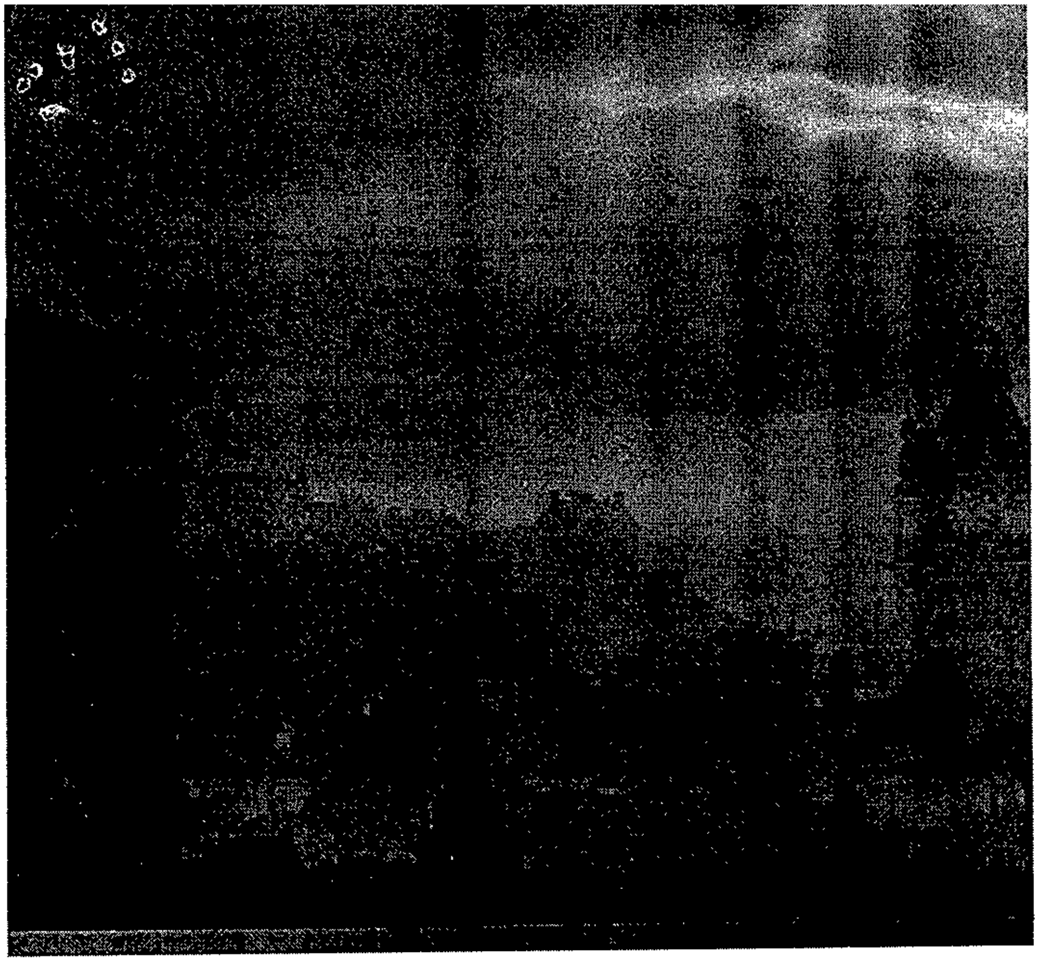
1836



The Edinburgh Investment Trust plc

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDING 31 MARCH 1997

Edinburgh
FUND MANAGERS

Contents:

Objectives

The achievement of capital growth at a higher rate than the FT-SE Actuaries All-Share Index and dividend growth above the rate of UK inflation

Financial Highlights

- Annual dividend increased by 7.5% to 10.75p
- Net asset value increased by 9.7% to 420.1p
- Share price increased by 10.3% to 364.5p
- £100 million new 25 year debenture stock to be issued, post year end

Chairman's Statement

Results

Financial markets have again been strong during the period under review and the company's net assets have increased by 9.7%, compared to a rise of 13.8% in the FT-SE Actuaries All-Share Index. The shortfall against the index was due primarily to the performance of overseas holdings, since sold, in sterling terms and the costs involved in switching out of fixed interest stocks and concentrating the UK equity portfolio on companies which offer both dividend growth along with the potential for greater capital appreciation. These moves take advantage of the new Statement of Recommended Practice for investment trusts, which has allowed the company to charge half of both investment management fees and interest costs to capital, thereby enabling a progressive dividend policy to be maintained from a lower yielding portfolio.

The board is recommending a final dividend of 7.30p per ordinary share making a total dividend for the year of 10.75p. This is 7.5% higher than last year's total dividend and once again well above the 2.6% rise in UK retail prices. If approved, the final dividend will be paid to shareholders on 4 July 1997.

Strategy

In recent years the company has been concentrating its investments increasingly on the UK and since 1995 has been designated a UK General Trust. This designation enabled a small proportion of the portfolio to be invested overseas and at the half year stage some 8% was in overseas markets, mainly Japan. This comparatively minor involvement in overseas markets had led to some uncertainty in the market place about the company's overall strategy and where shareholders' funds would be invested.

Therefore, following a review of both the company's strategy for achieving its objectives and also the rating of its shares, it was announced at the end of January this year that the company's strategic focus should be entirely on the UK and that in future all its assets would be invested in UK securities. The board believes that this move is entirely consistent with the company's objectives and that the greater clarity it provides will add value for shareholders. At the year end virtually all of the company's assets were invested in the UK.

Looking to the future, the company now offers the largest, liquid investment trust concentrating on growth of both capital and income from a portfolio of UK securities. The board is encouraged by the recent narrowing of the discount to net asset value on which the shares have been trading. At the half year this stood at 14.2% and by 31 March it had declined to 13.2%. There is scope for the rating of the shares to improve further and the manager is continuing to take steps to attract new investors to the company.

Long-Term Debt

A significant advantage that an investment trust has over comparable investment vehicles is its ability to borrow long-term money thereby creating the opportunity to enhance the returns to shareholders in the longer term. The board believes that interest rates are currently at an attractive level for borrowers and accordingly the company announced on 21 May 1997 that it planned to issue a new 25 year £100 million debenture stock.

This new issue will bring total long-term borrowings to £200 million and give the company a maximum potential gearing in line with a number of other large investment trusts. As with the existing debenture, half of the interest cost will be taken to the capital account and half to revenue.

Accounts

In compliance with the recommended practice for investment trusts, the Revenue Account of previous annual reports has been replaced by a Statement of Total Return. This new statement shows both the income and capital gains generated from investments with the individual items being classified separately as revenue or capital.

