37,081		82,389

Approved by the board on 26 March 2003 and signed on its behalf by:

C K R NUNNELEY, Chairman

R M MACRAE, Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 January 2003

	2003 £000	2002 £000
(Loss)/profit for the year	(1,731)	1,609
Revaluation of investments	*(757)*	*(1,530)*
Total recognised losses and gains relating to the year	(2,488)	79

NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31 January 2003

	2003 £000	2002 £000
Reported (loss)/profit on ordinary activities before taxation	(2,045)	2,776
Realisation of investment revaluation losses of prior years	(1,400)	(225)
Historical cost (loss)/profit for the year before taxation	(3,445)	2,551
Historical cost loss for the year after taxation and dividends	(3,131)	(2,123)

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

for the year ended 31 January 2003

	2003		2002	
	Consolidated £000	Company £000	Consolidated £000	Company £000
(Loss)/profit for the year	*(1,731)*	*(45,431)*	*1,609*	*1,991*
Dividends	—	—	3,507	3,507
Retained loss for the year	(1,731)	(45,431)	(1,898)	(1,516)
Other recognised (losses)/gains	*(757)*	—	*(1,530)*	*(18)*
Issue of shares	123	123	96	96
Net reduction to shareholders' funds	(2,365)	(45,308)	(3,332)	(1,438)
Shareholders' funds at 31 January 2002	*13,460*	*82,389*	*16,792*	*83,827*
Shareholders' funds at 31 January 2003	11,095	37,081	13,460	82,389

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 January 2003

	Notes	2003 £000	2002 £000
Cash inflow from operating activities	(a)	6,555	4,054
Returns on investments and servicing of finance	(b)	(349)	93
Taxation		(465)	(2,568)
Capital expenditure and financial investment	(c)	751	1,839
Acquisitions and disposals	(d)	(2,976)	(10,003)
Equity dividends paid		(2,385)	(5,884)
Cash inflow/(outflow) before financing		1,131	(12,469)
Financing	(e)	12,805	(73)
Increase/(decrease) in cash in the year	(f)	13,936	(12,542)

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to operating cash flows

Operating (loss)/profit	(401)	3,054
Depreciation charge	535	511
Amortisation of goodwill	998	703
(Gain)/loss on disposal of fixed assets	(25)	17
Decrease in stock of shares and units	293	541
Decrease/(increase) in debtors	8,448	(2,710)
(Decrease)/increase in creditors	(3,293)	1,938
	6,555	4,054
Net cash inflow from operating activities before exceptional items	8,270	6,310
Outflow related to exceptional items	(1,715)	(2,256)
Cash inflow from operating activities	6,555	4,054
Operating cash inflow excluding unit trust and OEIC dealing activity	4,079	4,988
Cash inflow/(outflow) relating to unit trust and OEIC dealing activity	2,476	(934)
	6,555	4,054

(b) Returns on investments and servicing of finance

Interest received	523	609
Dividends received	46	90
Other income	(108)	31
Interest paid	(810)	(637)
Cash (outflow)/inflow from investment and servicing of finance	(349)	93

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(c) Capital expenditure and financial investment

	2003 £000	2002 £000
Purchase of tangible assets	(198)	(1,201)
Purchase of investments	(11)	(81)
Purchase of own shares	—	(324)
Cost of own shares transferred to employees	442	400
Sale of tangible assets	97	151
Sale of investments	421	2,894
Cash inflow from capital expenditure and financial investment	*751*	*1,839*

(d) Acquisitions and disposals

	2003 £000	2002 £000
Cash element on acquisition of subsidiary undertaking	(2,976)	(12,376)
Net cash acquired with subsidiary	—	2,373
Cash outflow arising on acquisitions and disposals	*(2,976)*	*(10,003)*

(e) Financing

	2003 £000	2002 £000
Bank term loan	13,250	—
Issue of shares	123	96
Repayment of loan notes	(568)	(169)
Cash inflow/(outflow) from financing	12,805	(73)

(f) Analysis of changes in net debt

	31 January 2002 £000	Cash flow £000	31 January 2003 £000
Cash and deposits	9,294	3,986	13,280
Bank overdraft	(12,649)	9,950	(2,699)
Net cash	(3,355)	13,936	10,581
Loan notes	(2,592)	568	(2,024)
Bank term loan	—	(13,250)	(13,250)
Total	(5,947)	1,254	(4,693)

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 under the historical cost convention, as modified by the revaluation of certain investments, and in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of the company and all its subsidiary undertakings.

