

Signed

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# 2000

## Edinburgh Dragon Trust plc

Annual Report and Accounts 31 August 2000



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## Company Summary

<b>Objective</b>	To achieve long term capital growth at a higher rate than the MSCI All Country Asia Free (ex Japan) Index through investment in the Far East. Investments are made in stock markets in the region, with the exception of Japan and Australasia, principally in large companies. When appropriate, the trust will utilise gearing to maximise long term returns.
<b>Benchmark</b>	MSCI All Country Asia Free (ex Japan) Index.
<b>Investment manager</b>	Edinburgh Fund Managers plc, investment manager to 14 investment trusts valued at over £4 billion. Total assets managed by the group exceed £9 billion.
<b>Equity shareholders' funds</b>	£244.1m at 31 August 2000.
<b>Capital structure</b>	227,076,603 ordinary shares of 20p each, 10,700,272 warrants (which may be exercised at 60p on 31 January in any of the years 2001 to 2005).
<b>Management fee</b>	0.25% per quarter of the total net assets (after excluding commonly managed funds) and 50% of the value of investment funds managed by other advisers. The management agreement is terminable by either party on one years' notice.
<b>PEP/ISA status</b>	The company's shares are eligible for Individual Savings Accounts (ISAs).
<b>AITC</b>	The company is a member of The Association of Investment Trust Companies.



## Financial Summary

	2000	At 31 August 1999	% change
<b>Performance</b>			
Equity shareholders' funds	£244.1m	£205.5m	+18.8
<b>Capital return</b>			
Net asset value per share	107.39p	89.36p	+20.2
MSCI All Country Asia Free (ex Japan) Index in Sterling terms	186.70	182.50	+2.3
Share price	91.75p	71.75p	+27.9
Warrant price	41.00p	28.25p	+45.1
Revenue return per share	(1.00p)	(0.37p)	
<b>Gearing</b>			
Actual gearing ratio	14.5	16.1	
Maximum potential	26.8	28.8	
<b>Discount</b>			
Level of discount at which the shares trade:			
to the net asset value	14.6%	19.7%	
to the diluted net asset value	12.8%	18.5%	
<b>Expense ratio</b>			
- as % of average total assets less current liabilities	1.1%	1.0%	
- as % of average shareholders' funds	1.4%	1.4%	
<b>Year's Highs/Lows</b>			
	<b>High</b>	<b>Low</b>	
Net asset value	125.07p	78.60p	
Share price	98.00p	62.00p	
Warrant price	52.00p	21.75p	
Discount	24.3%	12.8%	



## Chairman's Statement

Over the past year the net asset value of Edinburgh Dragon Trust has increased by 20.2% from 89.36p to 107.39p and the share price has appreciated by 27.9% to 91.75p, a discount to the net asset value of 14.6%. This positive performance is well ahead of the 2.3% rise of the benchmark, the MSCI All Country Asia Free (ex Japan) Index.

*The outperformance was due to good stock selection, and in particular, to the decision taken in the first half of the year to increase our exposure to companies in telecommunications, low risk technology and outsourcing, mainly in Hong Kong and South Korea. However, while the trust has benefited from global interest in technology, media and telecoms (the 'TMT' sectors), as the valuation of many of these stocks grew excessively, it was felt prudent to switch into interest rate sensitive stocks, such as banks and property companies. Thus, as at 31 August 2000, the trust was biased towards the financial sector, with only a limited exposure to telecommunication companies.*

As is increasingly the case in Asia, over the past year individual stock market returns were very diverse. For example, the Shanghai 'B' share index rose 61% in sterling terms, Hong Kong rose 40%, whilst the Philippines fell 31%.

### Revenue Account

The earnings deficit per share increased from 0.37p to 1.00p. Whilst gross revenue remained unchanged at £5.6 million, expenses rose from £2.1 million to £3.1 million reflecting higher investment management fees (which are calculated on the value of net assets). Administrative expenses were also higher primarily due to an increase in custodian fees resulting from the increased value of investments. The appreciation of the US dollar against sterling also led to a rise in interest charges on the long term borrowings.

The net result is that the revenue deficit, after taxation, has increased from £0.9 million to £2.3

million. However, since the objective of the trust is long-term capital growth, this negative shift in the revenue position should not be seen as a cause for concern.

### Dividend

In line with our investment objective, it is again proposed that no dividend be paid.

### Marketing Initiative

The board remains supportive of the Association of Investment Trust Companies "its" campaign aimed at raising investor awareness of the attractions of the investment trust sector. The campaign appears to have started well and the initial impact evidence is encouraging. The campaign is being funded by the investment trust sector and, in the second year, the trust will contribute £58,000 towards the campaign.

The trust also participates in the Edinburgh Fund Managers Investment Trust Initiative, which enables shareholders to invest in Edinburgh Dragon Trust in a cost-effective manner through various saving products such as regular savings schemes, ISAs and the Pension Scheme. Shareholders who wish additional information can find it on the Edinburgh Fund Manager website [www.edfd.com](http://www.edfd.com). Shareholders can also access up to date information on Dragon's performance and strategy through The Inside Line, a monthly publication also published on the website.

### Share Buybacks

During the year the company bought back 2,600,000 ordinary shares for cancellation at an



## Chairman's Statement

average price of 67.2p per share. The narrowing of the discount is attributed to both a greater interest in investment in the Pacific region and the use of the share buy-back authority. Consequently your board continues to believe that the ability to buy-back shares is beneficial and therefore recommends that shareholders vote in favour of the buyback resolution at this year's Annual General Meeting.

### **Warrants**

During the year the company, as in previous years, purchased and cancelled 499,624 warrants 2005 (which were exercisable into ordinary shares at 60 pence in January each year). Should an appropriate opportunity arise in the future, the trust intends to make further purchases of warrants for cancellation.

### **Future prospects**

Having enjoyed a rapid recovery from the crisis three years ago, Asian economies are beginning to revert to more normal growth levels and this will be reflected in corporate earnings growth.

However, the region faces a number of challenges that are likely to test the markets in the short term; the strong US dollar, the high oil price, a slowing global economy and worries over demand for electronic goods. Nonetheless, the continuing emphasis on the themes of corporate restructuring, outsourcing and technology should carry the region through in the longer term. Once Asian corporates can demonstrate that the return profiles of their businesses are at the beginning of a structural growth path, equity investors will be rewarded. Some companies are expected to demonstrate this next year.

Currently, valuations look very reasonable and if the US Federal Reserve were to reduce interest rates next year, Asian economies and stock markets will benefit. The restructuring and reform progress and economic improvements in China will benefit Hong Kong and your trust will continue to maintain a large proportion of its assets in this market.

### **Annual General Meeting**

The AGM will be held at Donaldson House, Edinburgh on 27 November 2000. At the meeting shareholders will be given the opportunity to vote on the continuation of the company. Edinburgh Dragon Trust is the largest investment trust specialising in the Pacific Basin and your board believes that it offers investors a broad and marketable exposure to the equity markets in the region, a region which your board believes continues to offer attractive long-term investment opportunities. Recent contacts with the larger shareholders have indicated their support for the company to continue in its present form. Your board thus recommends that shareholders vote in favour of the resolution.

*If the continuation proposal is approved by shareholders, your board intends to give shareholders a further opportunity to consider a similar resolution at the AGM to be held in 2003.*

### **Tony Cassidy**

*Chairman*

18 October 2000



### Market Background

In the last twelve months, the benchmark index rose 2.3% in sterling terms. However this masks increasing volatility. The first six months of the financial year saw positive returns of 12%, but in the second half these gains were eroded by a fall of 9%.

The fears over the Year 2000 computer problems, which received significant amounts of coverage by investment managers and the press alike, proved unfounded. We know of no Asian companies who experienced any technical difficulties. Indeed, as central banks globally ensured there was ample liquidity, the conditions were ripe for strong equity performance.