The company produced a revenue return per ordinary share (which was previously reported as earnings per share) of 12.56p in the year to 31 March 1997 (1996–13.37p). The slight reduction in the revenue return over the previous year was attributable to the sale of fixed interest stocks and the move into lower yielding UK equities. The total dividend was well covered by revenue.

The capital return per share was 35.4p which, together with undistributed revenue, represents the movement in net asset value for the year. The net asset value per share increased from 382.9p to 420.1p, a rise of 9.7%. A full explanation of the capital performance is given in the Manager's Review on pages 4 to 7.

The revenue return of 12.56p and the capital return of 35.40p, when combined, produced a total return per ordinary share of 47.96p (1996–72.97p). All the figures for the prior period have been restated to reflect the change in accounting policies which were outlined in last year's annual report.

Directors

Miss Eileen Mackay was appointed a director of the company on 21 October 1996 and will be standing for re-election at the Annual General Meeting. She is a non-executive director of The Royal Bank of Scotland and was Principal Finance Officer in The Scottish Office until her retirement in 1996.

Mr Robin Young, having reached retirement age, will be retiring at the conclusion of the Annual General Meeting. He has been a director of the company since 1968 and has held office during a time of great change in the company, financial markets and in the world at large. We shall miss the benefit of his experience and his wise counsel and we wish him well in his retirement.

Outlook

The clear cut victory of the Labour Party in the general election has removed the political uncertainty which had influenced investor sentiment in recent months and UK share prices have risen subsequently to record levels. Investors have welcomed the increased independence the new Chancellor of the Exchequer has awarded the Bank of England to control interest rate policy. The new government, however, will need to raise additional tax revenues in order to meet its stated policies and any changes to fiscal policy may lead to volatility of share prices in the short-term.

In the present state of the UK equity market it is not envisaged that all the funds raised from the new debenture stock will necessarily be invested immediately but may be held in cash and short-term interest bearing securities until better investment opportunities arise. The board is nevertheless confident that this increase in the company's borrowings will enhance long-term returns to shareholders.

Eglinton and Winton

The Earl of Eglinton and Winton, Chairman
21 May 1997

... the company now offers the only large investment trust concentrating on growth of capital and income from a portfolio of UK securities.

Manager's Review

Liz Thom and David McCraw

Strategy

In last year's annual report a strategy was outlined which would enable the company to reduce its holdings in fixed interest stocks and focus the portfolio on high quality equities which offered dividend growth along with the potential for greater capital appreciation. This strategy was implemented fully during the past year. Inevitably, the changes led to a high level of transactions within the portfolio which, with the associated costs of the restructuring, had an adverse impact on capital performance.

Fixed Interest

All of the stocks held in the fixed interest portfolio were sold during the first half of the year. The proceeds which were realised from these sales amounted to £54 million and were used to repay short-term commercial paper borrowings of £30 million with the balance being reinvested in UK equities.

Restructuring

The UK equity portfolio was restructured during the year to place less emphasis on dividend yield and increase focus on companies able to deliver dividend growth and the potential for greater capital appreciation. These changes have lowered the dividend yield on the UK equity portfolio from 4.4% at 31 March 1996 to 3.8% at 31 March 1997. This lower yield, compared with a dividend yield of 3.6% on the FT-SE Actuaries All-Share Index at the year end, has removed the hindrance of an above market dividend yield from the capital performance of the portfolio.

In addition, the decision, at the end of January, to focus the company's portfolio exclusively on the UK, led to the sale of all of the overseas equity holdings which included a number of unit trusts and offshore funds. These sales realised £75 million and the proceeds were held in cash at the year end awaiting an opportunity to reinvest in UK equities.

Borrowings

The level of short-term borrowings was reduced last year through the repayment of the company's outstanding commercial paper. Interest rates in the UK have reached the low point for this business cycle and this is now an opportune time to borrow additional long-term, fixed rate funds at attractive interest rates. The proceeds from the proposed debenture issue will be invested in UK equities over the months ahead.

At 31 March 1997, the company had approximately 100% of shareholders' funds invested in UK equities with cash balances of over £80 million offsetting the company's long-term debenture. This defensive measure reflected the uncertainties present in financial markets towards the end of the period which included the General Election, the likely trend in interest rates and the high level of equity markets. Advantage will be taken of any opportunities to reinvest these cash balances in UK equities.

Performance

The past year produced good returns from UK equities. The UK economy continued to strengthen driven mainly by increased consumer confidence. Corporate profits, however, were impacted latterly by the strength of sterling and profits forecasts have been lowered for many international companies. The health of both balance sheets and cashflows enabled UK companies to continue to return excess cash to shareholders through higher dividends and share repurchases.

Capital Return

The net asset value per share rose from 382.9p to 420.1p, an increase of 9.7% which compared with a capital return of 13.8% from the FT-SE Actuaries All-Share Index. The restructuring of the portfolio and the costs associated with an abnormally high level of activity had an adverse effect of approximately 2% on the net asset value of the company. In addition, the returns from the company's overseas investments were disappointing and contributed 2.1% to the shortfall in performance against the company's benchmark.

Attribution Analysis

Table 1 below illustrates the key drivers of the performance of the net asset value of the company in relation to the benchmark. This analysis shows that the shortfall in performance relative to the index was attributable mainly to poor returns from both UK and international equities. The use of borrowings made a positive contribution to comparative performance although this was partly offset by the effect of charging 50% of interest costs and investment management fees to capital.

The UK portfolio, as already mentioned, was impacted by certain restructuring costs but, in addition, suffered from having too much exposure to stocks in the industrial and manufacturing sectors, particularly those companies involved in Europe or facing competition from Europe. The portfolio returns by sector are listed in Table 2 overleaf.

Revenue Return

The revenue return per share for the year was 12.56p. This figure was slightly lower than the previous year but was in line with expectations given the high level of special dividends received in 1995/96 and the effects of selling the company's fixed interest stocks and reducing the yield on the UK equity portfolio. The impact of these two changes will also flow through to the revenue return for the 1997/98 financial year which is expected to be broadly similar to the 1996/97 figure.

The use of borrowings made a positive contribution to comparative performance ....

	1997 (%)	1996 (%)
Increase in Net Asset Value	9.7	19.7
Increase in FT-SE All-Share Index	13.8	19.8
Difference	**-4.1**	**-0.1**
Difference is attributable to:		
UK equities	-3.2*	-1.6
International equities	-2.1	-0.5
Fixed interest	—	-1.3
Borrowings	1.4	3.0
Interest costs charged to capital	-0.5	-0.6
Investment management fees charged to capital	-0.2	-0.2
Undistributed revenue	0.5	1.1
	-4.1	**-0.1**
Analysis of UK Equities Contribution:		
Sector Allocation	-0.6	
Stock Selection	-2.6	
	-3.2	

Table 1 Performance Attribution Analysis – Net Asset Value relative to FT-SE All-Share Index
* estimated restructuring costs of 2.0% are included in this figure

Manager's Review

Dividends

Total dividends for the year of 10.75p were well covered by revenue and the changes to the portfolio will enhance the company's ability to deliver growth of dividends in real terms to shareholders. In addition, the company has significant revenue reserves which amounted to 13.51p per ordinary share at 31 March 1997.