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 incurred.

Pension contributions

The majority of the group's permanent employees are covered by a funded defined benefit pension scheme. Contributions are calculated by an external actuary 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 its estimated useful economic life up to a maximum 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 information.

Deferred taxation

The charge for ordinary taxation is based on the profits for the year and takes into account full provision for deferred tax in respect of all timing differences on a non-discounted basis except as otherwise required by FRS19. Such timing differences arise primarily from the differing treatment of certain items for accounting and taxation purposes which have arisen but not reversed out by the balance sheet date.

1 Accounting policies–contd

Foreign currencies

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

Stock of shares and units

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

2 Turnover

	2003 £000	2002 £000
Fund management income	29,577	34,672
Net profit from OEIC and unit trust trading	1,105	273
Turnover	30,682	34,945

The results for the year are from continuing operations.

3 Administrative expenses

Administrative expenses include:

		2003 £000	2002 £000
Remuneration paid to the auditors and their associates	– audit fees	61	61
	– other work as auditors	43	32
	– other	51	90
Depreciation		535	517
Operating lease payments	– land and buildings	735	633
	– office equipment	130	161

Audit fees paid in respect of the parent undertaking amounted to £9,000 (2002 – £8,000).

Exceptional items

Exceptional items during the year relate to redundancy payments to staff and associated costs to effect the reduction of the group's cost base, additional expenses relating to the integration of Edinburgh Portfolio and the cost of advice in connection with an offer for the group. In addition to the above, exceptional expenses in 2002 included the settlement of a legal action.

4 Director and employee information

The average number of employees of the group (excluding non-executive directors) was 252 (2002 – 266)

	2003 £000	2002 £000
Salaries and bonuses	12,740	13,302
Social security costs	1,238	1,346
Pension scheme costs	1,402	1,188
Other pension costs	191	274
	15,571	16,110

4 Director and employee information–contd

	2003 £000	2002 £000
Directors' remuneration		
Fees	83	113
Other emoluments	572	494
	655	607
Compensation for loss of office	460	259
	1,115	866

Detailed information concerning directors' emoluments and options is shown in the directors' remuneration report on pages 17 to 24.

5 Gain/(loss) on disposal of investments

	2003 £000	2002 £000
Realised gain/(loss) on investments	335	(405)
(Gain)/loss brought into account at 31 January 2002	(276)	225
Gain/(loss) since 31 January 2002 on disposal of investments	59	(180)

6 Exceptional investment write-downs

	2003 £000	2002 £000
Exceptional write-down against cost of investments	2,041	—
Revaluation loss brought into account in prior periods	(1,674)	—
	367	—
Write-down of own shares held in the employees' benefit trust	925	—
Exceptional investment write-downs since 31 January 2002	1,292	—

7 Other income

	2003 £000	2002 £000
Income from listed investments	26	63
Income from unlisted investments	20	27
Interest	524	597
Other	(38)	31
	532	718

8 Interest payable

	2003 £000	2002 £000
Interest on bank overdraft	504	503
Interest on term loan	220	—
Interest on unsecured guaranteed loan notes 2000-2005	86	134
Amortisation of discount on contingent deferred consideration	133	179
	943	816

9 Taxation

	2003 £000	2002 £000
(a) Analysis of charge in the year		
Current tax		
Corporation tax at the standard rate in the UK of 30% on (loss)/profit for year	(284)	1,221
Overprovision in previous years	(52)	(116)
Current tax (relief)/charge for the year	(336)	1,105
Deferred tax		
Origination and reversal of timing differences	22	62
	(314)	1,167
Taxation attributable to exceptional items	(695)	(804)
(b) Factors affecting the tax charge for the year		
(Loss)/profit on ordinary activities before tax	(2,045)	2,776
(Loss)/profit at the standard corporation tax rate in the UK of 30%	(613)	833
Goodwill amortisation not tax deductible	299	211
Expenses disallowed for corporation tax purposes	108	170
Investment write-down not tax deductible	388	—
Utilisation of tax losses brought forward	(417)	—
(Gain)/loss on sale of investments offset by capital losses brought forward	(22)	54
Effect of capital allowances in excess of depreciation	(5)	(58)
Dividend income not subject to corporation tax	(14)	(25)
Overprovision in previous years	(52)	(116)
Other	(8)	36
Current tax (relief)/charge for the year	(336)	1,105

10 Dividends

	2003 £000	2002 £000
Interim dividend of nil (2002 – 4.0p) per share	—	1,122
Final dividend of nil (2002 – 8.5p) per share	—	2,385
	—	3,507

