SC156049

# EFM DRAGON TRUST PLC

C/N. EDINBURGH DRAGON TRUST PLC.

## ANNUAL REPORT AND ACCOUNTS 1994

Edinburgh
FUND MANAGERS PLC

An investment trust managed by Edinburgh Fund Managers plc

# ADVISERS

**Manager, Secretary and Registered Office**
Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
EDINBURGH EH12 5HD
Tel: 031-313 1000

**Registrars**
Bank of Scotland
Registrar Department
Apex House
9 Haddington Place
EDINBURGH EH7 4AL
Tel: 031-442 7777

**Bankers**
The Royal Bank of Scotland plc

**Auditors**
KPMG Peat Marwick
Saltire Court
20 Castle Terrace
EDINBURGH EH1 2EG

**Company Registration Number**
SC 106049

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**The investment objective of EFM Dragon Trust plc is to provide long-term capital growth for its shareholders through investment in the Far East (excluding Japan and Australasia).**

AI TC

The company is a member of
The Association of Investment Trust Companies

# DIRECTORS

**DIRECTORS**

**Sir Hugh C Byatt*** (Chairman) acts as adviser to The RTZ Corporation. He served in various overseas and diplomatic appointments from 1952 to 1986, latterly as HM Ambassador to Portugal. His career included a number of years in the South Asian Department of the Foreign and Commonwealth Office and in India. He is chairman of Edinburgh Java Trust and a director of Edinburgh Japan Trust.

**Tony Cassidy*** is chief executive of Renfrewshire Enterprise. Former executive director (Japan/Asia) of Locate in Scotland, he has been associated with business in the Far East for many years. He has also lived and worked as a British official in India and Japan. He is a director of Edinburgh Japan Trust and of Ptarmigan International Trust.

**Frank Frame*** is adviser to the Board of HSBC Holdings plc. He has had extensive business experience of the Far East, having previously served as Deputy Chairman of The Hong Kong and Shanghai Banking Corporation, Chairman of South China Morning Post, and director of Swire Pacific and of the Securities and Future Commission of Hong Kong. He is currently Chairman of Wallem Group and a director of Baxter International Inc.

**Peter Tyrie*** was managing director of Hong Kong based Mandarin Oriental Hotel Group until 1989 when he returned to Great Britain to start Balmoral International Hotels. He has lived and worked extensively in the Far East and is also a director of Edinburgh New Tiger Trust.

**Iain Watt** is the managing director of Edinburgh Fund Managers plc and an Associate of the Institute of Bankers in Scotland. He is also a director of Edinburgh New Tiger Trust and of Piper Global Funds Inc, the adviser to Pacific-European Growth Fund.

* Member of the audit committee

**Directors' holdings in the company**

| | 1994 | | | 1993 (before 1 for 4 consolidation) | | |
|---|---|---|---|---|---|---|
| | **Ordinary shares** | **Warrants** | **Warrants 2005** | Ordinary shares | Warrants | Warrants 2005 |
| Sir Hugh C Byatt | **18,750** | **500** | **5,550** | 75,000 | 2,000 | 22,200 |
| A F Cassidy | **4,000** | **500** | **300** | 16,000 | 2,000 | 1,200 |
| F R Frame (appointed 22.2.94) | **8,500** | — | — | — | — | — |
| P R Tyrie | **7,500** | — | **500** | 30,000 | — | 2,000 |
| I A Watt | **13,252** | — | — | 52,591 | — | 380 |

The company has not been notified of any changes in the above directors' holdings between 31 August 1994 and 22 September 1994. The holdings detailed above are all beneficially held by the directors.

# THE INVESTMENT MANAGER

**THE INVESTMENT MANAGER—Edinburgh Fund Managers plc**

Edinburgh Fund Managers manages assets of £4.0 billion of which approximately £810 million is invested in the Far East excluding Japan and Australasia. Its clients include investment trusts, unit trusts, exempt funds, pension funds and discretionary accounts.

Edinburgh Unit Trust Managers, a wholly-owned subsidiary of Edinburgh Fund Managers, is ranked amongst the top one-third in the unit trust industry in terms of funds under management.

In addition to EFM Dragon Trust, Edinburgh Fund Managers acts as investment manager to nine other investment trusts, namely:

American Trust plc,
The British Investment Trust PLC,
Edinburgh Income Trust plc,
Edinburgh Inca Trust plc,
Edinburgh Japan Trust plc,
Edinburgh Java Trust plc,
Edinburgh New Tiger Trust plc,
Edinburgh Small Companies Trust plc, and
Malvern UK Index Trust plc

Investment managers at Edinburgh Fund Managers are divided into specialist geographical teams. The Pacific team is listed below:

Mike Balfour—Overseas Investment Director
Helen Fallow—Head of Pacific Department/Assistant Director
William Mackay—Investment Manager/Assistant Director
Steven Barton—Investment Manager
Jamie Sandison—Investment Manager
Alistair Thomson—Investment Manager
Jason McCay—Investment Analyst

# CHAIRMAN'S REVIEW

I am pleased to report a positive year for your company.

During the year ended 31 August 1994, the net asset value per share has grown by 47 per cent. This increase places EFM Dragon second top over the last year of nine investment trusts in its AITC sector, Far East excluding Japan. This shorter term performance is heartening, while the longer term performance remains outstanding. EFM Dragon remains first in its sector over five years, registering a net asset value total return of 169 per cent. The discount to net asset value at which the shares of the company traded varied during the 12 month period but ended as it began at 6 per cent.

The company made a revenue deficit of £45,000 (1993—surplus £277,000) and no dividend is proposed for the year (1993—nil). The Trust's long-term objective, however, remains that of capital appreciation and over £100 million was added to its capital value during the year under review.

The increase in your company's size as a result of last year's takeover of Drayton Asia Trust, valued at £127 million, was the most significant development in its history to date. The growth in the company's asset base has occasioned two further developments I should like to highlight. Every four of the company's 5p ordinary shares were consolidated to one 20p share in November 1993 with the aim of reducing the bid-offer price spread of the shares in the stockmarket. This has been achieved with the typical spread now around 5 per cent, having been in the region of 15 per cent prior to the consolidation.