Portfolio Activity

The activity within the portfolio resulting from the strategic decisions to sell the fixed interest stocks and international equities has been outlined already. This section of the review will focus on the changes within the UK equity portfolio.

Sales

The first part of the strategy for UK equities focused on reducing the weightings in industrial and cyclical stocks and this was achieved through the sales of English China Clays, T&N, Cookson, Coats Viyella, Albright & Wilson, NFC, TDG and Hanson. The second part of the strategy involved lowering the dividend yield of the portfolio and this resulted in the additional sales of United Biscuits, Northern Foods, Sears, Iceland and P&O.

Sector	Portfolio (%)	Index (%)
Mineral extraction	20.2	21.2
General industrial	-2.3	-3.8
Consumer goods	16.2	21.2
Services	4.3	10.7
Utilities	7.8	6.9
Financials	27.7	33.9
Investment trusts	16.0	4.2
Total UK Equities	**10.6**	**13.8**

Table 2 Capital returns from the UK portfolio by sector

Index is the FT-SE All-Share Index

Purchases

The proceeds from the sales were reinvested in companies which offered greater dividend growth potential. The stocks which were purchased were generally in the services and financial sectors. New holdings in the services sector included Daily Mail and General Trust, Next, Dixons and Marks & Spencer while in the financial area new holdings were established in Barclays Bank, Bank of Scotland, Legal & General and Capital Shopping Centres. In addition, £25 million was invested in the investment trust sector to take advantage of the attractive valuations on offer from many investment trust shares.

Smaller Companies

The company has been increasing its involvement in UK smaller companies in recent years and at the end of the period nearly 10% of the UK equity portfolio was invested in this segment of the UK market. Faster earnings growth and attractive valuations continue to suggest that smaller companies should perform well in the year ahead. The company's involvement in smaller companies has been achieved through a combination of direct holdings and investment trusts specialising in this area. The size analysis of the UK portfolio in Table 3 illustrates the spread of the company's portfolio in relation to the FT-SE Actuaries All-Share Index at 31 March 1997.

Unlisted Investments

The company's unlisted investments amounted to £39 million at the year end with Robert Fleming Holdings being the largest single investment valued at £31 million. The higher valuation applied to this investment by the directors, which is based on a formula employed in previous years, reflects an improvement in profitability, good dividend growth and the effect on valuations of ongoing merger and acquisition activity within the financial services sector. Most of the remaining value of the unlisted investments is represented by K B Mezzanine Fund, which has proved to be a successful investment over a number of years.

Outlook

The UK continues to benefit from moderate economic growth and low inflation and this improved background is being reflected in higher share prices. The growth of profits and dividends in the UK and the strength of company balance sheets augur well for the year ahead and the recent changes in the portfolio provide the company with a better balance between producing capital and dividend growth for shareholders going forward.

The growth of profits and dividends in the UK and the strength of company balance sheets augur well for the year ahead . . .

	Portfolio (%)	Index (%)
FT-SE 100	79.5	72.9
FT-SE 250	11.3	19.3
FT-SE Small Cap	9.2	7.8
	100.0	100.0

Table 3 Size Analysis of the UK Portfolio

Index is the FT-SE All-Share Index

Analysis of Valuation of Investments

AT 31 MARCH	1997 £000	1997 %	1996 £000	1996 %
Equities and convertibles				
MINERAL EXTRACTION				
Extractive industries	11,658	0.9	2,584	0.2
Oil	105,564	8.5	82,786	6.6
	117,222	9.4	85,370	6.8
GENERAL INDUSTRIALS				
Building materials and construction	49,522	4.0	44,601	3.6
Chemicals	28,471	2.3	38,586	3.1
Diversified industrials	34,139	2.7	57,547	4.6
Electronic and electrical equipment	21,963	1.8	20,621	1.6
Engineering	88,920	7.1	64,768	5.2
Paper, packaging & printing	18,656	1.5	23,355	1.9
Textiles and apparel	6,741	0.5	17,576	1.4
	248,412	19.9	267,054	21.4
CONSUMER GOODS				
Alcoholic beverages	33,875	2.7	32,326	2.6
Food producers	18,026	1.4	46,683	3.7
Household goods	11,768	0.9	19,975	1.6
Pharmaceuticals and health care	108,888	8.7	59,555	4.8
Tobacco	18,149	1.6	16,101	1.3
	190,706	15.3	174,640	14.0
SERVICES				
Brewers, pubs and restaurants	42,708	3.4	44,546	3.6
Distributors	12,582	1.0	11,686	0.9
Leisure and hotels	37,077	3.0	32,437	2.6
Media	35,588	2.9	20,601	1.7
Retailers, food and general	96,361	7.7	83,727	6.7
Support services	—	—	15,302	1.2
Transport	31,631	2.6	52,199	4.2
	255,947	20.6	260,498	20.9
UTILITIES				
Electricity and water	44,885	3.6	47,437	3.8
Gas distribution	9,944	0.8	16,568	1.3
Telecommunications	65,063	5.2	44,728	3.6
	119,892	9.6	108,733	8.7
FINANCIALS				
Retail banks	128,076	10.3	109,076	8.7
Insurance	50,299	4.0	54,024	4.3
Other financial	35,765	2.9	32,991	2.7
Property	31,635	2.5	24,467	2.0
	245,775	19.7	220,558	17.7
INVESTMENT AND UNIT TRUSTS	68,259	5.5	77,280	6.2
Total equities (incl. convertibles)	1,246,213	100.0	1,194,133	95.7
Fixed interest investments	—	—	53,449	4.3
TOTAL INVESTMENTS	1,246,213	100.0	1,247,582	100.0

Convertibles amount to £1,409,000 (1996–£2,762,000).