11 Earnings per share

	2003 £000	2002 £000
(Loss)/profit after taxation	(1,731)	1,609
Adjustments:		
Goodwill	998	703
Exceptional costs and write-downs	3,826	3,029
Taxation attributable to exceptional items	(695)	(804)
Utilisation of tax losses	(417)	—
	3,712	2,928
Profit excluding goodwill and exceptional items and after taxation	1,981	4,537

11 Earnings per share–contd

	2003	2002
Basic weighted average number of shares outstanding	28,156,363	28,038,915
Number of shares under option that would have been issued	197,784	1,046,686
Number of shares that would have been issued at fair value	(92,542)	(859,874)
Fully diluted weighted average number of shares	28,261,605	28,225,727
Basic (loss)/earnings per share	(6.1p)	5.7p
Adjustment for exceptional costs and write-downs	11.1p	8.0p
Adjustment for goodwill	3.5p	2.5p
Adjustment for utilisation of tax losses	(1.5p)	—
Earnings per share (before goodwill and exceptional items)	7.0p	16.2p
Fully diluted (loss)/earnings per share	(6.1p)	5.7p

In addition to basic earnings per share, earnings per share (before goodwill and exceptional items) is disclosed in the profit and loss account. In addition to adjustments for goodwill and exceptional items, an adjustment has been made for the utilisation of tax losses which will not recur. 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.

12 Intangible assets - goodwill

	Consolidated £000
Cost	
At 31 January 2002	19,398
Addition	825
At 31 January 2003	20,223
Amortisation	
At 31 January 2002	949
Charge for year	998
At 31 January 2003	1,947
Net book value	
At 31 January 2003	18,276
At 31 January 2002	18,449

13 Tangible assets

	Freehold property £000	Office furniture and equipment £000	Motor vehicles £000	Total £000
Cost				
At 31 January 2002	2,076	3,589	298	5,963
Additions	—	132	66	198
Disposals	—	(61)	(191)	(252)
At 31 January 2003	2,076	3,660	173	5,909
Depreciation				
At 31 January 2002	28	2,279	127	2,434
Charge for year	45	436	54	535
Disposals	—	(56)	(124)	(180)
At 31 January 2003	73	2,659	57	2,789
Net book value				
At 31 January 2003	2,003	1,001	116	3,120
At 31 January 2002	2,048	1,310	171	3,529

The group is committed to the following operating lease payments in the year ending 31 January 2004:

	2003		2002	
	Property £000	Office equipment £000	Property £000	Office equipment £000
Operating leases which expire:				
– within one year	23	36	30	—
– in one to five years	232	94	163	130
– over five years	497	—	428	—
	752	130	621	130

14 Investments

	Consolidated £000	Company £000
Market value 31 January 2002	4,696	15
Adjustment to cost 31 January 2002	3,042	240
Cost 31 January 2002	7,738	255
Additions at cost	11	—
Disposals at cost	(96)	—
Amount written down	(2,041)	(208)
Cost 31 January 2003	5,612	47
Adjustment to market value 31 January 2003	(2,399)	(32)
Market value 31 January 2003	3,213	15

14 Investments–contd

	2003 Consolidated £000	2003 Company £000	2002 Consolidated £000	2002 Company £000
Listed — UK	3,084	—	4,211	—
Unlisted	129	15	485	15
	3,213	15	4,696	15

15 Own shares

	Consolidated £000	Company £000
Cost 31 January 2002	2,015	2,015
Transferred to beneficial ownership of employees	(891)	(891)
Amount written down	(925)	(925)
Cost less amounts written down 31 January 2003	199	199

The own shares are held in an employees' benefit trust. As at 31 January 2002 these were shown in both the consolidated balance sheet and the company's balance sheet at cost in accordance with accounting practice. Due to the fall in the company's share price, the shares held have been written down to the market value at 31 January 2003.

16 Subsidiary undertakings

	Company £000
Cost 31 January 2002	106,982
Adjustment to cost of acquisitions	825
Amount written down	(45,327)
Cost less amounts written down 31 January 2003	62,480

On 12 July 2001 the company acquired the unit trust management company Portfolio Fund Management (now Edinburgh Portfolio) for an initial cost, including expenses of acquisition, of £12,376,000. In addition, a deferred consideration of up to £8,000,000 was due to be paid subject to certain growth targets being achieved by January 2003. At 31 January 2002 the estimated liability of the contingent deferred consideration was £1,500,000 and this amount was included in the cost of subsidiaries at that date. In January 2003 the calculation of the deferred consideration was finalised at £2,976,000. This was £1,476,000 higher than estimated at 31 January 2002 because the growth achieved exceeded the estimated figure.