As with many themes, Asia took its lead from the US where technology-related enthusiasm reached a peak in March 2000. A flood of new companies came to the market. A crescendo was witnessed shortly after the floatation of Li Ka Shing's internet company, Tom.com. The Hong Kong Stock Exchange relaxed the regulations to permit the listing and demand was so strong that there was even a grey market for subscription forms.

Over the past six months, rotation from telecommunication, media and technology sectors into interest rate sensitive stocks occurred and Hong Kong was the main beneficiary of this trend. In addition, the Hong Kong Government has postponed the development of 85,000 housing units and lifted the mortgage ceiling from 70% of the value of properties to 90%. The extent of the rebound in the property market in Hong Kong is most evident in the office sector where Grade A office rents have doubled from the low of last year and are now close to the peak of 1997.

The most compelling investment theme has been China, where the Government's reform programme appears to be producing positive results. In the first four months of 2000, profitability of state owned enterprises has risen four-fold and productivity has risen 19% per annum in the last six years. Domestic

consumption, so crucial to an economy of China's size, is improving and entry into the World Trade Organisation early next calendar year should ensure future corporate restructuring. Stockmarket reform is high on the agenda as the Government attempts to mobilise some of the US\$800 billion of savings deposits into mutual funds. The Shanghai Index rose 61% in the twelve-month period.

In North Asia, the South Korean stockmarket fell 14%. Concerns persist over the level of debt amongst corporates and financial restructuring is now of paramount importance. The number of bankruptcies is continuing to rise, whilst recapitalising the banking sector is expected to amount to US\$120 billion and illustrates that some economies are far from out of the woods.



## Manager's Review

### Performance Attribution

Analysis for the year ended 31 August 2000

%

Increase in Net Asset Value				20.2
Increase in MSCI A/C Asia Free ex Japan Index				2.3
Difference				17.9
Difference attributable to:				
	Currency %	Asset Allocation %	Stock Selection %	Total %
Hong Kong equities	0.0	3.1	8.0	11.1
Singapore equities	0.0	0.5	0.5	1.0
Taiwan equities	0.1	0.7	2.1	2.9
Malaysian equities	0.0	3.7	0.1	3.8
Indian equities	0.3	0.0	(1.7)	(1.4)
South Korean equities	0.1	(0.2)	5.9	5.8
Thailand equities	(0.1)	(0.1)	(1.4)	(1.6)
Papua New Guinea equities	0.0	0.0	0.0	0.0
Unit trust holdings	(0.3)	0.2	0.0	(0.1)
Other equities	0.0	(0.1)	(0.3)	(0.4)
Total portfolio	0.1	7.8	13.2	21.1
Borrowings	(0.2)	(2.0)	—	(2.2)
Cash	(1.5)	1.5	—	0.0
Share buy-back	—	0.2	—	0.2
Warrant buy-back	—	(0.1)	—	(0.1)
Revenue deficit for year	—	(1.1)	—	(1.1)
	(1.6)	6.3	13.2	17.9

Taiwan performed well at the beginning of the year but came under pressure thereafter due to concerns over the outlook for electronics demand, particularly as signs emerged of a slowdown in the US economy.

The South East Asian stockmarkets of the Philippines (down 31%), Thailand (down 27%) and Indonesia (down 16%) have been sidelined by investors. Political unrest, a lack of progress on

reform and corporate restructuring and fragile banking systems have all contributed to this weakness.

India performed strongly in the first half of the financial year, rising 52%, largely due to the sharp re-ratings of software companies. The correction in technology stocks globally however, led to a 27% fall in the second half of the year.

### Performance

The trust outperformed the benchmark index, the MSCI All Country Asia Free (ex Japan), by 17.9%. The net asset value rose by 20.2% in sterling terms against a rise of 2.3% for the index.

As shown in the table, asset allocation contributed 7.8% towards the outperformance as a result of being overweight Hong Kong, Malaysia, Singapore and Taiwan. This was partially offset by the slight overweight position in South Korea where the stockmarket fell by 14%.

Of the 17.9% outperformance, stock selection added 13.2%. Hong Kong was the major contributor to this, adding 8%. China Mobile rose more than 170%, Li and Fung doubled and Hutchison Whampoa rose 76%. In addition, the interest rate sensitive stocks such as Cheung Kong, Hong Kong Land and HSBC all performed well. Stock selection in South Korea added 5.9%, through strong returns from SK Telecom and Samsung Electronics. The heavy exposure to the electronics sector in Taiwan contributed 2.1%.

The major negative contribution came from India, where the portfolio was underweight in the software sector.

### Portfolio Activity

Total turnover in the last twelve months has been abnormally high at £379.8m. The main reason for this was the large shift in the sector allocation of the portfolio, primarily the rotation that took place from telecommunication and technology stocks into banking and property stocks. In addition, the



## Manager's Review

portfolio was re-balanced in favour of Taiwan at the expense of Malaysia.

The table on page 8 details the turnover in each market. Hong Kong received the largest net investment as a result of the more favourable outlook for both China and US interest rates and the local property market. There was a net disinvestment of £12.2m from South Korea, representing lower exposure to telecommunications and electronics exposure.

### Outlook and Strategy

In the short term Asia faces a number of concerns. The most critical one is the outlook for global growth, most notably growth in the US. Most economists expect the Federal Reserve to engineer a 'soft landing'. However the risk remains that the slowdown could be more severe. Much of Asia's economic recovery has been based around strong exports. The largest component of this export growth is semiconductors and fears are beginning to mount that the cycle may have peaked. The high oil price is also of concern and if prices remain substantially above the long-term average for too much longer, there is a danger that countries such as South Korea will see their balance of payments fall into deficit, which will in turn have implications for the currency. Asia typically performs well when the dollar is weak and therefore the persistent strength is also of some concern.

More recently, the commitment to corporate restructuring has been questioned. This is a long-term theme that will have ups and downs. It is crucial that management realise that ongoing restructuring is essential and will be reflected in higher share prices. The increasing incidence of management owning share or share options in the companies they are managing should ensure that in the long term this theme will play out.

As Asia's economies grow at a more normal pace, so earnings momentum will slow. Valuations, however, are very reasonable.

Despite the positive structural changes occurring in China, we struggle to identify well managed, good quality companies and certainly for the time being prefer to play this theme through Hong Kong. As a consequence the portfolio will be heavily biased towards this market, particularly as US interest rates are anticipated to fall in 2001.

*Edinburgh Fund Managers plc*  
18 October 2000



## Changes in Asset Distribution

Country	Value at 31 August 1999 £000	Purchases £000	Sale Proceeds £000	Appreciation (depreciation) £000	Value at 31 August 2000 £000
China	1,306	7,094	5,579	8,777	11,598
Hong Kong	62,522	62,826	49,592	29,165	104,921
India	14,282	19,715	12,079	(2,073)	19,845
Indonesia	7,979	2	4,285	(1,654)	2,042
South Korea	44,945	16,111	28,343	4,197	36,910
Malaysia	15,223	5,028	16,338	4,523	8,436
Papua New Guinea	4,472	—	4,264	(208)	—
Phillipines	5,018	—	4,411	(562)	45
Singapore	30,854	45,630	47,592	4,151	33,043
Taiwan	29,558	30,076	15,232	7,178	51,580
Thailand	14,472	439	5,075	(6,528)	3,308
Other	7,646	49	—	(132)	7,563
Total investments	238,277	186,970	192,790	46,834	279,291
Net current assets	26,021	3,841*	—	—	29,862
Total assets less current liabilities	264,298	190,811	192,790	46,834	309,153

\* net movement



## Ten Year Record

Year ended 31 August	Equity shareholders' interest £000	Net asset value per ordinary share p	Revenue return per ordinary share p	Ordinary share price p	Share price Discount %	Expenses as a % of average shareholder's funds
1991	36,706	47.00	0.42	42.00	10.6	1.7
1992	37,597	48.12	0.44	40.00	16.9	1.8
1993	225,016	85.44	0.05	79.00	7.5	1.4
1994	331,716	125.64	(0.02)	113.25	9.9	1.4
1995	282,358	106.84	0.04	105.25	1.5	1.1
1996	282,386	104.34	(0.48)	93.25	10.6	1.3
1997	240,151	88.72	(0.33)	73.50	17.2	1.3
1998	106,353	44.82	0.31	33.75	24.7	1.1
1999	205,476	89.36	(0.37)	71.75	19.7	1.4
2000	244,108	107.39	(1.00)	91.75	14.6	1.4

**Notes:**

Net asset value per equity share adjusted for the 4 for 1 share consolidation on 17 November 1993.