Investment Changes

EQUITIES (incl convertibles)	Valuation at 31.3.96 £000	Net purchases (sales) £000	Appreciation (depreciation) £000	Valuation at 31.3.97 £000
United Kingdom	1,109.6	9.2	119.5	1,238.3
North America	9.8	(1.3)	(0.8)	7.7
Japan	33.7	(24.9)	(8.6)	0.2
Pacific Basin (ex Japan)	27.8	(27.9)	0.1	—
Emerging Markets	13.2	(13.0)	(0.2)	—
TOTAL EQUITIES (incl convertibles)	1,194.1	(57.9)	110.0	1,246.2
Fixed interest investments	53.5	(53.9)	0.4	—
TOTAL INVESTMENTS	1,247.6	(111.8)	110.4	1,246.2

Unlisted Investments Included in Twenty Largest Holdings

	Description of business	Proportion of capital owned %	Book cost £000	Market value £000	Attributable net asset value £000	Earnings per share p	Dividend per share p	Dividend cover
Robert Fleming Holdings	Merchant bank	2.5	13,064	30,839	18,302 (31.3.96)	59.4	22.0	2.7

List of Largest Holdings

AT 31 MARCH 1997

Company	Market Value £000	Sector
Glaxo Wellcome	50,312	Pharmaceuticals
British Telecom	43,214	Telecommunications
Shell Transport & Trading	42,335	Oil, integrated
Lloyds TSB	42,238	Retail banks
British Petroleum	35,228	Oil, integrated
Robert Fleming Holdings	30,839	Other financial
SmithKline Beecham	29,799	Pharmaceuticals
HSBC	25,398	Retail banks
Abbey National	22,924	Retail banks
Zeneca	19,740	Pharmaceuticals
Ten largest investments	342,027	27.4% of total value of investments
Tesco	18,460	Retailers – food
BAT Industries	18,148	Tobacco
National Westminister Bank	17,870	Retail banks
Guardian Royal Exchange	17,548	Insurance
Ladbroke	17,467	Leisure and hotels
Safeway	17,446	Retailers – food
GEC	16,434	Electronic & electrical equipment
Scottish & Newcastle	16,236	Brewers, pubs and restaurants
Marks & Spencer	16,087	Retailers – general
BOC	15,774	Chemicals
Twenty largest investments	513,497	41.2% of total value of investments
Siebe	15,695	Engineering
Lasmo	15,105	Oil exploration
TI	15,044	Engineering
United Utilities	14,067	Water
BTR	13,644	Diversified industrials
Great Universal Stores	13,350	Retailers – general
Cable & Wireless	13,216	Telecommunications
3i	13,171	Investment trusts
BAA	13,110	Transport
Scottish Power	12,711	Electricity
Thirty largest investments	652,610	52.4% of total value of investments
Other equity investments (incl convertibles) represented by 124 holdings	593,603	47.6% of total value of investments
TOTAL EQUITY INVESTMENTS (INCL CONVERTIBLES)	1,246,213	100.0% of total value of investments

Ten Year Record

Year ended 31 March	*Assets at valuation £000	Preference stock debentures and other borrowings £000	Ordinary shareholders' funds £000	Revenue available for ordinary dividends £000	Net asset value p	Per ordinary share		Share price p
						Earnings p	Dividend p	
1987	721,618	66,014	655,604	10,502	228.9	3.67	3.75	182.0
1988	631,187	72,992	558,195	11,810	194.8	4.12	4.15	144.0
1989	743,128	77,453	665,675	19,372	232.2	6.76	6.10†	184.0
1990	872,133	119,491	752,642	22,520	261.9	7.84	7.00	210.0
1991	887,572	112,214	775,358	24,000	263.9	8.17	7.70	224.5
1992	858,409	112,413	745,996	24,057	253.9	8.19	8.05	212.5
1993	1,097,225	213,309	883,916	27,164	300.8	9.25	8.40	263.5
1994	1,212,488	207,340	1,005,148	29,896	342.1	10.17	8.75	306.5
1995	1,097,235	157,340	939,895	30,464	319.9	10.37	9.35	292.5
1996‡	1,228,267	133,340	1,124,927	39,277‡	382.9	13.37‡	10.00	330.5
1997	**1,337,601**	**103,340**	**1,234,261**	**36,905**	**420.1**	**12.56**	**10.75**	**364.5**

* Total assets less current liabilities excluding short-term loans.

† The 1989 dividend includes the non-recurring centenary dividend of 0.7p per share.

‡ With effect from 1 April 1996, interest costs have been allocated 50% to revenue and 50% to capital. In previous years interest costs were charged fully to revenue. The 1996 figures have been restated to allow a valid comparison of the two most recent accounting periods.

Analysis of Shareholders

Type of Shareholder

	Number of shares	% of shares
Individuals	134,585,925	45.8
Insurance and assurance companies	93,856,419	31.9
Pension funds	38,211,926	13.0
Investment and unit trusts	12,781,848	4.4
Other institutions (incl charities)	3,481,283	1.2
Banks and nominee holdings below 250,000 shares	10,902,070	3.7
	293,819,471	100.0

Directors' Report & Accounts 1997

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
Regulated by IMRO

Registrar
Bank of Scotland
Registrar Department
Apex House
9 Haddington Place
Edinburgh EH7 4AL
Telephone: 0131-243 5181

Bankers
Bank of Scotland
38 Threadneedle Street
London EC2P 2EH

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

Company Brokers
HSBC James Capel
SBC Warburg

Company Registration Number
SC 1836

Board of Directors

The Earl of Eglinton and Winton
Chairman

The Earl of Eglinton and Winton, (57), was appointed to the board in 1992 and became chairman in 1994. He was deputy chairman of Gerrard and National Holdings, chairman of Gerrard Vivian Gray and is a director of Dunedin Income Growth Investment Trust and Dunedin Worldwide Investment Trust.

Sir Chips Keswick
Director

Sir Chips Keswick*, (57) was appointed in 1992. He is chairman of Hambros and a director of the Bank of England, Anglo American Company of South Africa, De Beers Consolidated Mines, IMI, Persimmon and a number of other companies.

Sir Gavin Laird
Director

Sir Gavin Laird*, CBE, (64), was appointed in 1994. He was General Secretary of the Amalgamated Engineering and Electrical Union and is a director of Scottish Television, Britannia Life and a number of other companies.

Eileen Mackay
Director

Eileen Mackay* (53) was appointed a director of the company on 21 October 1996. She was Principal Finance Officer in The Scottish Office and is a non-executive director of The Royal Bank of Scotland and Moray Firth Holdings.

Sir Robert Smith
Director

Sir Robert Smith, CBE, (69) was appointed in 1983. He is a director of Bank of Scotland, British Alcan Aluminium and Volvo Truck and Bus.

Roy Summers
Director

Roy Summers*, D.Univ, FIBrew (61), was appointed in 1994. He was a director of Scottish & Newcastle, is President of the Institute of Brewing and a director of Moray Firth Maltings, Young & Co's Brewery, East of Scotland Water Authority and the Brewing Research Foundation International.

Robin Young
Director

Robin Young*, CA, (70), was appointed in 1968. He was a director of Scottish Equitable Life Assurance Society and The Securities Trust of 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 March 1996, the latest year for which accounts have been submitted. 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.