During the year the estimated liability on the deferred consideration due following the acquisition of Northern Venture Managers has been revised downwards from £3,000,000 to £2,200,000, because current growth projections are lower than previously estimated. An amount of £651,000, being the discounted value of the reduction of £800,000, has been deducted from the adjustment to cost of acquisitions during the year.

At 31 January 2003, the carrying value of cost of investments in subsidiaries was assessed against the market value of the group as a whole. Due to the fall in the company's share price, the carrying value of subsidiaries has been written down to £62,480,000 to reflect the market capitalisation of the group at 31 January 2003.

16 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
Directly held subsidiary undertakings			
Edinburgh Fund Managers plc	Scotland	Investment management (UK)	100
Edinburgh Unit Trust Managers Limited	Scotland	Unit trust and OEIC management (UK)	100
Edinburgh Fund Managers (Private Clients) Limited	Scotland	Investment management (UK)	100
Edinburgh Portfolio Limited	England	Unit trust and OEIC management (UK)	100
Northern Venture Managers Limited	England	Venture capital fund management (UK)	100
The Edinburgh Securities Company Limited	Scotland	Investment company (UK)	100
Indirectly held subsidiary undertakings			
Edinburgh Unit Trust Managers (Ireland) Limited	Ireland	Unit trust management (Ireland)	100
Edinburgh Fund Managers (Bermuda) Limited	Bermuda	Investment management (Bermuda)	100

17 Debtors

	2003 Consolidated £000	2003 Company £000	2002 Consolidated £000	2002 Company £000
Amounts falling due within one year:				
Amounts owed by subsidiaries	—	—	—	372
Management fees receivable	1,767	—	3,908	—
Debtors for shares and units sold or cancelled	2,597	—	9,594	—
Other debtors	937	—	444	—
Prepayments	885	—	689	—
	6,186	—	14,635	372
Amounts falling due outwith one year:				
Amounts owed by subsidiaries	—	8,691	—	8,105
Deferred taxation:				
Accelerated capital allowances	58	—	79	—
Other timing differences	37	—	38	—
	95	8,691	117	8,105
	6,281	8,691	14,752	8,477

Deferred taxation:

Movements in deferred taxation balances are as follows:

	2003 Consolidated £000	2003 Company £000	2002 Consolidated £000	2002 Company £000
At 31 January 2002	117	—	179	—
Transfer to profit and loss account	(22)	—	(62)	—
At 31 January 2003	95	—	117	—

	2003 Consolidated £000	2003 Company £000	2002 Consolidated £000	2002 Company £000
18 Other creditors				
Creditors for shares and units repurchased or created	3,944	—	8,758	—
Amounts owed to subsidiaries	—	14,070	—	12,298
Accruals	7,913	117	5,594	944
Trade creditors	640	—	1,509	—
Bank term loan (see note 19)	1,375	1,375	—	—
Unsecured guaranteed loan notes 2000-2005 (see note 19)	1,678	1,678	1,556	1,556
Share schemes	—	—	125	—
	15,550	17,240	17,542	14,798

Share schemes represent an estimate of the share enhancement payable in respect of the group's share incentive scheme.

19 Creditors: amounts falling due after more than one year

	2003 Consolidated £000	2003 Company £000	2002 Consolidated £000	2002 Company £000
Bank term loan	11,875	11,875	—	—
Unsecured guaranteed loan notes 2000-2005	346	346	1,036	1,036
Contingent deferred consideration	2,144	2,144	4,232	4,232
	14,365	14,365	5,268	5,268

During the year the company reviewed the banking arrangements which had been put in place in the previous year to fund the acquisition of Edinburgh Portfolio. A six year term loan of £13,500,000 was taken out and used to repay the overdraft. This has a minimum repayment schedule with the first instalment of £250,000 already repaid. Of the balance at 31 January 2003 of £13,250,000 the sum of £1,375,000 is due for repayment in the next 12 months with the balance of £11,875,000 repayable after more than one year. The loan is subject to covenants which, in accordance with standard practice, are reviewed and discussed with the lender from time to time. As part of the group's review of its business strategy, it is actively seeking opportunities to dispose of parts of the business which do not match that strategy. The board, having regard to its business plans and discussions with the lender, is confident that the group will continue to comply with covenants for the foreseeable future.