The other notable development was the innovative decision to issue US$80 million of loan notes by way of a placing to a number of US institutional investors in December 1993. This returned the company's gearing level to approximately 20 per cent of net assets when fully invested. The interest rate on the loan notes is fixed at 7.26 per cent for 15 years. Your Board takes a positive view of the Pacific region over this time frame and believes the gearing will enhance shareholder returns. Your company prudently did not invest any of the additional funds in the turbulent markets of the first three months of this year but has gradually done so since. Presently the portfolio is 12 per cent geared.

Most stockmarkets of the region produced another year of good performance. Volatility during the year, however, was high, particularly around the turn of the year. The markets have attracted substantial amounts of international equity capital, forcing them significantly higher. At the beginning of February this year, the Federal Reserve in the US started to tighten its monetary policy. This unsettled financial markets, not least the dollar related markets of Asia. From February until [illegible], the markets fell significantly. Since then, a gradual recovery has taken place. In view of the likelihood of further interest rate rises in the US, some caution is still warranted.

# CHAIRMAN'S REVIEW

At this year's Annual General Meeting, resolutions will be proposed as Special Business to change the company's name to Edinburgh Dragon Trust plc and to amend its Memorandum of Association and Articles of Association to bring them into line with current legislation and practice.

Further details and background to these proposed changes are given in a circular which accompanies this report and in the notice of the Annual General Meeting on page 25.

I am pleased to report that there are now over 1,300 shareholders (1993—900) investing in the company's shares through participation in The EFM Investment Trust Purchase Scheme and I commend it to you.

In conclusion, it has been another good year and, despite some short-term caution, your Board believes your company's prospects remain attractive.

Sir Hugh C Byatt

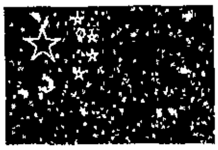
Edinburgh, 22 September 1994

# MANAGER'S REVIEW

The last financial year for EFM Dragon Trust was a tale of two halves. In the last quarter of 1993 most stockmarkets in the region reached all time highs, fuelled by strong international monetary flows and an extremely attractive economic outlook. The profit taking that set in at the beginning of the year was exacerbated by fears of rising inflation and the prospect of increased interest rates in the US. This led to a fairly major correction for most of the regions markets. Interest rates in Hong Kong, Singapore and Thailand have risen over the last 6 months. Nevertheless, strong economic fundamentals continue to make the region attractive with GDP growth in 1994 ranging from 5 per cent to 9 per cent. While the short term interest rate environment is a concern the long-term outlook remains very positive.

Despite ending the period under review up 27 per cent, in sterling terms, the **Hong Kong** market has been fairly volatile. In the dying months of 1993 the market continued to ignore both an overheating property market and signs that the Chinese economy was also overheating. The Hang Seng Index was up 30 per cent in December alone. However, fears of inflationary pressure in the US and the prospect of higher interest rates have negatively impacted both the stockmarket and property market. Since the beginning of the year interest rates have moved up 1.5 per cent. The Hang Seng index is trading at 16.5 per cent lower than its 1993 closing level and residential property prices have fallen 10-15 per cent. The Government has introduced measures to contain property prices and banks are restricting mortgages. Despite these moves, however, average prices are still above 1993 levels. The majority of property companies have pre-sold a large part of their properties for 1994, thereby locking in profits, but it would not be surprising to see 1995 corporate earnings being revised downwards. We believe that the market remains vulnerable to further interest rate rises. On the economic front GDP growth of 5.5 per cent in the first half of 1994 was better than anticipated but retail sales remain sluggish and exports have been trending down as the Chinese economy has been slowing. Overall, we expect 5.7 per cent economic growth for 1994 and 5.0 per cent in 1995.

In **China**, first half economic indicators had suggested that the Government was managing to cool the economy. The trade sector has been improving; the currency stable; and the reform process is continuing. However, in July inflation rose 24 per cent and fixed asset investment rose over 70 per cent, year on year, raising fears that the Government will have to impose further cooling measures. This illustrates the difficult job the Government has in controlling such a vast economy. Economic trends will be closely followed.



While we remain positive on the longer term outlook for both Hong Kong and China, caution prevails in the shorter term given the problems within the Chinese economy and the uncertainty over Hong Kong interest rates.

Since peaking at 637 at the end of 1993, the DBS index in **Singapore** has declined 9.3 per cent, markedly less than its major South East Asian rivals. Its defensive nature has been underpinned by better than expected economic growth. The economy grew by 10.5 per cent in the first half of 1994 prompting annual forecasts to be raised. Singapore is now expected to achieve 9.0 per cent economic growth in 1994. The trade sector is performing strongly with non-oil domestic exports up 20 per cent in July. Companies are benefitting from continued investment in technology and to some extent moves to relocate low value production offshore. More recently the property sector in Singapore has begun to experience steady increases in rental levels. Rents in Grade A office space, for example, have risen some 25 per cent in the last 6 months. Similar moves have been seen in the residential property market. Corporate earnings are expected to rise by 15 per cent in 1994 with similar growth in 1995. Interest rates, however, have been trending up to offset inflationary pressure from both the strong economy and the introduction of a Goods & Sales Tax earlier this year. The Government has allowed the currency to appreciate in order to contain imported inflation. We believe that the Government's pre-emptive tighter monetary

# MANAGER'S REVIEW

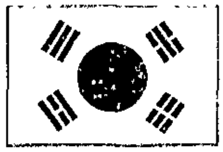
policy will not harm the country's economic outlook. Singapore is expected to continue to perform steadily but on a prospective Price/Earnings Ratio (PER) of 23 times and growing at 15 per cent there is little room for PER expansion. Profits have been taken.

Following the substantial increase in the **Malaysian** market in the last quarter of 1993, (up 43.5 per cent in sterling terms) the stockmarket was looking overvalued. A sharp correction in January and February brought the market back to more reasonable levels. Despite this, the KL Composite Index was still up 34.6 per cent (in sterling terms) in the period under review. The underlying economic fundamentals remain very positive for Malaysia with GDP growth expected to increase by 8 per cent per annum over the next 2 years. This is being fuelled by a strong export market, substantial increases in direct investment, both foreign and domestic, and increased Government expenditure on infrastructure projects. Corporate earnings growth should remain impressive at 21 per cent for 1994 and 16 per cent for 1995. In addition, Malaysian interest rates have continued to decline to their lowest levels since 1988. Coupled with growing speculation of a General Election towards the end of the year the Malaysian market has more recently been recovering quite strongly. High liquidity levels, election speculation, privatisation and company restructuring should continue to attract investor attention. However, longer term, inflationary pressures are a very real concern. A deteriorating current account deficit given that the trade deficit is once again increasing is another possibility. In other words, at some point interest rates will begin to trend up again. While we remain positive on the market short-term the longer term outlook is more cautious.