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 Statement on pages 2 and 3 and the Manager's Review on pages 4 to 7.

	Ordinary shares at 31.3.97	Ordinary shares At 31.3.96*	Nature of interest
The Earl of Eglinton and Winton	4,350	4,350	Beneficial
	18,490	18,490	Non beneficial
Sir Chips Keswick	5,000	5,000	Beneficial
Sir Gavin Laird	4,817	4,672	Beneficial
Miss Eileen Mackay	2,442	—	Beneficial
Sir Robert Smith	5,000	5,000	Beneficial
Roy Summers	9,500	9,254	Beneficial
	969	940	Non beneficial
Robin Young	58,461	58,461	Beneficial
	25,720	25,720	Non beneficial

* or date of appointment

Table 1 Directors and their holdings in the company

There have been no changes in the above holdings between 1 April 1997 and 21 May 1997

Dividends

The directors recommend that a final dividend of 7.30p (1996–6.75p) per share be paid on 4 July 1997 to shareholders on the register at the close of business on 6 June 1997, making a total of 10.75p (1996–10.00p) per share for the year ended 31 March 1997.

The directors propose that the company's undistributed revenue surplus for the year of £5,319,000 (1996–£9,895,000) be transferred to the revenue reserve.

Directors

Miss Eileen Mackay was appointed a director on 21 October 1996 and, in accordance with the Articles of Association, retires at the Annual General Meeting and is eligible for re-election. In accordance with the articles of association, The Earl of Eglinton and Winton retires by rotation at the Annual General Meeting and offers himself for re-election. Resolutions to this effect will be proposed at the Annual General Meeting.

In accordance with the Articles of Association, Mr Robin Young will retire at the conclusion of the Annual General Meeting as he is 70 years of age.

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

No contract or arrangement existed during the year in which any of the directors had a material interest.

No director had a service contract with the company.

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.

Corporate Governance Compliance

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

Internal control

The directors acknowledge their responsibility for the company's system of internal financial controls.

The responsibility to ensure compliance with regulations, company law, to provide effective and efficient operations and investment management has been delegated to the manager and secretary, Edinburgh Fund Managers plc, under the terms of the Investment Management Agreement.

Edinburgh Fund Managers plc is responsible for the design, implementation and maintenance of control policies and procedures to safeguard the assets of the company and to manage its affairs properly. The company's investments are segregated from those of Edinburgh Fund Managers plc and those of its other clients through the appointment of Bank of Scotland as independent custodian of those investments.

The board meets monthly and has a number of matters reserved specifically for its approval including the setting of strategy and objectives, borrowings, treasury and dividend policy. The board also reviews the financial statements, performance and revenue budgets.

The systems are designed to provide reasonable but not absolute assurance against material mis-statement or loss. The directors confirm that, during the year, they reviewed the effectiveness of the system of internal financial controls in operation.

Reporting

The auditors, KPMG Audit Plc, have confirmed that in their opinion: with respect to the directors' statements on internal financial control and going concern, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' statement above appropriately reflects the company's compliance with the other paragraphs of the Code specified by the Listing Rules for their review. They have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the company's system of internal financial control or corporate governance procedures, or on the ability of the company to continue in operational existence.

Substantial share interests

At 21 May 1997 the substantial interests in the ordinary share capital which had been notified to the company are shown in Table 2.

Statement of Recommended Practice

A Statement of Recommended Practice for Financial Statements of Investment Trust Companies ('SORP') was issued by the AITC in December 1995, with the approval of the Accounting Standards Board, with the aim of harmonising investment trust accounting practices. The directors have therefore adopted the SORP for the year to 31 March 1997. A statement of total return has been introduced which combines both the revenue account and a statement of realised and unrealised capital gains and losses. With effect from 1 April 1996, the investment management fee and interest costs have been allocated 50% to revenue and 50% to capital. In previous years the company allocated 50% of the management fee to revenue and 50% to capital while charging 100% of interest costs to revenue. The SORP recommends that these two items be accounted for in a consistent manner.

The figures for the year ended 31 March 1996 have been restated accordingly.

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.

Auditor

A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditor of the company and to authorise the directors to fix their remuneration.

By order of the board,

Edinburgh Fund Managers plc, Secretary

Edinburgh, 21 May 1997

Holder	No. of ordinary shares	%
The Standard Life Assurance Company	34,847,178	11.86
Prudential Corporation group of companies	18,790,922	6.40
AMP Asset Management Group	12,891,796	4.39
Legal & General Investment Management	8,914,544	3.03

Table 2 Substantial share interests

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the revenue of the company for that period. In preparing those financial statements, the directors are required to:

— select suitable accounting policies and then apply them consistently;

— make judgements and estimates that are reasonable and prudent;

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

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

The directors confirm that they comply with all the above requirements. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and to detect fraud and other irregularities.

Auditor's Report

To the members of The Edinburgh Investment Trust plc

We have audited the financial statements on pages 22 to 33.

Respective responsibilities of directors and auditor

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 March 1997 and of its 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

KPMG Audit Plc

Edinburgh,
21 May 1997

Financial Statements

Statement of Total Return

FOR THE YEAR ENDED 31 MARCH

		1997			1996 (as restated)		
	Notes	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Realised gains on investments	18	—	18,645	18,645	—	84,910	84,910
Unrealised gains on investments	19	—	91,803	91,803	—	93,959	93,959
Income from investments	4	51,659	—	51,659	56,391	—	56,391
Currency gains		—	74	74	—	3,394	3,394
Interest receivable on short-term deposits		1,906	—	1,906	1,307	—	1,307
Underwriting commission		262	—	262	138	—	138
Other income		388	75	463	374	—	374
Investment management fee	5	(2,128)	(2,128)	(4,256)	(2,000)	(2,000)	(4,000)
Other expenses	5	(693)	—	(693)	(631)	—	(631)
NET RETURN BEFORE FINANCE COSTS AND TAXATION		51,394	108,469	159,863	55,579	180,263	235,842
Interest payable and similar charges	6	(5,946)	(5,938)	(11,884)	(6,913)	(6,907)	(13,820)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		45,448	102,531	147,979	48,666	173,356	222,022
Taxation	7	(8,481)	1,484	(6,997)	(9,327)	1,781	(7,546)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		36,967	104,015	140,982	39,339	175,137	214,476
Preference stock dividends –non-equity		(62)	—	(62)	(62)	—	(62)
RETURN ATTRIBUTABLE TO EQUITY SHAREHOLDERS	9	36,905	104,015	140,920	39,277	175,137	214,414
Dividends in respect of equity shares	8	(31,586)	—	(31,586)	(29,382)	—	(29,382)
Transfer to reserves	20	5,319	104,015	109,334	9,895	175,137	185,032
RETURN PER ORDINARY SHARE	9	12.56p	35.40p	47.96p	13.37p	59.60p	72.97p
TOTAL DIVIDEND PER ORDINARY 25P SHARE		10.75p			10.00p		

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.