With effect from 1 September 1996, 100% of the management fee has been charged to revenue.

## Distribution of Investments

at 31 August

	Manufac- turing %	Con- sumer %	Utilities %	Conglom- erates %	Financial %	Property %	Services %	Fixed Interest %	Net Current Assets %	2000 Total %	1999 %
Hong Kong	—	9.2%	1.3%	3.8%	6.0%	7.1%	6.5%	—	—	33.9%	23.7%
South Korea	5.5%	—	5.2%	—	1.2%	—	—	—	—	11.9%	17.0%
Singapore	—	2.5%	—	—	4.6%	1.1%	2.5%	—	—	10.7%	11.7%
Taiwan	13.0%	1.4%	0.8%	—	1.4%	—	—	—	—	16.6%	11.2%
Malaysia	1.4%	1.3%	—	—	—	—	—	—	—	2.7%	5.8%
Thailand	0.6%	—	—	—	—	0.4%	—	—	—	1.0%	5.4%
India	0.5%	2.6%	1.0%	—	0.5%	—	1.9%	—	—	6.5%	5.4%
Indonesia	—	0.7%	—	—	—	—	—	—	—	0.7%	3.0%
The Philippines	—	0.1%	—	—	—	—	—	—	—	0.1%	1.9%
Papua New Guinea	—	—	—	—	—	—	—	—	—	—	1.7%
China	—	—	3.1%	—	0.7%	—	—	—	—	3.8%	0.5%
United Kingdom	—	—	—	—	2.4%	—	—	—	—	2.4%	2.9%
Net current assets	—	—	—	—	—	—	—	—	9.7%	9.7%	9.8%
Total assets less current liabilities	21.0%	17.8%	11.4%	3.8%	16.8%	8.6%	10.9%	—	9.7%	100.0%	100.0%
1999 Totals	20.4%	12.3%	17.3%	2.3%	22.6%	11.8%	2.8%	0.7%	9.8%	100.0%	



## Twenty Largest Investments

at 31 August 2000

Company	Market Value £000	Country /Region	Sector Classification
Taiwan Semiconductor	16,065	Taiwan	Electrical components
Li & Fung	14,981	Hong Kong	Wholesale & international trade
Cheung Kong Holdings	14,311	Hong Kong	Real estate
Samsung Electronics	12,546	Korea	Electrical & electronics
Dao Heng Bank	12,239	Hong Kong	Banking
Hutchison Whampoa	11,632	Hong Kong	Multi-industry
China Mobile (Hong Kong)	9,517	China	Telecommunications
Cathay Pacific Airlines	9,346	Hong Kong	Transport – airlines
Datacraft Asia	7,805	Singapore	Software & services
Singapore Press	7,742	Singapore	Broadcast & publishing
Ten Largest Investments	116,184	37.6% of the total assets less current liabilities	
Hong Kong Land	7,560	Hong Kong	Real Estate
Hon Hai Precision Industries	7,449	Taiwan	Electrical & electronics
United Overseas Bank	7,439	Singapore	Banking
Television Broadcasts	7,384	Hong Kong	Broadcast & publishing
The Wharf Holdings	7,356	Hong Kong	Business & public services
SK Telecom	6,958	Korea	Telecommunications
Edinburgh Asian Smaller Companies	6,813	Pacific Basin	Unit trusts
DBS Group	6,644	Singapore	Banking
HSBC Holdings	6,456	Hong Kong	Banking
South China Morning Post	6,186	Hong Kong	Broadcast & publishing
Twenty largest investments	186,429	60.3% of the total assets less current liabilities	
Other investments (33 investments)	92,862	30.0% of the total assets less current liabilities	
Total value of investments	279,291	90.3% of the total assets less current liabilities	
Net current assets	29,862	9.7% of the total assets less current liabilities	
Total assets less current liabilities	309,153	100.0% of the total assets less current liabilities	



## Analysis of Shareholders

at 31 August 2000

### % of ordinary shares held by shareholders

Pension funds (30%)	■
Individuals (23%)	■
Overseas (16%)	■
Insurance and assurance companies (16%)	■
Unit and investment trusts (9%)	■
Other institutions (6%)	■

## Capital Gains Tax Information

For capital gains tax purposes, the base costs of an ordinary share and a warrant issued by the company under the Placing (during September 1987) are calculated using the closing prices on the first day of dealings as quoted in the Stock Exchange Daily Official List. The base costs are:

Ordinary share	9.4059p
Warrant	2.9703p

During November 1989, the company issued further ordinary shares of 5p each and warrants 2005 under Placing and Open Offer. The base costs, using the closing prices on the first day of dealing, are:

Ordinary share	11.4300p
Warrant 2005	5.3502p

The above prices do not take account of the share consolidation which took place on 17 November 1993.



## Corporate Information

### **Registered Office**

Donaldson House  
97 Haymarket Terrace  
Edinburgh EH12 5HD  
Telephone: 0131-313 1000

### **Manager and Secretary**

*Edinburgh Fund Managers plc*  
Donaldson House  
97 Haymarket Terrace  
Edinburgh EH12 5HD  
Telephone: 0131-313 1000  
Website: [www.edfd.com](http://www.edfd.com)  
Regulated by IMRO and  
the Personal Investment Authority

### **Registrar**

Lloyds TSB Registrars Scotland  
117 Dundas Street  
Edinburgh EH3 5ED  
Telephone: 0870-601 5366  
Website: [www.lloydstsb-registrars.co.uk](http://www.lloydstsb-registrars.co.uk)

### **Bankers**

Bank of New York Europe Limited  
67 Lombard Street  
London EC3P 3DL

### **Auditors**

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

### **Company Brokers**

HSBC

### **Company Registration Number**

SC 106049



## Board of Directors

Tony Cassidy

**Chairman**

Tony Cassidy (55)\*, appointed on 12 August 1987, has been associated with business in the Far East and Japan for many years, and has worked in Japan. He has a wide range of experience in economic development and international business cooperation. He is a director of Ptarmigan International Capital Trust.

Frank Frame

**Director**

Frank Frame (70)\*, appointed on 22 February 1994, was formerly an adviser to the board of HSBC Holdings, deputy chairman of The Hongkong and Shanghai Banking Corporation, chairman of South China Morning Post and a director of Swire Pacific. He is currently chairman of the Wallem Group and a director of Baxter International Inc.

# the board

Peter Tyrrie

**Director**

Peter Tyrrie (54)\*, appointed on 5 July 1989, was managing director of Mandarin Oriental Hotel Group until 1989 when he returned to Great Britain to start Balmoral International Hotels. He has recently established Eton Town House Hotels (1998), a venture capital backed company specialising in luxury city centre hotels. He is also a director of Edinburgh New Tiger Trust plc.

Iain Watt

**Director**

Iain Watt (55), appointed on 12 August 1987, is the chief executive of Edinburgh Fund Managers Group plc and a Fellow of the Institute of Bankers in Scotland.

\* Member of the Audit and Management Engagement Committee



## Directors' Report

### 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 1998, but not yet for the year ended 31 August 1999. With the introduction of Corporation Tax Self Assessment, the Inland Revenue are not able to confirm investment trust status until at least 12 months after the date of filing. The company has subsequently conducted its affairs so as to enable it to continue to seek such approval.

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

The company currently complies with PEP regulations. However, the directors believe, that in order to maintain the trust's flexible investment approach required when investing in volatile equity markets, the company should not be treated as a PEPable investment trust.