The unsecured guaranteed loan notes were issued as part of the consideration for the acquisition of Northern Venture Managers. The total value of loan notes outstanding at 31 January 2003 was £2,024,000 (2002 – £2,592,000). The loan notes are redeemable, subject to certain restrictions, during the period 30 June 2003 to 30 June 2005. The maximum amount which may be redeemed during the next year is £1,678,000 and is included in other creditors falling due within one year.

The contingent deferred consideration represents the discounted value of £2,200,000 which is the estimated amount payable in June 2003, subject to certain growth targets being achieved by Northern Venture Managers. The consideration may be settled by way of issuing shares or unsecured guaranteed loan notes. It has been assumed that the liability will be met by issuing loan notes for the full amount of the deferred consideration. As no loan notes could be redeemed earlier than June 2004, the contingent deferred consideration falls due after more than one year.

20 Provisions for liabilities and charges

Provisions:	Consolidated Pensions £000	NIC on share schemes £000	Total £000
At 31 January 2002	76	27	103
Provided during year	37	4	41
Utilised during year	—	(27)	(27)
At 31 January 2003	113	4	117

The pension provision represents amounts held in respect of unfunded unapproved retirement benefit arrangements. The provision for national insurance contributions on share schemes represents the amount that would have been payable on the proportion of restricted shares accrued at 31 January 2003.

The Financial Services Authority ('FSA') and the Financial Ombudsman Service are currently undertaking reviews in the split capital investment trusts sector. No company within the group has received a request to provide information to the FSA. There has also been speculation that legal action may be brought against a range of parties involved in the sector. No legal action has been served against any company in the group and in the event that the group were to be included in any such proceedings these would be defended robustly. A review of the group's exposure to clients deriving from their holdings of split capital investment trusts has been undertaken. Based on this review and the present progress of the regulatory proceedings the board does not consider that any provision is required.

21 Called up share capital

	Number of shares	£000
Authorised		
Ordinary shares of 5p each		
At 31 January 2003 and 2002	45,000,000	2,250
Allotted, called up and fully paid		
At 31 January 2002	28,488,174	1,424
Issued during year on exercise of options	35,745	2
At 31 January 2003	28,523,919	1,426

During the year a total of 35,000 ordinary shares were allotted following the exercise of executive share options and 745 ordinary shares were allotted following the exercise of savings-related share options for a total consideration of £123,000.

21 Called up share capital–contd

Options relating to share option schemes outstanding at 31 January 2003 to subscribe for new ordinary shares were as follows:

Subscription price	Last date when options exercisable	Number of shares 2003	2002
Executive share option schemes			
308p	June 2002	—	30,000
366p	June 2003	20,000	35,000
604p	May 2004	145,000	170,000
532.5p	March 2005	170,500	344,500
582.5p	May 2005	30,000	30,000
317.5p	September 2005	10,000	20,000
726p	October 2005	115,000	175,000
699p	March 2006	110,000	170,000
407.5p	May 2006	210,000	420,000
439p	September 2006	24,000	34,000
592.5p	September 2006	376,000	569,000
547.5p	March 2007	3,000	53,000
661p	March 2007	240,000	330,000
632.5p	September 2007	20,000	30,000
410p	September 2008	125,000	125,000
447p	November 2008	25,000	25,000
396p	May 2009	40,000	—
123.5p	October 2009	197,784	—
		1,861,284	2,560,500
Savings-related share option schemes			
463p	June 2002	—	11,398

22 Reserves

	Capital redemption reserve £000	Share premium account £000	Special capital reserve £000	Revaluation reserve £000	Profit and loss account £000	Total £000
Consolidated						
At 31 January 2002	183	3,915	—	(3,042)	10,980	12,036
Retained loss for the year	—	—	—	—	(1,731)	(1,731)
Issue of shares	—	121	—	—	—	121
Revaluation of investments	—	—	—	643	(1,400)	(757)
At 31 January 2003	183	4,036	—	(2,399)	7,849	9,669
Company						
At 31 January 2002	183	3,915	75,177	(240)	1,930	80,965
Retained loss for the year	—	—	—	—	(45,431)	(45,431)
Transfer from special capital reserve	—	—	(45,326)	—	45,326	—
Issue of shares	—	121	—	—	—	121
Revaluation of investments	—	—	—	208	(208)	—
At 31 January 2003	183	4,036	29,851	(32)	1,617	35,655

Cumulative goodwill written off to reserves to 31 January 2003 amounted to £86,231,000 (2002 – £85,233,000). There are no non-equity interests in the reserves.