**Thailand**'s stockmarket mirrored that of Malaysia over the year under review. The SET Index rose by 74 per cent in the last quarter of 1993. Profit taking set in at the beginning of this year which combined with interest rate concerns and political infighting caused the market to fall 28 per cent. Since the beginning of July the market has been recovering. Strong second quarter earnings have attracted both retail and international investors. Liquidity is building up due to an improving trade balance. Exports are up 21.2 per cent in the first 7 months of 1994 while imports are up 14 per cent in the same period. Foreign direct investment applications and approvals have increased strongly. The economy is forecast to grow at over 8 per cent in both 1994 and 1995 and this will underpin corporate earnings. We remain positive about the market.

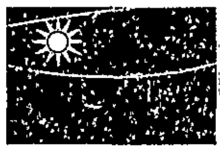
The **Indonesian** stockmarket performance has been disappointing this year to date. The Jakarta Composite index has fallen 13.2 per cent since the beginning of January giving a return of 14.9 per cent (in Sterling terms) for the year to the end of August 1994. A large number of new issues and rights issues dampened investor enthusiasm. Speculation over Prime Ministers Suharto's succession and reported labour unrest did not help sentiment. However, there is evidence of a clear recovery in the economy reflected in GDP growth of 6.5 per cent in 1993 and 1st quarter 1994 growth of 6.2 per cent. Trade performance has improved and although interest rates have moved up slightly loan growth shows no sign of slowing. Borrowers evidently consider lending rates of 18 to 19 per cent as affordable in the context of average lending rates of 21-23 per cent over the last ten years. Recently released interim results reinforce the healthy corporate environment. Corporate earnings growth estimates for the year range as high as 30 per cent with at least a further 20 per cent in 1995. Valuations are not demanding and this is again attracting investor attention. Our view of the market is positive.

# MANAGER'S REVIEW



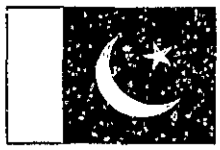
Economic prospects for **South Korea** remain very positive. Second quarter GNP growth of 8.1 per cent was above market expectations. The growth was broadly based which was particularly encouraging. Exports for the second quarter were up 17.9 per cent year on year and investment in plant and machinery was 15.4 per cent higher, paving the way for continued economic growth. Prospective corporate earnings growth of 25 per cent remains among the best in the region. Both the economy and corporate sector are benefiting from an appreciating Yen and a pick up in world trade. However, political concerns have diverted the markets attention away from the healthy economic outlook. The sudden death of the North Korean leader Kim Il Sung has caused some uncertainty, particularly since it stalled inter Korean talks on the North's nuclear programme. Kim Jong-il, the son and successor to Kim Il Sung, is an unknown quantity but it is encouraging that the US has made some progress on the nuclear issue reducing the risk of a major upset. The inflation picture has also deteriorated slightly due to the strength of the economy and needs to be monitored closely. Nevertheless the market is relatively cheap on 17.5 times 1995 earnings and is expected to provide good returns over the next year.

The **Philippine** market was one of the best performing markets over the year to end August 1994, up 79 per cent. Excellent economic news, declining inflation and falling interest rates have all contributed to the market's performance. GNP grew at 5.4 per cent in the second quarter of 1994. The prospects remain very bright. The economic recovery is feeding through to rapid earnings growth, which are expected to rise by 30 per cent this year. In addition, the successful introduction of VAT will not only considerably improve the budget deficit but also improves President Ramos' political standing. Currently the country is enjoying negative real interest rates which is providing a powerful stimulus to the economy and stockmarket. The outlook remains positive.



Of the other markets, **Taiwan** has been a very strong performer up 79 per cent, in sterling terms in the year under review. The market has been fuelled by a recovery in exports and an inflow of foreign funds. As a result, Taiwan has its largest balance of payments surplus since 1991. This positive liquidity situation is expected to continue. EFM Dragon Trust has been increasing its exposure to that market.

The **Indian** subcontinent markets continue to deregulate their economies and in general earnings have been very strong. The markets are expected to provide excellent returns over the next year.



Overall, economic growth in the region will continue to be excellent with corporate earnings growth superior to most international markets. Although there are some short-term concerns regarding the direction of interest rates, particularly in Hong Kong, the long-term outlook remains very attractive.

# DISTRIBUTION OF INVESTMENTS

at 31 August 1994 (%)

**Equity holdings in:**

| | Manufacturing | Consumer | Utilities | Conglomerates | Financial | Property | Resources | Services | Total | 1993 |
|---|---|---|---|---|---|---|---|---|---|---|
| Malaysia | 5.8 | — | 1.7 | — | 2.5 | 2.2 | 1.7 | 6.1 | 20.0 | 22.0 |
| Singapore | 6.7 | 1.7 | — | — | 4.0 | 4.4 | — | 1.5 | 18.3 | 17.7 |
| Thailand | 6.2 | — | — | — | 8.5 | 1.3 | — | — | 16.0 | 14.5 |
| Hong Kong | 0.9 | 0.8 | — | 5.3 | 4.2 | 1.7 | — | — | 12.9 | 22.2 |
| South Korea | 8.3 | 1.2 | — | 0.9 | 2.1 | — | — | — | 12.5 | 11.1 |
| Indonesia | 5.9 | 0.7 | — | — | 1.5 | 1.2 | — | — | 9.3 | 6.3 |
| The Philippines | 0.5 | 1.3 | 1.9 | 2.0 | 0.8 | — | — | 0.5 | 7.0 | 3.4 |
| Other | 4.0 | — | — | — | — | — | — | — | 4.0 | 2.8 |
| | 38.3 | 5.7 | 3.6 | 8.2 | 23.6 | 10.8 | 1.7 | 8.1 | 100.0* | 100.0 |
| 1993 | 27.9 | 3.6 | 2.8 | 10.5 | 22.8 | 16.7 | — | 15.7 | 100.0* | 100.0 |