No operations were acquired or discontinued in the year.

Balance Sheet

AT 31 MARCH

	Notes	1997		1996 (as restated)	
		£000	£000	£000	£000
FIXED ASSETS					
Investment property	10		4,395		4,395
Investments	11		1,246,213		1,247,582
			1,250,608		1,251,977
CURRENT ASSETS					
Debtors	12	35,065		17,215	
Cash and short-term deposits		82,585		17,240	
		117,650		34,455	
CREDITORS – Amounts falling due within one year	13	30,657		58,165	
NET CURRENT ASSETS/(LIABILITIES)			86,993		(23,710)
TOTAL ASSETS LESS CURRENT LIABILITIES			1,337,601		1,228,267
CREDITORS – Amounts falling due after more than one year	14		101,640		101,640
			1,235,961		1,126,627
CAPITAL AND RESERVES					
Called up share capital	16				
Preferred stock			1,700		1,700
Ordinary shares		73,455		73,455	
Share premium	17	6,639		6,639	
Capital reserves					
Realised reserves	18	778,425		766,213	
Unrealised appreciation	19	336,058		244,255	
Revenue reserve	20	39,684		34,365	
TOTAL EQUITY SHAREHOLDERS' FUNDS			1,234,261		1,124,927
			1,235,961		1,126,627
NET ASSET VALUE PER EQUITY SHARE	25		420.1p		382.9p

The financial statements on pages 22 to 33 were approved by the board on 21 May 1997 and were signed on its behalf by:

Eglinton

THE EARL OF EGLINTON AND WINTON, Director

Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH

	Notes	1997		1996 (as restated)	
		£000	£000	£000	£000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21		40,697		43,102
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest paid		(11,885)		(13,728)	
Preference dividends paid		(62)		(62)	
NET CASH OUTFLOW FROM SERVICING OF FINANCE			(11,947)		(13,790)
TAXATION					
UK corporation tax repaid			2,410		2,925
INVESTING ACTIVITIES					
Purchase of investments		(341,963)		(337,525)	
Sale of investments		436,118		313,796	
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES			94,155		(23,729)
EQUITY DIVIDENDS PAID			(29,970)		(28,060)
NET CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES			95,345		(19,552)
MANAGEMENT OF LIQUID RESOURCES	22				
Repayment of commercial paper			(30,000)		(20,000)
FINANCING					
Repayment of debenture stock			—		(4,000)
INCREASE/(DECREASE) IN CASH			65,345		(43,552)

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.

(a) Revenue, expenses and interest payable – Income from equity investments, including taxes deducted at source and imputed tax credits, is included in revenue by reference to the date on which the investment is quoted ex-dividend. Foreign income is converted at the exchange rate applicable at the time of receipt. Interest receivable on fixed interest securities, short-term deposits, expenses and interest payable are treated on an accruals basis.

Expenses are charged to capital where they are incurred in connection with the maintenance or enhancement of the value of the investments. In this respect the investment management fee and relevant finance costs are allocated 50% to revenue and 50% to capital, in line with the board's expectation of returns from the company's investments over the long-term in the form of capital and income respectively.

(b) Investments – Listed investments are valued at market prices, foreign currencies being converted 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) Realised capital reserves – Gains and losses on realisation of investments and differences on exchange are dealt with in the realised capital reserves. 50% of the investment management fee along with the associated irrecoverable VAT are charged to this reserve. The associated tax relief is credited to this reserve.

(d) Unrealised capital reserves – Increases and decreases in the valuation of investments held are dealt with in the unrealised appreciation reserve.

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

2. Effect of changes in Accounting Policies

As from 1 April 1996, the company has adopted the recommendations of the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (SORP). This has resulted in certain changes in accounting policy, details of which are given below. In addition, as recommended by the SORP, a Statement of Total Return, which combines the Revenue Account and the Statement of Realised and Unrealised Capital Gains, is presented on page 22. A separate Revenue Account is therefore no longer required. The effect of these changes on the Revenue Account figures previously reported is shown in the adjustment column in note 3.

(a) Income – Where the company has elected to receive its dividends in the form of additional shares rather than in cash, the equivalent of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the equivalent cash dividend is recognised in capital. The effect of these changes was to decrease net revenue after taxation for the year ended 31 March 1997 by £165,000.

Notes to the Accounts

(b) Finance costs – Finance costs of debt, insofar as they relate to the financing of the company's investments or to financing activities aimed at maintaining or enhancing the value of the company's investments are allocated 50% to revenue, the balance being allocated to capital, in line with the board's expectation of returns from the company's investments over the long-term in the form of capital and income respectively. Previously, all finance costs were allocated to revenue. The effect of this change is to increase net revenue after taxation for the year ended 31 March 1997 by £5,010,000.

3. Restatement of Revenue Account for the year ended 31 March 1996

	Note	As previously stated £000	Adjustment £000	Restated £000
Income from investments	2a	56,516	(125)	56,391
Interest receivable on short-term deposits		1,307	—	1,307
Underwriting commissions		138	—	138
Other income		374	—	374
Investment management fee		(2,000)	—	(2,000)
Other expenses		(631)	—	(631)
Net return before finance costs and taxation		55,704	(125)	55,579
Interest payable and similar charges	2b	(13,820)	6,907	(6,913)
Net return on ordinary activities before taxation		41,884	6,782	48,666
Tax on ordinary activities		(7,946)	(1,381)	(9,327)
Return on ordinary activities after tax for the financial year		33,938	5,401	39,339

4. Investment income

		1997 Franked £000	1997 Unfranked £000	1996 (as restated) Franked £000	1996 (as restated) Unfranked £000
Dividends					
Listed:	United Kingdom	44,185	4,580	42,014	2,331
	Overseas	—	548	—	231
Unlisted:	United Kingdom	1,070	—	4,637	—
	Overseas	—	145	—	232
Interest					
Listed:	United Kingdom	—	658	—	6,356
	Overseas	—	473	—	590
		45,255	6,404	46,651	9,740

	1997	1996
		(as restated)
	£000	£000

5. Administrative expenses

	1997	1996
Management and secretarial fee (including VAT)	4,256	4,000
Charged against capital	(2,128)	(2,000)
	2,128	2,000
Other expenses (including other irrecoverable VAT)	571	518
Auditor's remuneration – audit	10	10
– non audit	1	3
Directors' fees	111	100
	2,821	2,631

Edinburgh Fund Managers plc is the investment manager and secretary of the company and received an annual fee of 0.30% of the gross assets of the company excluding commonly managed funds, calculated monthly. 50% of the investment management fee, along with the associated VAT, is charged against capital (see note 18).