23 Related party transactions

During the year Noble Grossart Ltd, of which Sir Angus Grossart is chairman, provided services to the group in connection with potential acquisitions and for advice in connection with an offer for the group. The costs charged to the profit and loss account during the year amounted to £229,000 (2002 – £237,000). In addition Sir Angus Grossart's fees as a director were paid to Noble Grossart Ltd.

24 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. 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 company has an Inland Revenue approved Share Incentive Plan to encourage staff to participate in ownership of the company. For each share purchased by employees the company awards a matching share. In addition, employees are offered free shares if performance targets set by the company are achieved. No free shares will be offered in respect of the year ended 31 January 2003.

24 Employees' share schemes–contd

A summary of the number of shares held within the various employees' share schemes is as follows:

	31 January 2003 000	31 January 2002 000
Employees' Benefit Trust		
Non-beneficially held		
Unallocated shares	153	348
Matching shares	77	81
	230	429
Beneficially held		
Deferred bonus shares	128	136
Restricted shares	130	—
	488	565
Profit sharing scheme	86	88
Share incentive plan (including matching shares)	223	62
	797	715
Percentage of share capital	2.8%	2.5%

The 153,000 shares which are not allocated to employees are included in the balance sheet at a market value of £199,000. These unallocated shares will be used principally to satisfy shares under the bonus scheme or to satisfy the share options outstanding under the savings-related share options scheme. The 230,000 shares not beneficially held for employees have no dividend entitlement.

25 Pensions

The principal pension scheme, Edinburgh Fund Managers Group plc Retirement and Death Benefits Plan, 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 separately under trust from those of the group.

SSAP 24 disclosure

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 funding update was at July 2002. 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. For the purposes of this disclosure, it was assumed that the investment returns would be 6.75% per annum, that salary increases would average 4.5% per annum and that present and future pensions would increase by an average 2.5% per annum. Certain members have a minimum guaranteed increase on pensions of 3.0% per annum.

The most recent funding update as at 31 July 2002 showed that the market value of the scheme's assets was £24.1 million. The assessed value of those assets represented 81% of the value of benefits that had accrued to members, after allowing for expected salary increases. The next formal actuarial valuation will be as at 31 January 2003.

The defined benefit pension scheme cost for the year was £1,347,000 (2002 – £1,211,000), which was after a deduction of £202,000 (2002 – £431,000) in respect of the amortisation of the previous surplus to 1 November 2002 and the amortisation of the deficit from then onwards. The amortisation is over 14 years, the assumed average remaining service lives of the pensionable employees. The contributions may increase following the actuarial valuation at 31 January 2003.

25 Pensions–contd

Due to the impact of Inland Revenue restrictions, part of the normal benefit for two members 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 £113,000 (2002 – £76,000) is included in respect of the cost of providing the unapproved benefits accrued to 31 January 2003 (see note 20).

FRS 17 disclosure

The following information is provided in addition to the SSAP 24 disclosures to meet the transitional provisions of FRS 17. The notes of the analysis of the amounts charged to operating profit and the analysis of amount recognised in the statement of total recognised gains and losses are disclosure requirements of FRS 17. Under the transitional provisions these amounts are not reflected in the operating profit or statement of recognised gains and losses.

A full actuarial valuation was carried out at 31 January 2001 using the projected unit method and updated to 31 January 2003 by a qualified independent actuary. The major financial assumptions used by the actuary to calculate the scheme liabilities under FRS 17 that are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not be borne out in practice, were (in nominal terms):

	2003	2002
Discount rate	5.30%	5.60%
Salary increases	4.30%	4.25%
Increases in pensions in payment*	2.30%	2.25%
Inflation	2.30%	2.25%
Increases in deferred pensions	2.30%	2.25%

* some pensioners receive a minimum increase of 3.0% pa.