### Review of activities

During the year the company undertook the normal activities of an investment trust. Details of these are given in the Chairman's Statement and the Manager's Review.

### Share capital

During the year, the company bought back 2,600,000 ordinary shares (nominal value of £520,000, being 1.1% of the issued share capital) on the London Stock Exchange for cancellation. The total consideration for these shares was £1,748,000. No further buybacks have been made since 31 August 2000.

The company under the existing authority may, depending on circumstances, buyback a further 35,468,480 ordinary shares prior to the annual general meeting. The principal purpose of such purchases was to address the imbalance between the supply and demand for the company's ordinary shares and thereby reduce the discount at which the shares trade in relation to the underlying net asset value. Since all purchases were made at a price below the net asset value, the net asset value was also enhanced.

### Dividends

The directors recommend that no final dividend be paid (1999–nil).

### Directors

The names of the directors who served throughout the year and their holdings in the company's shares are shown in Table 1 below.

Since 31 August 2000, Mr Watt has notified the company that he bought a further 59 shares through InvestIT, the regular savings scheme. The company has not been notified of any other changes in the holdings below between 31 August 2000 and 18 October 2000.

Under the terms of appointment, Mr Tyrie retires from the board at the Annual General Meeting and will be proposed for re-election.

Mr Frame, who has attained the age of 70, retires under section 293 (3) of the Companies Act 1985 and offers himself for re-election. Special notice under Section 293 (5) of the Companies Act 1985 to propose the re-election of Mr Frame has been

	31 August 2000		31 August 1999	
	Ordinary shares	Warrants	Ordinary shares	Warrants
A F Cassidy	9,238	300	9,238	300
F R Frame	8,500	—	8,500	—
P R Tyrie	11,000	—	11,000	—
I A Watt	18,171†	—	17,445†	—

Table 1 Directors and their holdings in the company

† of which 3,734 (1999–3,734) ordinary shares are held in trust



received by the company.

No contract or arrangement subsisted during the period in which any of the directors was materially interested. No director had a service contract with the company.

#### Payments Policy

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

#### Corporate Governance

##### Compliance

The company 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 company applies the principles identified in the Combined Code (appended to the Financial Services Authority Listing Rules).

The board confirms that the company has complied throughout the accounting period with the provisions set out in Section 1 of the Code.

##### Directors

The board has overall responsibility for the company's affairs. It delegates, through an investment management agreement and specific instructions, the day to day management of the company to the manager, Edinburgh Fund Managers plc. The company has no executive directors or employees. Messrs Cassidy, Frame and Tyrrie are considered by the board to be independent of the company and the manager and free of any material relationship with the manager which could interfere with the exercise of their independent judgement.

Biographies of the board members appear on page 13 of the annual report. Each director has the requisite range of business and financial experience which enables the board to provide clear and effective leadership and proper stewardship of the company. The board considers that the role of a senior

independent director is not appropriate due to the size of the board.

The board meets at least four times each year and more frequently where business needs require. The board has a schedule of matters reserved to it for decision and the requirement for board approval on these matters is communicated directly to the senior staff of the manager. Such matters include strategy, borrowings, treasury and dividend policy. Full and timely information is provided to the board to enable the directors to function effectively and to discharge their responsibilities. The board also reviews the financial statements, performance and revenue budgets.

There is an agreed procedure for directors to take independent professional advice if necessary and at the company's expense. This is in addition to the access which every director has to the advice and services of the company secretary, Edinburgh Fund Managers plc, which is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

Appointments to the board of directors are considered by the whole board. Possible new directors are identified against the requirements of the company's business and the need to have a balanced board. External search consultants may be used to ensure that a wide range of candidates can be considered. Every director is entitled to receive appropriate training as deemed necessary.

A 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 directors retire by rotation each year and seek re-election at the annual general meeting. In addition, all directors are required to submit themselves for re-election at least every three years.

Relations with shareholders



## Directors' Report

The directors place a great deal of importance on communication with shareholders. The report and accounts are widely distributed to other parties who have an interest in the company's performance. Shareholders and potential investors may obtain up to date information on the company through the manager's freephone information service and the company responds to letters from shareholders on a wide range of issues.

The notice of the annual general meeting included within the annual report and accounts is sent out at least 20 working days in advance of the meeting. All shareholders have the opportunity to put questions at the company's annual general meeting.

### Proxy voting as an institutional shareholder

The manager has the right to vote on behalf of the company if they believe it is appropriate.

### Accountability and audit

The respective responsibilities of the directors and the auditors in connection with the financial statements appear on pages 17 and 18.

The company has adopted the transitional approach for the Combined Code set out in the letter from the London Stock Exchange to listed companies at the end of September 1999 and reports as follows:

The board confirms that as at 31 August 2000 it had established the procedures necessary to implement the guidance on internal control: "Guidance for Directors on the Combined Code".

The board consider management and internal control on a regular basis during the year and there

Lazard Freres Asset Management*	26,060,000	11.5
Friends Ivory & Sime	8,650,000	3.8
Co-operative Insurance Society	7,209,927	3.2
Substantial share interests	* Non-beneficial interest	

will be a full risk and control assessment before reporting on the year ending 31 August 2001.

The board has overall responsibility for ensuring that there is in place a system of internal control for the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. Any system of internal control can only provide reasonable and not absolute assurance of meeting the internal financial control objectives. During the year the board has reviewed the effectiveness of internal financial controls.

The manager is responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the company and to manage its affairs properly. The system extends to operational and compliance controls and risk management. Clear lines of accountability have been established between the board and the manager and regular reports on controls and compliance issues are provided to the board. In carrying out its review, the board has had regard to the activities of the manager, the manager's internal audit function and the external auditors.

The directors have appointed an audit and management engagement committee, chaired by Mr Cassidy. The committee considers reports from the external auditors as well as from the manager. The scope and effectiveness of the external audit is also kept under review. The independence and objectivity of the external auditors is also considered on a regular basis, with particular regard to the level of non-audit fees.

### Corporate Governance and Socially Responsible Investment Policy

The company's manager encourages companies to adhere to best practice in the area of Corporate Governance and Socially Responsible Investing.

They believe that this can best be achieved by entering into a dialogue with company management to encourage them, where necessary,



## Directors' Report

to improve their policies in both areas. The manager's ultimate objective however is to deliver superior investment return for their clients.

Accordingly, whilst they will seek to favour companies which pursue best practice in these areas this must not be to the detriment of the return on the investment portfolio.

### Going concern

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

### Substantial share interests

At 18 October 2000 the substantial interests in the ordinary share capital which had been notified to the company are shown opposite.

### Auditors

The company's auditors, KPMG Audit Plc, are willing to continue in office and resolutions will be proposed at the Annual General Meeting to re-appoint them and to authorise the directors to fix their remuneration.

### Annual General Meeting – Special business

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;

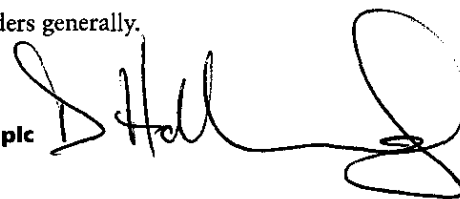
At the Annual General Meeting of the company to be held on 27 November 2000, the following three resolutions will be proposed.

- Ordinary resolution 5 will be proposed to allow the company to continue as an investment trust.
- Special resolution 7 will be proposed for the purpose of empowering the directors to allot unissued ordinary shares for cash at a price not below the net asset value without applying pre-emption rights up to 5% of the issued ordinary share capital.
- Special resolution 8 will be proposed to authorise the company to make market purchases of its own shares. This authority, if conferred, will only be exercised if to do so would enhance the net asset value and is in the best interests of shareholders generally.

By order of the board,

**Edinburgh Fund Managers plc**  
Secretary

Edinburgh, 18 October 2000



## Statement of Directors' Responsibilities

- 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.