*Contains 3.29 per cent (1993—0.8 per cent) of Convertible stocks having an element of equity

# TWENTY LARGEST EQUITY HOLDINGS

| *Company* | *Market Value* £'000 | *Country* | *Description* |
|---|---|---|---|
| Samsung Electronics | 12,009 | South Korea | Electronics manufacturer |
| City Development | 8,514 | Singapore | Property development /investment |
| United Overseas Bank | 8,000 | Singapore | Banking |
| Siam Cement | 7,726 | Thailand | Cement manufacturer |
| Hutchison Whampoa | 7,650 | Hong Kong | Conglomerate: property, container terminals, retail |
| Dao Heng Bank Group | 7,636 | Hong Kong | Banking |
| Thai Farmers Bank | 6.991 | Thailand | Banking |
| Swire Pacific | 6,804 | Hong Kong | Conglomerate: property, airlines |
| San Miguel | 6,759 | Philippines | Conglomerate: brewing, consumer products |
| Siam Commercial Bank | 6,650 | Thailand | Banking |
| **Ten Largest Holdings** | **78,748** | **22.2% of total value of investments** | |
| Genting Berhad | 6,501 | Malaysia | Leisure |
| Manila Electric 'B' | 6,255 | Philippines | Electricity distributor |
| HSBC Holdings | 6,204 | Hong Kong | International banking |
| Creative Technology | 5,780 | Singapore | Electronics manufacturer |
| Lingui Development | 5,658 | Malaysia | Timber company |
| Jurong Shipyard | 5,623 | Malaysia | Ship repair/construction |
| Singapore Press | 5,601 | Singapore | Newspaper publisher |
| Westmont services | 5,567 | Malaysia | Shipping & offshore |
| Telekom Malaysia | 5,459 | Malaysia | Telephone company |
| Technology Residential Industries | 5,443 | Malaysia | Telecommunications |
| **Twenty Largest Holdings** | **136,839** | **38.6% of total value of investments** | |

# REPORT OF THE DIRECTORS

### Business and status

The company carries on business as an investment trust and, for the purpose of the Income and Corporation Taxes Act 1988, has been treated by the Inland Revenue as approved as such for the year ended 31 August 1993, the latest year for which accounts have been submitted. The company has subsequently conducted its affairs so as to enable it to continue to obtain such approval. The close company provisions of the Act do not apply to the company.

The company is an investment company within the terms of Section 266 of the Companies Act 1985.

### Consolidation of Share Capital

On 17 November 1994, the ordinary shares were consolidated on the basis of 1 new ordinary share of 20p each for every 4 existing shares of 5p each. Warrants and warrants 2005 were also consolidated on the same basis.

The aggregate of any fractional entitlements arising on the consolidation were sold on behalf of the company and the proceeds thereof were retained for the benefit of the company. Dealings in the ordinary shares arising on the consolidation commenced on 18 November 1993.

### Review of activities

During the year, the company followed the normal activities of an investment trust. Details of these are given in the Chairman's Review on page 4 and the Manager's Review on page 6.

### Dividends

The directors are not recommending the payment of a dividend (1993—nil). The directors propose that the revenue deficit for the year of £45,000 be transferred to reserves.

### Directors and their holdings in the company

Mr I A Watt retires from the Board at this time and will be proposed for re-election. Mr F R Frame was appointed a director of the company on 22 February 1994 and, in accordance with the Articles of Association, will retire at the Annual General Meeting and will be proposed for re-election.

The names of the directors and their holdings in the company's shares and warrants are given on page 2. No other director held office during the period.

No contract or arrangement subsisted during the period in which any of the directors was materially interested.

### Directors' Liability Insurance

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

### Corporate Governance

In December 1992 the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) published a Code of Best Practice. The Code contains nineteen recommendations as to best practice in terms of the control and reporting functions of boards of directors; on two reporting recommendations, relating to the effectiveness of internal controls and confirmation that the business is a going concern, guidance on compliance is still to be issued by the accounting profession. For financial years ending after 30 June 1993 the London Stock Exchange required all listed companies registered in the UK to state in their Annual Report and Accounts whether or not they have complied with the Code. The Board considers that the Company complies with the seventeen recommendations of the Code which are not subject to further clarification.

The auditors, KPMG Peat Marwick, have confirmed to the directors that they are satisfied that this statement appropriately reflects the company's compliance with the Code of Best Practice, in so far as it relates to the paragraphs of the Code which the London Stock Exchange has specified for their review.

# REPORT OF THE DIRECTORS
continued

### Substantial share interests

At 22 September 1994 the following interests in the ordinary share capital had been notified to the company:

| Holder | No of ordinary shares | Percentage |
|---|---|---|
| British Coal Staff Superannuation Scheme and Mineworkers Pension Scheme | 51,360,387 | 19.45 |
| Blue Circle Pension Investments Limited | 11,715,191 | 4.43 |

### Annual General Meeting—Special Business

In addition to the Special Business mentioned in the Chairman's Review (details of which are given in the circular which accompanies this report), a Special Resolution will be proposed at the Annual General Meeting of the company to be held on 16 November 1994 to give the directors limited power to allot shares in disapplication of statutory pre-emption rights.

Section 89 of the Companies Act 1985 requires the directors, whenever they propose to allot ordinary shares for cash, to offer such shares first to shareholders in proportion to their existing holdings (shareholders' pre-emption rights). Section 95 of the Act enables the disapplication of these pre-emption rights in certain circumstances. Resolution 9 contains a renewal of the disapplication of shareholders' pre-emption rights granted to the directors on 17 November 1993 for a period of up to 15 months from this year's annual general meeting. If approved, this resolution will empower the directors to issue shares for cash without applying pre-emption rights if the issue either is made in connection with a rights issue or does not exceed 5 per cent of the issued ordinary share capital.

### Auditors

The company's auditors, KPMG Peat Marwick are willing to continue in office and resolutions will be proposed at the annual general meeting to reappoint them and to authorise the directors to fix their remuneration.

By order of the board
Edinburgh Fund Managers plc, Secretary

Edinburgh, 22 September 1994

# DIRECTORS' RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

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 profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

— select suitable accounting policies and then apply them consistently;

— *make judgements and estimates that are reasonable and prudent;*

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

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

The directors confirm that they comply with all the above requirements. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have several responsibilities 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.