The fair value of the scheme's assets, which are not expected to be realised in the short term and may be subject to significant change before they are realised, and their expected gross rates of return, together with the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Expected rate of return	2003 £000	Expected rate of return	2002 £000
Equities	7.0%	17,160	7.0%	24,718
Bonds	4.5%	3,171	4.5%	2,001
Cash	4.0%	1,498	4.0%	2,232
Total market value of assets		21,829		28,951
Present value of scheme liabilities		(40,200)		(35,800)
Deficit in the scheme		(18,371)		(6,849)
Related deferred tax asset		5,511		2,055
Net pension deficit		(12,860)		(4,794)
Net assets of the group excluding pension deficit		11,095		13,460
Net pension deficit		(12,860)		(4,794)
Net (liabilities)/assets of the group including pension deficit		(1,765)		8,666
Profit and loss reserve of the group excluding pension deficit		7,849		10,980
Net pension deficit		(12,860)		(4,794)
Profit and loss reserve of the group including pension deficit		(5,011)		6,186

25 Pensions–contd

	2003 £000
Movement in deficit during the year	
Deficit in scheme at beginning of year	(6,849)
Movement in year:	
Current service cost	(1,890)
Contributions	1,460
Past service cost	(121)
Net interest cost	(110)
Actuarial loss	(10,861)
Deficit in scheme at end of year	(18,371)

	£000
Analysis of the amount charged to operating profit	
Current service cost	1,890
Past service cost	121
Total amount charged to operating profit	2,011
Analysis of net return on pension scheme	
Expected return on pension scheme assets	1,915
Interest on pension liabilities	(2,025)
Net return	(110)

		2003 £000	% of assets/ liabilities
Analysis of amount recognised in statement of total recognised gains and losses			
Actual return less expected return on assets	(a)	(9,196)	(42)
Experience gains and losses on liabilities	(b)	935	2
Changes in assumptions		(2,600)	
Net loss recognised	(b)	(10,861)	(27)

The percentages shown are calculated as follows:
(a) Percentage of the scheme assets at the balance sheet date
(b) Percentage of the scheme liabilities at the balance sheet date

26 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 2003 were as follows:

	Total £000	No interest £000	Floating rate £000
Sterling	15,640	3,131	12,509
US Dollar	735	—	735
Other currencies	118	82	36
	16,493	3,213	13,280

The financial assets with no interest 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 2003 were the bank loan of £13,250,000 which is in sterling, has a floating interest rate and a repayment schedule until September 2008, the bank overdraft of £2,699,000 which is in sterling, has a floating interest rate and no fixed repayment date, the unsecured guaranteed loan notes of £2,024,000 which have a floating interest rate and are repayable between 30 June 2003 and 30 June 2005, and £2,144,000 of contingent deferred consideration that may be settled by way of issuing shares or unsecured guaranteed loan notes, repayable between 30 June 2004 and 30 June 2007. The maturity profile was as follows:

	£000
One year or less	5,752
More than one year but not more than two years	3,650
More than two years but not more than five years	8,840
More than five years	1,875
	20,117

Year ended 31 January	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m
Funds under management	6,622	8,035	8,566	7,050	4,063
	£000	£000	£000	£000	£000
Shareholders' funds	7,615	12,422	16,792	13,460	11,095
Fund management income	26,693	29,513	36,130	34,672	29,577
Net profit from OEIC and unit trust trading	308	422	210	273	1,105
Turnover	27,001	29,935	36,340	34,945	30,682
Administrative expenses (excluding goodwill and exceptional items)	17,962	19,907	24,741	28,159	27,551
Operating profit (before goodwill and exceptional items)	9,039	10,028	11,599	6,786	3,131
Profit/(loss) on disposal of investments	*45*	*528*	*498*	*(180)*	*59*
Other income less interest payable	604	267	359	(98)	(411)
Profit on ordinary activities before taxation, goodwill and exceptional items	9,688	10,823	12,456	6,508	2,779
Exceptional items	2,002	1,281	—	(3,029)	(3,826)
Amortisation of goodwill	—	—	(246)	(703)	(998)
Profit/(loss) on ordinary activities before taxation	11,690	12,104	12,210	2,776	(2,045)
Relief/(taxation)	(3,770)	(3,616)	(3,634)	(1,167)	314
Profit/(loss) on ordinary activities after taxation	7,920	8,488	8,576	1,609	(1,731)
Minority interest	(1)	—	—	—	—
Profit/(loss) for the financial year	7,921	8,488	8,573	1,609	(1,731)
Earnings per share excluding goodwill and exceptional items	23.6p	27.5p	31.4p	16.2p	7.0p
Dividends per share	25.0p	25.0p	25.0p	12.5p	—

Notes:

FRS 19 was implemented during the year ended 31 January 2002. The figures for the year ended 31 January 2001 have been restated but no adjustment has been made to previous years as these would not be material.