## Auditors' Report

### **Auditors' report to the members of Edinburgh Dragon Trust plc**

We have audited the financial statements on pages 19 to 31.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report, including as described on page 17 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on pages 15 and 16 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

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

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 August 2000 and of the return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
**KPMG Audit Plc**

*Chartered Accountants*

*Registered Auditor*

Edinburgh, 18 October 2000



## Statement of Total Return

for the year ended 31 August

	Notes	Revenue £000	2000 Capital £000	Total £000	Revenue £000	1999 Capital £000	Total £000
Realised net gains on investments	19	—	21,920	21,920	—	(2,975)	(2,975)
Unrealised gains on investments	18	—	24,914	24,914	—	107,431	107,431
Currency losses	24	—	(3,968)	(3,968)	—	(882)	(882)
Buyback of warrants	19	—	(197)	(197)	—	—	—
Investment income	2	4,425	—	4,425	3,019	—	3,019
Interest receivable		1,148	—	1,148	2,533	—	2,533
Other income	3	65	—	65	38	—	38
Investment management fee	4	(2,321)	—	(2,321)	(1,568)	—	(1,568)
Administrative expenses	5	(763)	—	(763)	(542)	—	(542)
<b>NET RETURN BEFORE FINANCE COSTS AND TAXATION</b>							
		2,554	42,669	45,223	3,480	103,574	107,054
Interest payable and similar charges	6	(4,583)	—	(4,583)	(4,337)	—	(4,337)
<b>RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION</b>							
		(2,029)	42,669	40,640	(857)	103,574	102,717
Taxation	7	(236)	—	(236)	(12)	—	(12)
<b>RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS AFTER TAXATION</b>							
		(2,265)	42,669	40,404	(869)	103,574	102,705
<b>RETURN PER ORDINARY SHARE</b>	8	(1.00p)	18.76p	17.76p	(0.37p)	44.38p	44.01p
<b>DILUTED RETURN PER ORDINARY SHARE</b>	8	(0.98p)	18.51p	17.53p	n/a	n/a	n/a

The revenue column of this statement represents the revenue account of the company.  
All revenue and capital items in the above statement derive from continuing operations.



## Balance Sheet

at 31 August

	Notes	2000		1999	
		£000	£000	£000	£000
<b>FIXED ASSETS</b>					
Investments	9		279,291		238,277
<b>CURRENT ASSETS</b>					
Debtors	10	1,408		991	
US Treasury Bills	24	17,058		12,382	
Cash and short term deposits	23	19,545		14,090	
		<u>38,011</u>		<u>27,463</u>	
<b>CREDITORS: AMOUNTS FALLING</b>					
DUE WITHIN ONE YEAR	11	<u>8,149</u>		<u>1,442</u>	
<b>NET CURRENT ASSETS</b>			<u>29,862</u>		<u>26,021</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			309,153		264,298
<b>CREDITORS: AMOUNTS FALLING</b>					
DUE AFTER MORE THAN ONE YEAR	12		<u>65,045</u>		<u>58,822</u>
			<u>244,108</u>		<u>205,476</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	13		45,415		45,933
Share premium	14		5		—
Capital redemption reserve	15		8,652		8,132
Special reserve	16		85,898		87,646
Warrant reserve	17		1,047		1,078
Capital reserve – unrealised	18		63,685		44,350
Capital reserve – realised	19		43,200		19,866
Revenue reserve	20		<u>(3,794)</u>		<u>(1,529)</u>
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>			<u>244,108</u>		<u>205,476</u>
<b>NET ASSET VALUE PER SHARE</b>	26		107.39p		89.36p
<b>DILUTED NET ASSET VALUE PER SHARE</b>	26		105.26p		87.99p

The financial statements on pages 19 to 31 were approved by the board on 18 October 2000 and were signed on its behalf by:

*Anthony F Cassidy*  
A F CASSIDY, Director



## Cashflow Statement

for the year ended 31 August

	Notes	2000 £000	1999 £000
<b>NET CASH INFLOW</b>			
<b>FROM OPERATING ACTIVITIES</b>	21	2,410	3,710
<b>SERVICING OF FINANCE</b>			
Interest paid		(4,454)	(4,276)
<b>NET CASH OUTFLOW</b>			
<b>FROM SERVICING OF FINANCE</b>		(4,454)	(4,276)
<b>TAXATION</b>			
UK income tax received less paid		107	1,192
Overseas tax paid		(187)	(31)
<b>TOTAL TAX PAID</b>		(80)	1,161
<b>FINANCIAL INVESTMENT</b>			
Purchase of investments		(180,479)	(133,407)
Sale of investments		192,479	83,844
<b>NET CASH INFLOW FROM</b>			
<b>FINANCIAL INVESTMENT</b>		12,000	(49,563)
<b>NET CASH INFLOW BEFORE FINANCING</b>		9,876	(48,968)
<b>FINANCING</b>			
Buyback of ordinary shares	22	(1,748)	(3,582)
Expenses of Loan Note credit rating		(20)	—
Exercise of warrants	22	7	—
Buyback of warrants	19	(228)	—
<b>NET CASH OUTFLOW FROM FINANCING</b>		(1,989)	(3,582)
<b>MANAGEMENT OF LIQUID RESOURCES</b>	24	(3,627)	50,387
<b>INCREASE IN CASH AND</b>			
<b>CASH EQUIVALENTS</b>	23	4,260	(2,163)
<b>RECONCILIATION OF NET CASHFLOW</b>			
<b>TO MOVEMENT IN NET DEBT</b>			
Increase in cash		4,260	(2,163)
Amortised Loan Note issue expenses		(31)	(28)
Net change in liquid resources		3,627	(50,387)
Foreign exchange differences		(3,968)	(882)
Expenses of Loan Note credit rating		20	—
<b>Movement in net debt in year</b>		3,908	(53,460)
Opening net debt	24	(32,350)	21,110
Closing net debt	24	(28,442)	(32,350)



## Notes to the Accounts

### 1 Accounting policies

The accounts have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable Accounting Standards and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

(a) **Revenue, expenses and interest payable** – Income from equity investments, including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Interest receivable on fixed interest securities, short term deposits, expenses and interest payable are accounted for on an accruals basis. All expenses and interest payable are chargeable to revenue.

(b) **Investments** – Listed investments are valued at market prices, foreign currencies being translated at the rates of exchange ruling at the relevant balance sheet date. Unlisted investments are valued by the directors taking account of latest dealing prices, brokers' valuations and other available accounting information as appropriate.

(c) **Foreign currencies** – Transactions involving foreign currencies are translated at the rate ruling on the date of the transaction other than investment income which is translated at the rate ruling on the date of receipt. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling on the balance sheet date, with the exception of forward exchange contracts which are valued at the forward rate ruling at the time of the balance sheet date.

(d) **Realised capital reserves** – Gains and losses on realisation of investments and differences on exchange are dealt with in this reserve.

(e) **Unrealised capital reserves** – Increases and decreases in the valuation of investments and the revaluation of the currency loans outstanding at the year end are dealt with in this reserve.

(f) **Taxation** – Deferred taxation is provided on all timing differences to the extent that liabilities are likely to arise in the foreseeable future.

	2000	1999
	£000	(as restated) £000

### 2 Investment income

Dividends from listed investments:

United Kingdom	214	178
Overseas	4,211	2,841
	<u>4,425</u>	<u>3,019</u>

Franked investment income is now, in accordance with Financial Reporting Standard 16, reported net of tax credits. The tax credits amounted to £24,000 (1999-£23,000) and the figures in relation to 1999 have been restated. The net effect has no impact upon the revenue return after taxation per ordinary share.

### 3 Other income

Income from stock lending	<u>65</u>	<u>38</u>
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All stocks lent under these arrangements are fully secured against collateral. As at 31 August 2000, holdings valued at £2.5 million (1999-£6 million) were on loan, secured against collateral of £2.7 million (1999-£8 million). The maximum value of securities on loan during the year was £14 million (1999-£13 million).