The management agreement between the company and Edinburgh Fund Managers plc is terminable by the company on 2 years' notice.

A contribution of £53,000 (1996–nil) was paid to Edinburgh Fund Managers plc in respect of marketing and promotion of the company through their Investment Trust Initiative.

The chairman who was the highest paid director received £26,250 (1996–£25,000)

Directors' emoluments fell within the following bands:

£	1997	1996
5,001 - 10,000	1	—
10,001 - 15,000	—	5
15,001 - 20,000	5	—
20,001 - 25,000	—	1
25,001 - 30,000	1	—

Notes to the Accounts

	1997	1996
		(as restated)
	£000	£000
6. Interest payable		
Euro-sterling commercial paper repayable within 5 years	302	2,064
Debentures repayable within 5 years	74	250
Debentures repayable after more than 5 years	11,500	11,500
	11,876	13,814
Charged against capital	5,938	6,907
	5,938	6,907
Bank overdraft	8	6
	5,946	6,913

	1997	1996
7. Taxation		
Tax attributable to franked investment income	9,050	9,330
Relief for surplus franked investment income	(2,065)	(1,845)
	6,985	7,485
Under-provision in previous year	—	26
Overseas tax	12	35
	6,997	7,546
Tax relief allocated to capital	1,484	1,781
	8,481	9,327

There is no overall deferred taxation liability.

	1997	1996
8. Dividends on ordinary shares		
Interim dividend of 3.45p per share (1996–3.25p) paid 6 December 1996	10,137	9,549
Proposed final dividend of 7.30p per share (1996–6.75p) payable 4 July 1997	21,449	19,833
	31,586	29,382

9. Return per ordinary share

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

	1997	1996
Number of ordinary shares in issue	293,819,471	293,819,471
Revenue return	£36,905,000	£39,277,000
Capital return	£104,015,000	£175,137,000

	1997	1996
	£000	£000
10. Investment property		
Directors' valuation at 31 March 1997 and 1996	4,395	4,395

In accordance with SSAP 19 'Accounting for Investment Properties', the investment property at 25 Ravelston Terrace, Edinburgh, formerly occupied by Dunedin Fund Managers Limited, is valued by the directors at open market value, taking account of an independent valuation made in 1995 by professionally qualified valuers. No depreciation is provided on investment properties.

11. Fixed asset investments

	Listed	Unlisted	Total
	£000	£000	£000
Market value at 31 March 1996	1,211,549	36,033	1,247,582
Unrealised appreciation at 31 March 1996 (restated)	(231,440)	(12,815)	(244,255)
Cost at 31 March 1996	980,109	23,218	1,003,327
Additions at cost	343,394	—	343,394
Disposals at cost	(435,215)	(1,351)	(436,566)
Cost at 31 March 1997	888,288	21,867	910,155
Unrealised appreciation at 31 March 1997	319,122	16,936	336,058
Market value at 31 March 1997	1,207,410	38,803	1,246,213

The total market value at 31 March 1997 includes £11 million invested in funds which are managed by Edinburgh Fund Managers plc.

Details of Robert Fleming Holdings, an unlisted investment which is included in the twenty largest holdings, are given on page 9.

	1997	1996
	£000	£000
12. Debtors		
Amounts falling due within one year:		
Amounts due by brokers	19,068	—
Sundry debtors and accrued income	8,570	10,412
Relief for surplus franked investment income	2,065	1,845
ACT recoverable	5,362	4,958
	35,065	17,215

Notes to the Accounts

13. Creditors: amounts falling due within one year

	1997 £000	1996 (as restated) £000
Loans (note 15)	—	29,803
Amounts due to brokers	632	—
Taxation	5,362	4,958
Other creditors	264	227
Accruals	2,950	3,344
Final ordinary dividend	21,449	19,833
	30,657	58,165

14. Debenture stock

Secured by a floating charge over the assets of the company:

	1997 £000	1997 £000	1996 £000	1996 £000
Repayable within 2 to 5 years				
3¾% debenture stock 1998	950		950	
5¾% debenture stock 1998	690		690	
		1,640		1,640
Repayable after more than 5 years				
11½% debenture stock 2014		100,000		100,000
		101,640		101,640

15. Loans

	1997 £000	1996 £000
Euro-sterling commercial paper	—	30,000
Interest prepaid	—	(197)
	—	29,803

	1997	1996 (as restated)
	£000	£000
16. Called up share capital		
Authorised:		
3.65% preferred stock – non equity	1,700	1,700
316,099,929 (1996–316,099,929) ordinary shares of 25p – equity	79,025	79,025
	80,725	80,725
Issued and fully paid:		
3.65% preferred stock – non equity	1,700	1,700
293,819,471 (1996–293,819,471) ordinary shares of 25p each – equity	73,455	73,455
	75,155	75,155

The holders of the preferred stock have priority in the payment of dividends and the repayment of capital. Stock holders are not entitled to attend or vote at general meetings of the company.

17. Share premium

At 31 March 1997 and 1996	6,639	6,639

18. Capital reserve – realised

At 31 March 1996	771,739
Prior period adjustment (see note 2)	(5,526)
Restated balance at 31 March 1996	766,213
Realised exchange differences on currency transaction	74
Realised gain on sale of investments during year	18,645
Over-provision of expenses re sale of DFM Holdings Limited	75
Management fee	(2,128)
Debenture interest	(5,788)
Commercial paper interest	(150)
Tax relief	1,484
At 31 March 1997	778,425

50% of the management fee has been allocated to capital reserve. The proportion reflects an assessment of the activities undertaken by the manager in pursuit of the investment objectives of the company.

19. Capital reserve – unrealised

At 31 March 1996	244,130
Prior period adjustment (see note 2)	125
Restated balance at 31 March 1996	244,255
Increase in unrealised appreciation on investments	91,803
At 31 March 1997	336,058

Notes to the Accounts

	1997	1996
		(as restated)
20. Revenue reserve	£000	£000
At 31 March 1996	28,964	
Prior period adjustment (see note 2)	5,401	
Restated balance at 31 March 1996	34,365	
Movement for the year	5,319	
At 31 March 1997	39,684	

This represents the only distributable reserve at 31 March 1997.