# AUDITORS' REPORT

KPMG Peat Marwick

Saltire Court, Edinburgh

**to the members of EFM Dragon Trust plc**

We have audited the financial statements on pages 14 to 23.

**Respective responsibilities of directors and auditors**

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

**Basis of opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 August 1994 and of its deficit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Peat Marwick KPMG Peat Marwick Edinburgh, 11 October 1994

Chartered Accountants
Registered Auditors

# REVENUE ACCOUNT

for the year ended 31 August 1994

| | Notes | 1994 £'000 | 1993 £'000 |
|---|---|---|---|
| **Income** | | | |
| Investment income | 2 | 4,685 | 1,796 |
| Interest receivable | | 1,098 | 89 |
| Other income | 3 | 167 | — |
| | | 5,950 | 1,885 |
| **Administrative expenses** | 4 | 2,363 | 673 |
| | | 3,587 | 1,212 |
| **Interest payable and similar charges** | 5 | 3,354 | 848 |
| **Revenue before taxation** | | 233 | 364 |
| Taxation | 6 | 278 | 87 |
| **Deficit after taxation** | 17 | (45) | 277 |
| Deficit per ordinary share | 7 | (0.017p) | 0.196p |

# BALANCE SHEET
at 31 August 1994

| | Notes | 1994 £'000 | 1994 £'000 | 1993 (restated*) £'000 | 1993 (restated*) £'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments | 8 | | 354,244 | | 228,359 |
| **Current assets** | | | | | |
| Debtors | 9 | 6,707 | | 3,811 | |
| UK Treasury Bills | | 997 | | 8,346 | |
| US Treasury Bills | | 30,502 | | — | |
| Cash at bank | | 2,531 | | 426 | |
| | | 40,737 | | 12,583 | |
| **Creditors: amounts falling due within one year** | 10 | 1,795 | | 5,842 | |
| **Net current assets** | | | 38,942 | | 6,741 |
| **Total assets less current liabilities** | | | 393,186 | | 235,100 |
| **Creditors: amounts falling due after more than one year** | 11 | | 61,470 | | 10,084 |
| | | | 331,716 | | 225,016 |
| **Capital and reserves** | | | | | |
| Called up share capital | 12 | | 52,803 | | 52,680 |
| Share premium | 13 | | 108,426 | | 108,227* |
| Warrant reserve | 14 | | 1,617 | | 1,660* |
| Capital reserve | 15 | | 75,188 | | 36,904 |
| Unrealised appreciation | 16 | | 93,083 | | 24,901 |
| Revenue reserve | 17 | | 599 | | 644 |
| | | | 331,716 | | 225,016 |
| Net asset value per share | 18 | | 125.64p | | 85.43p |
| Net asset value per share adjusting for dilution arising from full exercise of warrants | 18 | | 119.57p | | 82.76p |

SIR HUGH C BYATT, Director

Hugh C. Byatt

I A WATT, Director

Ia. Watt

# CASH FLOW STATEMENT

for the year ended 31 August 1994

| | Notes | 1994 £'000 | 1994 £'000 | 1993 £'000 | 1993 £'000 |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | 19 | | 3,183 | | 1,115 |
| **Servicing of finance** | | | | | |
| Interest paid | | (2,709) | | (785) | |
| Dividend paid | | — | | (187) | |
| **Net cash outflow from servicing of finance** | | | (2,709) | | (972) |
| **Taxation** | | | | | |
| UK Corporation tax refund | | 62 | | (63) | |
| UK income tax paid | | (318) | | (146) | |
| Overseas tax paid | | (166) | | (86) | |
| **Total tax paid** | | | (422) | | (295) |
| **Investing activities** | | | | | |
| Purchase of investments | | (174,012) | | (28,854) | |
| Sale of investments | | 148,117 | | 34,776 | |
| Expenses re acquisition of Drayton Asia | | (87) | | (1,505) | |
| Cash distribution from Drayton Asia | | 500 | | 3,670 | |
| Management fee | | (1,240) | | (310) | |
| **Net cash outflow from investing activities** | | | (26,722) | | 7,777 |
| **Net cash outflow before financing** | | | (26,670) | | 7,625 |
| **Financing** | | | | | |
| Issue of ordinary share capital | 21 | 279 | | 172 | |
| Issue of US$80,000,000 loan notes | 21 | 54,175 | | — | |
| Loan note issue expenses | 21 | (384) | | — | |
| **Net cash inflow from financing** | | | 54,070 | | 172 |
| **Increase in cash and cash equivalents** | 20 | | 27,400 | | 7,797 |

# STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

for the year ended 31 August 1994

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **Capital profits** | | |
| Realised gains on investments | 41,991 | 10,333 |
| Unrealised appreciation | 68,182 | 23,069 |
| Gain arising on distribution from Drayton Asia | — | 27,953 |
| Total appreciation for year | 110,173 | 61,355 |
| Expenses of acquisition of Drayton Asia | (27) | (1,564) |
| Exchange differences | (2,142) | (35) |
| Management fee | (1,538) | (362) |
| Capital surplus for year | 106,466 | 59,394 |
| **Revenue account** | | |
| Revenue deficit | (45) | 277 |
| **Total recognised gains for the year** | 106,421 | 59,671 |

# RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 August 1994

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| Revenue deficit | (45) | 277 |
| Non-distributable capital surplus | 106,466 | 59,394 |
| Issue of share capital | 279 | 127,748 |
| Shareholders' funds at 1 September 1993 | 225,016 | 37,597 |
| **Shareholders' funds at 31 August 1994** | 331,716 | 225,016 |

# NOTES TO THE ACCOUNTS

## 1. Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards and on the assumption that approval as an investment trust will continue to be granted.

The accounts of Drayton Asia Trust plc and its subsidiary have not been consolidated as there are long-term restrictions which substantially hinder the exercise of the rights of the parent company over the management of these undertakings due to these companies having been placed in members voluntary liquidation on 20 August 1993.

(a) *Investment income and interest receivable.* Dividends and interest on investments are credited to the revenue account when investments on listed and over-the-counter markets are quoted ex-dividend and registers are closed for other investments. Interest on loans and short-term deposits is dealt with on an accruals basis. Income from investments includes taxes deducted at source.