## Notes to the Accounts

	2000	1999
	£000	£000

**4 Investment management fee**

Investment management fee	2,321	1,568
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The management fee paid to Edinburgh Fund Managers plc is 0.25% per quarter of the total net assets less (i) the value of any investment funds managed by Edinburgh Fund Managers plc and (ii) 50% of the value of any investment funds managed or advised by investment managers other than Edinburgh Fund Managers plc. The fee is subject to VAT at the appropriate rate although the company currently recovers all VAT paid.

The management agreement between the company and Edinburgh Fund Managers plc is terminable by either party on one years' notice.

Edinburgh Unit Trust Managers Limited (a subsidiary of Edinburgh Fund Managers Group plc) received fees amounting to £39,000 (1999-£36,000), excluding VAT, relating to the OEIC holdings held by the trust during the year ended 31 August 2000. As at 31 August 2000 the portfolio included such OEIC holdings valued at £6,813,000 (1999-£6,862,000).

**5 Administrative expenses**

Directors' fees	38	36
Audit fees	8	8
Secretarial fees	59	57
Custody fees	324	207
Bank charges	44	35
Registrar's fees	53	51
Investment Trust Initiative	42	42
Other expenses	83	93
'its' marketing campaign	112	13
	763	542

The secretarial fee is paid to Edinburgh Fund Managers plc and adjusted annually in line with the Retail Prices Index. The contribution to the Investment Trust Initiative was paid to Edinburgh Fund Managers plc in respect of marketing and promotion of the company.

The chairman who was the highest paid director received £12,750 (1999-£12,000). The emoluments of the other directors were £8,500 each (1999-£8,000) per annum. Mr Watt received fees of £8,500 (1999-£8,000), however, as non-executive chairman of Edinburgh Fund Managers plc, these fees were paid directly to Edinburgh Fund Managers plc.

**6 Interest payable and similar charges**

Loans repayable in more than 5 years	4,583	4,337
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## Notes to the Accounts

	2000 £000	1999 (as restated) £000
<b>7 Taxation on ordinary activities</b>		
Overseas tax	236	56
Income tax recovered from earlier years	—	(44)
	<u>236</u>	<u>12</u>

**8 Return per ordinary share**

The return per ordinary share is based on the following figures:

	2000	1999
Revenue return	(£2,265,000)	(£869,000)
Capital return	£42,669,000	£103,574,000
Weighted average ordinary shares in issue	227,487,263	233,403,731
<b>Diluted calculation:</b>		
Weighted average number of warrants during the year	10,927,592	—
Less number of shares that would have been issued at fair value using an average share price of 82.67p (1999–56.54p) during the year	(7,930,702)	—
Shares that would have been issued for no consideration	2,996,890	—
Add weighted average number of shares in issue during the year	<u>227,487,263</u>	<u>—</u>
Number of shares used to determine fully diluted returns per share	<u>230,484,153</u>	<u>—</u>

There was no dilution in 1999 as the average share price of 56.54p during the year was less than the warrant exercise price of 60p.

	2000 £000	1999 £000
<b>9 Investments</b>		
Opening market value	238,277	84,151
Opening unrealised appreciation	(40,169)	67,262
Opening book cost	198,108	151,413
Additions at cost	186,970	133,407
Disposals at cost	(170,870)	(86,712)
Closing book cost	214,208	198,108
Closing unrealised appreciation	65,083	40,169
Closing market value	<u>279,291</u>	<u>238,277</u>
Listed on overseas stock exchanges	269,648	228,376
Listed on the London Stock Exchange	750	784
Unlisted – open-ended investment vehicles	6,813	6,862
– others	2,080	2,255
	<u>279,291</u>	<u>238,277</u>



## Notes to the Accounts

**9 Investments—contd**

Unrealised appreciation of £65,083,000 (1999—£40,169,000) includes depreciation of £1,435,000 (1999—£1,965,000) relating to unlisted investments. The portfolio contains no convertible stocks having an element of equity (1999—nil).

Included in the investment portfolio is a holding of 8,335,045 (1999-7,835,045) shares representing 27.2% (1999-25.5%) of the issued ordinary share capital in Edinburgh Java Trust plc which is managed by Edinburgh Fund Managers plc. The investment is considered as an appropriate means to gain exposure to Indonesia and was acquired at the prevailing market price. The company does not have any significant influence over Edinburgh Java Trust plc. The market value of the holding at 31 August 2000 was £750,000 (1999-£784,000).

<b>10 Debtors</b>	2000 £000	1999 (as restated) £000
Dividends and interest receivable	703	460
Withholding taxes deductible therefrom	(109)	(110)
Net dividends and interest receivable	594	350
Taxation recoverable	299	406
Amount due from brokers	311	—
Other debtors and prepayments	186	167
	<u>1,390</u>	<u>923</u>
Amounts falling due after more than one year:		
Taxation recoverable	18	68
	<u>1,408</u>	<u>991</u>

**11 Creditors: amounts falling due within one year**

Investment management fee due	587	490
Interest accrued	942	844
Sundry creditors	129	108
Amount due to brokers	6,491	—
	<u>8,149</u>	<u>1,442</u>

**12 Creditors: amounts falling due after more than one year**

Repayable in more than 5 years:		
US\$80,000,000 7.26% Loan Notes repayable 30 December 2008	54,736	49,494
US\$15,000,000 7.56% Loan repayable 12 May 2007	10,309	9,328
	<u>65,045</u>	<u>58,822</u>

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. The estimated repayment value of the Loan Notes, which are unquoted, was £60,182,000 as at 31 August 2000. (1999-£52,997,000).

Interest on the loan is payable at 7.56% per annum by equal half-yearly instalments in May and November. The stock is secured by a floating charge over the whole of the company's assets. The estimated repayment value of the loan as at 31 August 2000 was £10,422,000. (1999-£9,500,000).



## Notes to the Accounts

2000  
£000

1999  
£000

**13 Called up share capital**

Authorised:		
325,000,000 (1999-325,000,000) ordinary shares of 20p each	65,000	65,000
Issued and fully paid:		
227,076,603 (1999-229,664,279) ordinary shares of 20p each	45,415	45,933

During the year 2,600,000 ordinary shares were bought back for a total consideration of £1,748,000 and were subsequently cancelled. Under the authority granted at last year's Annual General Meeting, the company, as at 18 October 2000, may purchase a further 34,038,782 ordinary shares.

Holders of 12,324 ordinary share subscription warrants 2005, exercised their subscription rights on 31 January 2000, resulting in the allotment of 12,324 ordinary shares at a price of 60p per share. The company also bought back 499,624 warrants for cancellation for a total consideration of £228,000.

The unissued ordinary shares are being reserved in part to satisfy the subscription rights attached to 10,700,272 warrants 2005, exercisable at 60p on 31 January in any one of the years 2001 to 2005 inclusive.

**14 Share premium**

Opening balance	—	—
Premium arising on warrant exercise	5	—
Closing balance	5	—

The share premium arose as holders of ordinary share subscription warrants 2005 exercised their subscription rights on 31 January 2000.

**15 Capital redemption reserve**

Opening balance	8,132	6,742
Transfer from called up share capital arising from the buyback of ordinary shares (see note 13)	520	1,390
Closing balance	8,652	8,132

**16 Special reserve**

Opening balance	87,646	91,228
Buyback of ordinary shares	(1,748)	(3,582)
Closing balance	85,898	87,646

During the year 2,600,000 (1999-6,950,000) ordinary shares were bought back for a total consideration of £1,748,000 (1999-£3,582,000) and were subsequently cancelled.