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

Registrars

Computershare Investor Services plc
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone: 0870 702 0010
Website: www.computershare.co.uk

Bankers

Bank of Scotland
The Mound
Edinburgh EH1 1YZ

Auditors

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

Stockbroker

Investec Securities
2 Gresham Street
London EC2V 7QN

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 to 31 January announced
April –	Annual report and accounts published
June –	Annual general meeting
September –	Interim figures to 31 July
October –	Interim report for half year to 31 July published

Annual general meeting

This year's annual general meeting will be held at Donaldson House on **Wednesday 4 June 2003 at 10.30 am.** Shareholders are asked to reply on the enclosed card if they will be attending the meeting.

CORPORATE LEGAL STRUCTURE

Edinburgh Fund Managers Group plc

Chairman:
Charles Nunneley

Directors:
Rod MacRae
Anne Richards

Edinburgh Fund Managers plc

Directors:
Graham Brock
Alastair Conn
Rod MacRae
Ken McKenna
Anne Richards

Edinburgh Unit Trust Managers Limited

Directors:
Rod MacRae
(*Chairman*)
Alan Bathgate
Lesley Drummond
Jon Hodesdon
Brian Nicholson
Anne Richards

Edinburgh Portfolio Limited

Directors:
Rod MacRae
(*Chairman*)
Graham Brock
Mark Harris
Jon Hodesdon
Brian Nicholson

Northern Venture Managers Limited

Directors:
Michael Denny
(*Chairman*)
Alastair Conn
(*Managing Director*)
Nat Hone
Colin Kidd
Tim Levett
Christopher Mellor
Norman Yarrow

Edinburgh Fund Managers (Private Clients) Limited

Directors:
Alan Aitchison
(*Managing Director*)
Graham Brock
Mark Hallam
Andrew Hartley

Group Subsidiaries

Notice is hereby given that the eighth 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 4 June 2003 at 10.30 am 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 2003;
2. to appoint Mr C K R Nunneley as a director;
3. to appoint Mr R M MacRae as a director;
4. to appoint Ms A H Richards as a director;
5. to approve the directors' report on remuneration for the year ended 31 January 2003;
6. to re-appoint KPMG Audit Plc as auditors;
7. to authorise the directors to fix the auditors' remuneration;

SPECIAL RESOLUTION

8. *that, in substitution for any existing authority,* the company be and it is hereby generally and unconditionally authorised, in accordance with section 166 of the Companies Act 1985 (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:
   (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 3 December 2004 or at the conclusion of the annual general meeting of the company to be held in 2004, 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.

Special business

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

9. that the maximum aggregate fees paid to and benefits in kind received by the directors be increased to £175,000 per annum and that Article 94 of the Articles of Association of the Company be read and construed accordingly.

By order of the board
Lynn Mathewson
Secretary
Edinburgh, 10 April 2003

Lynn Mathewson

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

Notes

Holders of ordinary shares are entitled to attend and vote at the 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. A form of proxy for use by holders of ordinary shares is enclosed with these accounts. Proxies must be lodged with the company's registrars, Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3ZZ not less than 48 hours before the time appointed for the meeting. Completion and return of a form of proxy will not prevent a holder of ordinary shares from attending or voting in person should he so wish.

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the company specifies that only those holders of ordinary shares entered on the register of members of the company as at 6.00pm on 2 June 2003 or, in the event that the meeting is adjourned, on the register of members 48 hours before the time of the adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the register of members after 6.00pm on 2 June 2003 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the meeting, notwithstanding any provisions in any enactment, the articles of association of the company or other instrument to the contrary.

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 Wednesday 4 June 2003 at 10.30 am and at any adjournment thereof.

	For	Against
1. Adoption of directors' and auditors' reports and financial statements		
2. Appointment of Mr C K R Nunneley as a director		
3. Appointment of Mr R M MacRae as a director		
4. Appointment of Ms A H Richards as a director		
5. Approve directors' remuneration report		
6. Re-appointment of KPMG Audit Plc as auditors		
7. Authorisation of directors to fix the remuneration of the auditors		
8. Authorisation to purchase own shares		
9. Increase maximum aggregate of directors' fees		

Signed ______________________________ **Date** ____________________

Notes:

1. 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.
2. A corporation should execute under its common seal or the hand of a duly authorised officer.
3. 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.
4. 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.
5. 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.
6. Completion of this form of proxy will not prevent members from attending the meeting and voting in person should they so wish.
7. A proxy need not be a member of the company.

Second fold

BUSINESS REPLY SERVICE
Licence No. SWB 1002

2

COMPUTERSHARE INVESTOR SERVICES PLC
PO BOX 1075
BRISTOL
BS99 3ZZ

First fold

Third fold and tuck in

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Edinburgh
FUND MANAGERS