(b) *Taxation.* Advance corporation tax payable on a proposed dividend is included as current taxation payable and the recovery provided for in debtors. Taxation is provided for short-term timing differences. Provision is made or credit taken in the capital reserve for any tax liability or relief arising under the Accrued Income Scheme.

(c) *Investments.* Listed investments are included at market valuations and unlisted investments, in the absence of market valuations, at values fixed by the directors. In determining the valuations of unlisted investments the directors have had regard, where relevant, to the earnings, dividend history and prospects, the latest dealing prices and any other information available.

Movements on valuation are taken to unrealised appreciation reserve.

Gains and losses on the realisation of investments are transferred directly to capital reserve.

(d) *Foreign currencies.* Assets and liabilities in foreign currencies are converted at the rates of exchange ruling on the balance sheet date. Transactions involving foreign currencies are converted at the rate ruling on the date of the transaction. Gains and losses on the realisation of foreign currencies are transferred directly to capital reserve.

(e) *Finance costs.* Finance costs are amortised to the revenue account over the term of the debt.

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **2. Investment income** | | |
| Unfranked income: | | |
| Dividends from listed investments | 4,685 | 1,796 |

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **3. Other income** | | |
| Income from stock lending | 167 | — |

During the year, the company commenced stock lending activities. All stocks lent under these arrangements are fully secured against collateral. At 31 August 1994, holdings valued at £37 million were on loan secured against collateral of £43 million.

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **4. Administrative expenses** | | |
| Administrative expenses include: | | |
| Management fee | 1,538 | 363 |
| Directors' fees | 40 | 24 |
| Auditors' remuneration: audit | 7 | 6 |
| other fees (see note 15) | 4 | — |
| Secretarial fee | 50 | 19 |

# NOTES TO THE ACCOUNTS
continued

**4. Administrative expenses—continued**

The fees of the chairman (highest paid director) amounted to £12,000 (1993—£7,500). Director's fees fell within the following bands:

| £ | 1994 | 1993 |
|---|---|---|
| 0— 5,000 | 1 | 4 |
| 5,001—10,000 | 3 | 1 |
| 10,001—15,000 | 1 | — |

The management fee of £3,076,000 (1993—£725,000) paid to Edinburgh Fund Managers plc ("the Manager") was 0.25 per cent (0.30 per cent prior to 12 April 1993) per quarter of total net assets less 50 per cent of the value of any investment medium, the funds of which are managed or advised by investment managers other than the Manager. These net assets averaged £318,800,000 (1993—£65,500,000). 50 per cent of the management fee (net of tax relief, if any) has been allocated to the capital reserve (see note 15).

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **5. Interest payable and similar charges** | | |
| Loans repayable in 2-5 years | 816 | 848 |
| Loans repayable in more than 5 years | 2,538 | — |
| | 3,354 | 848 |
| **6. Taxation on ordinary activities** | | |
| Corporation tax at 25 per cent (1993—25 per cent) | — | 2 |
| Overseas tax relief | — | (2) |
| | — | — |
| Overseas tax | 255 | 86 |
| Deferred tax transfer | 23 | 1 |
| | 278 | 87 |

**7. Earnings per share**

The calculation of the deficit per share of 0.017p (1993—earnings 0.196p) is based on the deficit of £45,000 (1993—surplus £277,000) and on the 263,760,084 (1993—564,122,526 ordinary shares of 5p adjusted for consolidation) weighted average ordinary shares of 20p in issue.

# NOTES TO THE ACCOUNTS
continued

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **8. Investments** | | |
| Market value at 31 August 1993 | 228,359 | 44,797 |
| Unrealised appreciation at 31 August 1993 | (26,622) | (1,037) |
| Cost at 31 August 1993 | 201,737 | 43,760 |
| Additions at cost | 168,813 | 311,587 |
| Disposals at cost | (108,179) | (153,610) |
| Distribution from Drayton Asia | (500) | — |
| Cost at 31 August 1994 | 261,871 | 201,737 |
| Unrealised appreciation at 31 August 1994 | 92,373 | 26,622 |
| Market value at 31 August 1994 | 354,244 | 228,359 |
| Listed on overseas stock exchange | 352,350 | 226,360 |
| Unlisted | 1,894 | 1,999 |
| | 354,244 | 228,359 |

Unrealised appreciation of £92,373,000 (1993—£26,622,000) includes £655,000 (1993—depreciation £43,000) relating to unlisted investments.

**Subsidiary Undertakings**

| Company name | Country of registration | Date of liquidation |
|---|---|---|
| Drayton Asia Trust plc | England | 20 August 1993 |
| and its 100 per cent owned subsidiary Drayton Asia Finance Limited | England | 20 August 1993 |

The director's have valued the company's remaining interest in Drayton Asia Trust at 31 August 1994 at £1,100,000 (1993—£1,600,000).

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **9. Debtors** | | |
| Dividends and interest receivable | 723 | 158 |
| Withholding taxes deductible therefrom | 215 | (51) |
| Net dividends and interest receivable | 508 | 107 |
| Taxation recoverable | 681 | 425 |
| Amount due by brokers | 5,058 | 3.005 |
| Other debtors | 333 | 200 |
| Amounts falling due after more than one year: | 6,580 | 3,737 |
| Taxation recoverable during year ended 31 August 1995 | 127 | 74 |
| | 6,707 | 3,811 |
| **10. Creditors: amounts falling due within one year** | | |
| Amounts due to brokers | — | 5,199 |
| Sundry creditors | 1,795 | 643 |
| | 1,795 | 5,842 |

# NOTES TO THE ACCOUNTS
*continued*

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **11. Creditors: amounts falling due after more than one year** | | |
| Repayable between 2 and 5 years: | | |
| US$15,000,000 loan | 9,762 | 10,084 |
| Interest on the loan is payable at 7.91 per cent per annum in half yearly instalments in May and November. The loan is due to be repaid on 12 May 1997 and is secured by a floating charge over the assets of the company (1993—unsecured). | | |
| Repayable after more than 5 years: | | |
| US$80,000,000 7.26% Loan Notes 2008 | 51,708 | — |
| Interest on the Loan Notes is payable in half yearly instalments in June and December. The Loan Notes are secured by a floating charge over the company's assets. | | |
| | 61,470 | 10,084 |

**12. Called up share capital**

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| Authorised: | | |
| 325,000,000 (1993—1,300,000,000 ordinary shares of 5p each) *ordinary shares of 20p each* | 65,000 | 65,000 |
| Issued and fully paid: | | |
| 264,016,364 (1993—1,053,605,166 ordinary shares of 5p each) ordinary shares of 20p each | 52,803 | 52,680 |

The ordinary shares were consolidated on 17 November 1993 on the basis of 1 new ordinary share of 20p for every 4 existing shares of 5p each. Warrants and warrants 2005 were also consolidated on the same basis.