## Notes to the Accounts

	2000 £000	1999 £000
<b>17 Warrant reserve</b>		
Unexercised warrant reserve:		
Opening balance	693	693
Transfer to exercised warrant reserve	(1)	—
Buyback of warrants	(31)	—
Closing balance	<u>661</u>	<u>693</u>
Exercised warrant reserve:		
Opening balance	385	385
Transfer to exercised warrant reserve	1	—
Closing balance	<u>386</u>	<u>385</u>
Total of warrant reserves	<u>1,047</u>	<u>1,078</u>

The warrant reserves recognise that a proportion of the proceeds from the issue of ordinary shares and warrants attached can be attributed to the warrants. When warrants are exercised, the amount previously recognised as warrant premium is transferred to the exercised warrant reserve.

**18 Capital reserve – unrealised**

Opening balance	44,350	(62,390)
Revaluation of loans	(6,212)	(2,347)
Movement in unrealised appreciation on investments	24,914	107,431
Revaluation of US Treasury Bills	633	1,656
Closing balance	<u>63,685</u>	<u>44,350</u>

**19 Capital reserve – realised**

Opening balance	19,866	23,032
Realised net gain on investments	21,920	(2,975)
Foreign exchange gain during the year	1,611	(191)
Buyback of warrants	(228)	—
Transfer from warrant reserve on buyback of warrants	31	—
Closing balance	<u>43,200</u>	<u>19,866</u>

**20 Revenue reserve**

Opening balance	(1,529)	(660)
Transfer in year	(2,265)	(869)
Closing balance	<u>(3,794)</u>	<u>(1,529)</u>



## Notes to the Accounts

	2000 £000	1999 £000
<b>21 Reconciliation of operating profits to net cash inflow from operating activities</b>		
Revenue before finance costs and taxation	2,554	3,480
Increase in accrued income	(243)	68
Increase in other debtors	(19)	(76)
Increase in creditors	118	238
Net cash inflow from operating activities	<u>2,410</u>	<u>3,710</u>

	2000		1999	
	Share capital, (including special reserve) £000	Currency loan & loan notes £000	Share capital, (including special reserve) £000	Currency loan & loan notes £000
Opening balance	142,789	58,822	146,371	56,447
Amortised loan note issue expenses	—	31	—	28
Expenses of Loan Note credit rating	—	(20)	—	—
Transfer to realised capital reserve on buyback of warrants	(31)	—	—	—
Exercise of warrants	7	—	—	—
Buyback of ordinary shares	(1,748)	—	(3,582)	—
Effect of foreign exchange rate movements	—	6,212	—	2,347
Closing balance	<u>141,017</u>	<u>65,045</u>	<u>142,789</u>	<u>58,822</u>

	2000 £000	1999 £000
<b>23 Analysis of changes in cash during the year</b>		
Opening balance	14,090	16,335
Net cash inflow before adjustments for the effect of foreign exchange rate movements	4,260	(2,163)
Effect of foreign exchange rate movements	1,195	(82)
Closing balance	<u>19,545</u>	<u>14,090</u>



## Notes to the Accounts

**24 Analysis of changes in net debt**

	At 31 August 1999 £000	Cashflow £000	Currency Movements £000	Other Movements £000	At 31 August 2000 £000
Cash and short term deposits	14,090	4,260	1,195	—	19,545
US Treasury Bills	12,382	3,627	1,049	—	17,058
Debt due after more than one year	(58,822)	—	(6,212)	(11)	(65,045)
Net debt	<u>(32,350)</u>	<u>7,887</u>	<u>(3,968)</u>	<u>(11)</u>	<u>(28,442)</u>

2000  
£000

1999  
£000

**25 Reconciliation of movement in shareholders' funds**

Net revenue for the year	(2,265)	(869)
Total recognised capital gains for the year	42,669	103,574
Buyback of ordinary shares	(1,748)	(3,582)
Exercise of warrants	7	—
Buyback of warrants	(31)	—
Opening shareholders' funds	205,476	106,353
Closing shareholders' funds	<u>244,108</u>	<u>205,476</u>

**26 Total shareholders' funds**

Total shareholders' funds attributed to equity shares	<u>244,108</u>	<u>205,476</u>
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Total shareholders' funds have been calculated in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments'. The analysis of total shareholders' funds on the face of the balance sheet does not reflect the rights, under the articles of association, of the ordinary shareholders on a return of assets. These rights are reflected in the net asset value and the net asset value per share attributable to ordinary shareholders at the year end, adjusted to reflect the deduction of the loan notes and loan at par. A reconciliation between the two sets of figures is given below:

	2000	1999
Shareholders' funds attributable as above (£000)	244,108	205,476
Number of equity shares in issue at year end	227,076,603	229,664,279
	2000 p	1999 p
Funds per share	107.50	89.47
Deduct: loan note issue expenses	(0.11)	(0.11)
Net asset value per share	<u>107.39</u>	<u>89.36</u>
Diluted funds per share	105.36	88.10
Deduct: loan note issue expenses	(0.10)	(0.11)
Diluted net asset value per share	<u>105.26</u>	<u>87.99</u>



## Notes to the Accounts

### 27 Net asset value per share

The net asset value per share and the net assets attributable to the ordinary shareholders at the year end, adjusted to reflect the deduction of the loan notes and the loan at par, were as follows:

	2000 p	1999 p	2000 £000	1999 £000
Net asset value per equity share	107.39	89.36	243,861	205,218

The net asset value per ordinary share is based on net assets (adjusted to reflect the deduction of the Loan Notes and the loan at par) and on 227,076,603 (1999–229,664,279) ordinary shares, being the number of ordinary shares in issue at the year end. The analysis of shareholders' funds on the face of the balance sheet has been computed in accordance with the provisions of Financial Reporting Standard 4 'Capital Instruments', and does not reflect the rights under the Articles of Association of the respective classes of share on a return on assets. A reconciliation of the two sets of figures is given in note 26.

The fully diluted net asset value per share is 105.26p (1999–87.99p). This is based on the assumption that the warrants in issue were fully converted at the end of the financial year at 60p per share, giving 237,776,875 (1999–240,876,499) shares in issue.

The net asset value per share, adjusted to include the loan notes and the loan at the estimated repayment value rather than par, is 105.05p. (1999-87.87p)

### 28 Commitments and contingencies

If all the Malaysian funds were liquidated and the proceeds repatriated, the trust would be liable to a total Malaysian exit levy of £844,000 (1999–£1,572,000). The levy is currently charged at 10% of all repatriated funds.



## 29 Risk management, financial assets and liabilities

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### Risk management

The major risks associated with the company are market risk, liquidity risk and interest rate risk. The company has established a framework for managing these risks which is evolving continually as the company's investment activities change in response to market developments. The directors have provided the manager with guidelines for the management of gearing, investments and financial instruments.

Market risk arises from changes in interest rates, valuations awarded to equities, movements in prices and the liquidity of financial instruments. Market price risk is managed through investment guidelines agreed by the board with the manager and is discussed at each board meeting. It is the company's policy to increase its exposure to equity market price risk through the investment of borrowings which increase the opportunity for growth in rising markets but increases risk when markets fall. The downside risk may be reduced by increasing the level of cash balances through the sale of equities.

All of the company's long term debt is fixed rate which exposes the company to changes in market value in the event that the debt is repaid before maturity. The loans provide secure long term funding while short term flexibility is achieved through overdraft facilities. Information on the loans is provided in note 12.

The trust's portfolio is invested in overseas securities and US treasury bills and their sterling value can be significantly affected by movements in foreign exchange rates. The trust does not normally hedge against foreign currency movements affecting the value of the portfolio but takes account of this risk when making investment decisions.

### Financial assets and liabilities

The company's financial instruments comprise equity investments, treasury bills, cash balances and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement.

Fixed asset investments (see note 9) are valued at middle market prices which equate to their fair values. The fair value of all other current assets and current liabilities is represented by their carrying values in the balance sheet.

At the balance sheet date the company held two nil coupon US treasury bills with a market value of £17,058,000 which matured on 7 September and 21 September 2000. Cash and short term deposits are held in floating rate accounts.

At the balance sheet date, the company held no fixed interest investments.



## Notice of Meeting

Notice is hereby given that the thirteenth Annual General Meeting of Edinburgh Dragon Trust plc will be held in Donaldson House, 97 Haymarket Terrace, Edinburgh on 27 November 2000 at 11.00am, for the following purposes:

### ORDINARY BUSINESS

1. To receive the Report of the Directors and the Accounts for the year to 31 August 2000;
2. To re-elect Mr Tyrie as a director of the company;
3. To re-appoint KPMG Audit Plc as auditor of the company;
4. To authorise the directors to fix the remuneration of the auditors for the year to 31 August 2001.

### SPECIAL BUSINESS

To consider and, if thought fit, to pass the Resolutions 5 and 6 as ordinary resolutions and Resolutions 7 and 8 as special resolutions.

#### Ordinary Resolutions

5. That the company shall continue as an investment trust.
6. To re-elect Mr Frame as a director of the company having received special notice pursuant to sections 293 and 379 of the Companies Act 1985 of the intention to propose the following resolution: that Mr Frame, who attained the age of 70 on 15 February 2000, be re-elected as a director of the company.

#### Special Resolutions

7. 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 at a price not below the net asset value per share, 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 equal to 5% of the nominal value of the existing issued share capital of the company as at the date of the passing of this resolution;

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

8. That the company be and it is hereby authorised in accordance with section 166 of the Act to make purchases (within the meaning of section 163 of the Act) of ordinary shares of 20p each in the company ('shares') provided that:



## Notice of Meeting

- (i) the maximum number of shares hereby authorised to be purchased is 14.99% 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 20p;
- (iii) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5% above the average of the middle market quotation (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and
- (iv) unless renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the company to be held in 2001 save that the company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

By order of the board

**Edinburgh Fund Managers plc**  
Secretary

20 October 2000

Registered office:

Donaldson House, 97 Haymarket Terrace,  
Edinburgh EH12 5HD

### Notes:

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

Members must be entered on the company's register of members 48 hours before the time appointed for the meeting. If the meeting is adjourned for more than 48 hours then, for members to be entitled to vote, they must be entered on the company's register of members 48 hours prior to the time fixed for the adjourned meeting. Any such holder may appoint another person (whether a member of the company or not) as his proxy to attend and vote on a poll in his stead. Proxies must be lodged at the company's registrar, Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh EH3 5ED not less than 48 hours before the time appointed for the meeting. Completion of a form of proxy will not prevent a holder of ordinary shares from attending or voting in person should he so wish.

2. There are special arrangements for holders of shares through The Edinburgh Fund Managers Investment Trust Savings Plan, Investment Trust ISA and Investment Trust Pension. These are explained in the 'Letter of Directions' which such holders will have received with this report.



## Financial Calendar

Announcements and the issue of the annual and interim reports may normally be expected in the following months:

October – Preliminary results for year announced.

October – Annual report and accounts published.

November – Annual General Meeting.

April – Interim figures announced.

April – Interim report for half-year to 28 February published.

This year's Annual General Meeting will be held on Monday 27 November 2000 at 11.00am. Coffee will be available from 10.30am.

The Company is a member of The Association of Investment Trust Companies.



## EDINBURGH FUND MANAGERS

Edinburgh Fund Managers plc was formally established in 1969 and has grown steadily since that time now with offices in Edinburgh, Dundee, Canada and North America. Today Edinburgh Fund Managers is one of the largest managers of investment trusts in the UK with £4.4 billion of funds under management as at 31 August 2000. Total assets managed by the group at the same date were over £9.0 billion.

### Investment Trusts

It is the business of investment trusts, advised by their managers, to invest in the shares of other companies. The investment objectives vary from trust to trust ranging from investment for capital growth and/or income, to trusts which invest internationally, in a specific area of the world or in a single country market. Investing in investment trusts can provide a spread of investments, managed by experts, at low cost.

## HOW TO INVEST

### Ordinary shares

Investors can buy and sell shares in Edinburgh Dragon Trust directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively shares can be bought directly through The Edinburgh Fund Managers Investment Trust Savings Plan, Investment Trust ISA and Investment Trust Pension.

## PRODUCT DETAILS

### InvestIT – The Edinburgh Fund Managers Investment Trust Savings Plan

InvestIT provides a straightforward way to invest in Edinburgh Dragon Trust and other investment trusts managed by Edinburgh Fund Managers. Investors can make regular monthly payments (minimum £30 per month) or invest occasional lump sums (minimum £250 initially and £30 thereafter). Existing shareholders can also invest in the Plan and have their dividends reinvested. There is **no charge** for buying or holding shares through InvestIT other than 0.5% Government Stamp Duty which is currently payable on all share

purchases. There is a nominal £10 + VAT transaction fee applied to all sales.

### Edinburgh Fund Managers

#### Investment Trust ISA

The Edinburgh Fund Managers Investment Trust Individual Savings Account (ISA) is the new tax efficient savings vehicle. There are two types of ISAs available, a Maxi and a Mini. A Maxi ISA allows investors to maximise the amounts placed in stocks and shares. Investors will have the opportunity to invest up to £7,000 in the tax year 2000/2001 in Edinburgh Dragon Trust where they take out a Maxi ISA.

A feature of the Edinburgh Fund Managers Investment Trust ISA is its low charges. The initial charge is £30 + VAT and the annual management fee is 0.5% +VAT. No charges are made for buying or selling shares other than Government Stamp Duty on share purchases.

### The Edinburgh Fund Managers

#### Investment Trust Pension

The Investment Trust Pension enables investors to save for retirement by investing in Edinburgh Dragon Trust. The Investment Trust Pension offers the choice of a Personal Pension Plan or a Free Standing Additional Voluntary Contributions Plan. Contributions can be made monthly, yearly or by lump sums, and there are low minimum investment amounts.

### Note

Please remember that past performance is not necessarily a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.

As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.



## Information for Investors

Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs, may be changed by future legislation.

### Keeping you informed

The company's share price appears under the heading 'Investment Trusts' in the Financial Times, and other national newspapers. Investors can also obtain the latest share price by phoning FT Cityline on 0336-434 608. All calls cost 60p per minute.

For internet users, detailed data on Edinburgh Dragon Trust, including price and performance information, is available on the Edinburgh Fund Managers website ([www.edfd.com](http://www.edfd.com)) and the TrustNet website ([www.trustnet.co.uk](http://www.trustnet.co.uk)).

Lloyds TSB Registrars also have a website ([www.lloydstsb-registrars.co.uk](http://www.lloydstsb-registrars.co.uk)) which includes a page entitled 'Shareholder Services', which gives shareholders an insight into their shareholding. The website also has information about how to register a change of name and what to do if you have lost your share certificate.

For information concerning your shareholding, please contact:

### Registrar

Lloyds TSB Registrars Scotland  
117 Dundas Street  
Edinburgh EH3 5ED  
Telephone: 0870-601 5366  
Textphone: 0870-600-3950  
Website: [www.lloydstsb-registrars.co.uk](http://www.lloydstsb-registrars.co.uk)

For information and application forms on the InvestIT, ISA, PEP, Pension and Share Exchange Schemes please contact:

### Support Desk

Edinburgh Fund Managers plc  
Donaldson House  
97 Haymarket Terrace  
Edinburgh EH12 5HD  
Telephone: 0131-313 1000  
or FREE on 0800-028 6789 (24 hours)  
Website: [www.edfd.com](http://www.edfd.com)

### InvestIT Administrator

Lloyds TSB Registrars Scotland  
Registrar Department (SP)  
117 Dundas Street  
Edinburgh EH3 5ED  
Telephone: 0870-601 5366

### Individual Savings Account/Personal Equity Plan Administrator

Cogent Investment Operations Limited  
PEP/ISA Administrator  
3 Finsbury Avenue  
London EC2M 2PA  
Telephone: 0171-410 4018

### Pension Administrator

Edinburgh Pension Centre  
Personal Pension Management Limited  
24-27 Barnack Business Centre  
Blakey Road  
Salisbury  
Wiltshire SP1 2LP  
Telephone: 0800-137 079