Holders of 445,205 ordinary share subscription warrants and 169,868 ordinary share subscription warrants 2005 exercised their subscription rights on 31 January 1994, resulting in the allotment of 445,205 ordinary shares at a price of 40p per share and 169,868 ordinary shares at a price of 60p per share.

The unissued ordinary shares are being reserved in part to satisfy the subscription rights attached to both the 5,419,239 warrants exercisable at 40p on 31 January in any one of the years 1995 to 1996 inclusive and the 19,686,593 warrants 2005 exercisable at 60p on 31 January in any one of the years 1995 to 2005 inclusive.

**13. Share premium**

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| As previously stated | | 19,199 |
| Transferred to warrant reserve (note 14) | | (1,697) |
| At 31 August 1993 | 108,227 | 17,502 |
| Premium arising on issue of ordinary shares | 156 | 90,688 |
| *Premium arising on exercise of warrants* | 43 | 37 |
| | 108,426 | 108,227 |

# NOTES TO THE ACCOUNTS
continued

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **14. Warrant reserve** | | |
| At 31 August 1993 | 1,660 | 1,697 |
| Premium arising on exercise of warrants | (43) | (37) |
| At 31 August 1994 | 1,617 | 1,660 |

The warrant reserve is established as a result of Financial Reporting Standard 4 and recognises that a proportion of the proceeds from the issue of ordinary shares with warrants attached can be attributed to the warrants. When warrants are exercised the amount previously recognised as warrant premium is transferred to share premium.

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **15. Capital reserve** | | |
| At 31 August 1993 | 36,904 | 579 |
| Realised net gain on sale of investments | 41,991 | 10,333 |
| Gain on liquidation distribution from Drayton Asia | — | 27,953 |
| Exchange differences | (2,142) | (35) |
| Management fee | (1,538) | (362) |
| Expenses of acquisition of Drayton Asia | (27) | (1,564) |
| At 31 August 1994 | 75,188 | 36,904 |

50 per cent of the management fee, net of tax relief, if any, is allocated to capital reserve. The proportion allocated reflects an assessment of the activities undertaken by the management in pursuit of the investment objectives of the company. The expenses of aquisition of Drayton Asia in 1993 includes non-audit fees of £34,500 paid to KPMG Peat Marwick.

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **16. Unrealised appreciation** | | |
| At 31 August 1993 | 24,901 | 1,832 |
| Increase on revaluation of investments | 65,751 | 25,585 |
| Revaluation of currency loan | 322 | (2,516) |
| Revaluation of loan notes | 2,109 | — |
| At 31 August 1994 | 93,083 | 24,901 |

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **17. Revenue reserve** | | |
| At 31 August 1993 | 644 | 367 |
| Revenue deficit for the year | (45) | 277 |
| At 31 August 1994 | 599 | 644 |

**18. Net asset values per share**

The 1993 net asset value per share figures are restated to reflect the effect of the 1 for 4 share consolidation in November 1993 (See note 12)

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| **19. Reconciliation of operating profit to net cash inflow from operating activities** | | |
| Revenue before interest and taxation | 3,587 | 1,212 |
| Increase in accrued income | (649) | (66) |
| Increase in other debtors | (50) | (168) |
| Increase in creditors | 295 | 137 |
| Net cash inflow from operating activities | 3,183 | 1,115 |

# NOTES TO THE ACCOUNTS
continued

## 20. Analysis of changes in cash during the year

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| Balance at 31 August 1993 | 8,772 | 1,010 |
| Net cash inflow before adjustments for the effect of foreign exchange rates | 27,400 | 7,797 |
| Effect of foreign exchange rate movements | (2,142) | (35) |
| Balance at 31 August 1994 | 34,030 | 8,772 |

Analysis of cash and cash equivalents as shown in the balance sheet:

| | 1994 £'000 | 1993 £'000 | Change in year £'000 |
|---|---|---|---|
| UK Treasury Bills | 997 | 8,346 | (7,349) |
| US Treasury Bills | 30,502 | — | 30,502 |
| Cash | 2,531 | 426 | 2,105 |
| | 34,030 | 8,772 | 25,258 |

## 21. Analysis of changes in financing during the year

| | Share capital (including premium) £'000 | Loan notes £'000 |
|---|---|---|
| Balance at 1 September 1993 | 162,567 | — |
| Issue of US$80,000,000 loan notes | — | 54,175 |
| Loan note issue expenses | | (384) |
| Amortised loan note issue expenses | — | 26 |
| Issue of ordinary shares for cash consideration | 279 | — |
| Effect of foreign exchange movements | — | (2,109) |
| Balance at 31 August 1994 | 162,846 | 51,708 |

## 22. Commitments and contingencies

| | 1994 £'000 | 1993 £'000 |
|---|---|---|
| Amounts uncalled and placing commitments | — | 150 |

The company has granted an indemnity to the Liquidator of Drayton Asia in respect of any liabilities not provided for.

## 23. Approval of financial statements

The financial statements were approved by the board of directors on 22 September 1994.

# GENERAL INFORMATION

**EFM Dragon Trust's** shares are traded on the London Stock Exchange. They can be bought or sold by investors through a stockbroker or by asking a professional adviser, eg lawyer, accountant or bank manager to do so on their behalf.

**EFM Dragon Trust's** *share price is published daily under Investment Trusts in the Share* Information Service in the Financial Times, The Daily Telegraph and The Scotsman. You can also obtain the latest share price by phoning FT City Line on 0891-43 4608.

**EFM Dragon Trust's** financial calendar covering announcements, issue of interim and annual report and the annual general meeting is set out below:

| | |
|---|---|
| August | Financial year ends 31 August |
| September | Preliminary announcement of annual results |
| October | Annual Report and Accounts issued |
| November | Annual General Meeting |
| March | Interim figures announced |
| April | Interim Report issued |

**The EFM Investment Trust Purchase Scheme** has been established for investment trusts managed by Edinburgh Fund Managers plc.

The scheme provides a convenient and economical way to invest in EFM Dragon Trust or other investment trusts managed by Edinburgh Fund Managers plc.

**Details of the scheme may be obtained from:**
**Edinburgh Fund Managers plc, Donaldson House, 97 Haymarket Terrace,**
**Edinburgh EH12 5HD**
**or Tel: 031-313 1000**

# NOTICE OF MEETING

Notice is hereby given that the seventh annual general meeting of EFM Dragon Trust plc will be held at the registered office of the company, Donaldson House, 97 Haymarket Terrace, Edinburgh, on Wednesday, 16 November 1994 at 12.00 noon for the purpose of transacting the following business:

**ORDINARY BUSINESS**

1. to adopt the report of the directors and the financial statements for the year ended 31 August 1994;
2. to re-elect Mr F R Frame as a director;
3. to re-elect Mr I A Watt as a director;
4. to reappoint KPMG Peat Marwick as auditors; and
5. to authorise the directors to fix the auditors' remuneration.

**SPECIAL BUSINESS**

To consider and, if thought fit, to pass the following as special resolutions:

6. THAT the name of the company be changed to Edinburgh Dragon Trust plc.
7. THAT the objects of the company be altered by the insertion as paragraphs (30) and (31) of Clause IV thereof as follows:

(30) to purchase and maintain insurance for, or for the benefit of, any persons who are or were at any time directors, officers, employees or auditors of the company or of its predecessors in business or of any other undertaking which is (i) the holding company of the company or (ii) a subsidiary undertaking of the company or any such holding company or (iii) otherwise allied to or associated with the company or any such holding company or subsidiary undertaking or in which the company or any such holding company or subsidiary undertaking has any interest, whether directly or indirectly, or who are or were at any time trustees of any pension fund in which employees of the company or of any such other undertaking are interested, including (without prejudice to the foregoing generality) insurance against any liability incurred by such persons in respect of any act or omission in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to their duties, powers or offices in relation to the company or any such other undertaking or pension fund and to such extent as may be permitted by law or otherwise to indemnify or to exempt any such person against or from any such liability; for the purpose of this paragraph "holding company" and "subsidiary undertaking" shall have the same meanings as in sections 736 and 258 respectively of the Companies Act 1985;

(31) subject to such terms and conditions as may be thought fit by the board, to engage in currency exchange and interest rate transactions, including, but not limited to, dealings in foreign currency, spot and forward rate exchange contracts, futures, options, forward rate agreements, swaps, caps, collars, floors, contracts for differences and any other foreign exchange or interest rate hedging arrangements and such other instruments as are similar to, or derived from, any of the foregoing whether for the purpose of making a profit or avoiding a loss or managing a currency or interest rate exposure or any other exposure or for any other purpose;

and the existing paragraphs (30) to (35) (inclusive) be re-designated (32) to (37) (inclusive) accordingly.

# NOTICE OF MEETING
continued

8 THAT the new Articles of Association, produced to the meeting and initialled by the chairman for the purpose of identification, be adopted in substitution for, and to the exclusion of, all existing Articles of Association of the company

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

(A) to the allotment of equity securities in connection with any rights issue in favour of the holders of ordinary shares on the register on a date fixed by the directors where the equity securities respectively attributable to the interests of all the holders of ordinary shares are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by them on that date, provided that the directors may make such exclusions or other arrangements as they may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange; and

(B) to the allotment (otherwise than pursuant to paragraph (A) of this Resolution) of equity securities up to an aggregate nominal amount of £2,634,000 being 5 per cent of the nominal value of the existing issued share capital of the company;

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

By order of the board

Edinburgh Fund Managers plc
Secretary

19 October 1994

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

*Notes*:

1. Only holders of ordinary shares are entitled to attend and vote at the meeting. Any member entitled to attend and vote at the meeting may appoint another person (whether a member of the company or not) as his proxy to attend and vote in his stead. A form of proxy is attached on page 28 for the use of the members of the company, al[illegible]mpletion of this proxy will not preclude members from attending and voting should they [illegible]ards decide to do so. Proxies must be lodged at the office of the company's registrars, the Bank of Scotland, Registrar Department, Apex House, 9 Haddington Place, Edinburgh EH7 4AL not less than 48 hours before the time of the meeting.

2. There are no service contracts between the company and any of its directors.



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# FORM OF PROXY

I/WE .................................................................................................................... BLOCK
CAPITALS
OF .................................................................................................................... PLEASE

being (a) member(s) of ordinary shares of EFM Dragon Trust 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, 16 November 1994 at 12.00 noon and at any adjournment thereof.

| ORDINARY BUSINESS | FOR | AGAINST |
|---|---|---|
| ADOPTION OF REPORT AND FINANCIAL STATEMENTS | | |
| RE-ELECTION OF MR F R FRAME | | |
| RE-ELECTION OF MR I A WATT | | |
| REAPPOINTMENT OF KPMG PEAT MARWICK AS AUDITORS | | |
| AUTHORISATION OF DIRECTORS TO FIX THE REMUNERATION OF THE AUDITORS | | |
| **SPECIAL BUSINESS** | **FOR** | **AGAINST** |
| CHANGE OF COMPANY NAME TO EDINBURGH DRAGON TRUST PLC | | |
| AMENDMENT OF MEMORANDUM OF ASSOCIATION | | |
| ADOPTION OF NEW ARTICLES OF ASSOCIATION | | |
| LIMITED DISAPPLICATION OF PRE-EMPTION PROVISIONS | | |

*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.
2. A corporation should execute under its common seal or the hand of a duly authorised officer.
3. Shareholders are entitled to appoint a proxy of their own choice. If desired the name of such proxy can be inserted above and initialled by the shareholder.
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.

First fold

Second fold

BUSINESS REPLY SERVICE
Licence No EH470

2

BANK OF SCOTLAND

REGISTRAR'S DEPARTMENT

APEX HOUSE

9 HADDINGTON PLACE

EDINBURGH EH7 0AL

Third fold and tuck in