21. Reconciliation of net revenue to net cash inflow from operating activities

	1997 £000	1996 (as restated) £000
Net revenue before interest payable and taxation	51,394	55,579
Increase in accrued income	1,260	(549)
Decrease in other debtors	203	11
Increase in creditors	(357)	14
Tax on franked investment income	(9,050)	(9,330)
Scrip dividends taken-up	(724)	(623)
Management fee (gross) charged to capital	(2,029)	(2,000)
Net cash inflow from operating activities	40,697	43,102

22. Analysis of changes in net debt

	At 31 March 1996 £000	Cash Flows £000	At 31 March 1997 £000
Cash and short-term deposits	17,240	65,345	82,585
Debt due within 1 year	(30,000)	30,000	—
Debt due after 1 year	(101,640)	—	(101,640)
Net debt	(114,400)	95,345	(19,055)

23. Analysis of changes in cash during the year

	£000
Balance at 31 March 1996	17,240
Net cash inflow	65,345
Balance at 31 March 1997	82,585

	1997	1996
		(as restated)
	£000	£000

24. Reconciliation of movement in shareholders' funds

Revenue for the year	36,905	39,277
Dividends in the year	(31,586)	(29,382)
Retained revenue	5,319	9,895
Total recognised capital gains for the year	104,015	175,137
Shareholders' funds at 31 March 1996	1,124,927	939,895
Shareholders' funds at 31 March 1997	1,234,261	1,124,927

25. Net asset value per equity share

The net asset value per equity share and the net assets attributable to the ordinary shares were as follows:

	1997	1996
Net assets attributable	£1,234,261,000	£1,124,927,000
Number of ordinary shares	293,819,471	293,819,471
Net asset value per equity share	420.1p	382.9p

26. Contingent liabilities

There are uncalled liabilities in respect of partly paid shares amounting to £1,801,200 (1996–£660,300).

There are contingent liabilities in respect of underwriting agreements amounting to £1,195,000 (1996–£3,344,000).

27. Significant holdings

In accordance with Section 231 and Schedule 5 to the Companies Act 1985, the following interests held by the company are disclosed:

Company	Country of Registration or incorporation	Class of shares held	Percentage holding
Dunedin Berkeley Development Capital Limited (in liquidation)	Jersey	Participating Redeemable Preference	32.23

27. Post balance sheet event

It was announced on 21 May 1997 that the company planned to issue a new 25 year £100 million debenture stock.

Notice of Meeting

Notice is hereby given that the one hundred and eighth Annual General Meeting of The Edinburgh Investment Trust plc will be held in the Caledonian Hotel, Princes Street, Edinburgh on Wednesday 2 July 1997 at 12 noon, for the following purposes:

1. To receive the Report of the Directors and the Accounts for the year to 31 March 1997 and to declare a final dividend on the ordinary shares.
2. To re-elect Miss Eileen Mackay a director of the company.
3. To re-elect The Earl of Eglinton and Winton a director of the company;
4. To re-appoint KPMG Audit Plc as auditor of the company.
5. To authorise the directors to fix the remuneration of the auditor for the year to 31 March 1998.

SPECIAL BUSINESS

6. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution.

Special resolution

(i) 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 of £3,672,743 being 5% 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 Mangers plc, Secretary,
4 June 1997

Lynn Matheson

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. Any such holder may appoint another person (whether a member of the company or not) as his proxy to attend and vote on a poll in his stead. Proxies must be lodged at the company's registrars, Bank of Scotland, Registrar Department, Apex House, 9 Haddington Place, Edinburgh EH7 4AL 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 InvestIT – The Edinburgh Fund Managers Investment Trust Savings Plan and The Edinburgh Fund Managers Investment Trust Personal Equity Plan. These are explained in the 'Letter of Directions' which such holders will have received with this report.

Financial Calendar

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

May – Preliminary figures and recommended final dividend for year announced

June – Annual report and accounts published

July – Annual General Meeting and final dividend paid

October – Interim figures and interim dividend announced

November – Interim report for half-year to 30 September published

December – Interim dividend paid

Dividends on the preferred stock are payable half-yearly on 15 March and 15 September.

Debenture interest is payable half-yearly as undernoted:

Debenture stock	Payable
3¾% debenture stock 1998	15 January and 15 July
5¾% debenture stock 1998	5 April and 5 October
11½% debenture stock 2014	30 June and 31 December

This year's Annual General Meeting will be held in the Caledonian Hotel, Princes Street, Edinburgh on Wednesday 2 July 1997 at 12 noon to be followed by a buffet lunch. Shareholders are asked to reply on the enclosed card if they will be attending the meeting.

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

Information for Investors

EDINBURGH FUND MANAGERS PLC

Edinburgh Fund Managers has many years of experience in the investment trust market and can trace its roots back to the formation of American Trust in 1902. This trust was launched to enable investors to invest in the then emerging markets of North America. In 1969 the staff of American Trust founded Edinburgh Fund Managers.

In March 1996 the merger with Dunedin Fund Managers was completed, resulting in the creation of a major force in the fund management industry. Following this merger, Edinburgh Fund Managers is now one of the largest manager of investment trusts in the UK, with around £3.4 billion of funds under management. In addition, the company also manages a wide range of unit trusts and pension fund portfolios. Total assets managed by the group are currently around £6.7 billion.

Edinburgh Fund Managers is based in the city of Edinburgh, with offices in Dundee and Atlanta, Georgia. Edinburgh Fund Managers is a value investor and has a well established investment philosophy designed to provide consistent above average investment performance, within an acceptable measured risk environment.

This value based approach builds portfolios which typically have the characteristics of lower price earnings and price to book ratios than the relevant benchmark.

The long association with the management of investment trust companies has been developed over the years and, in summary, Edinburgh Fund Managers is *an innovative investment management company which creates and delivers investment solutions to its clients throughout the world.*

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.

Edinburgh Fund Managers is a value investor and has a well established investment philosophy

HOW TO INVEST

Ordinary shares

Investors can buy and sell shares in an investment trust directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Alternatively shares can be bought directly through InvestIT - The Edinburgh Fund Managers Investment Trust Savings Plan and The Edinburgh Fund Managers Investment Trust PEP.

PRODUCT DETAILS

InvestIT – The Edinburgh Fund Managers Investment Trust Savings Plan

Edinburgh Fund Managers has combined the best of SaveIT (The Investment Trust Savings Scheme from Edinburgh Fund Managers) and the Dunedin Share Plan, with additional features, to create InvestIT. The new product provides a straightforward way to invest in the investment trusts offered 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, selling or holding shares through InvestIT other than 0.5% Government Stamp Duty which is currently payable on all share purchases.

Information for Investors

The Edinburgh Fund Managers Investment Trust PEP

Investors can invest up to £6,000 through a PEP in any one financial tax year. A feature of the Edinburgh Fund Managers Investment Trust PEP is its low charges. The initial charge is £30 (plus VAT) and the annual management charge is 0.5% and is capped at £40. 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 investment trusts managed both by Edinburgh Fund Managers and other leading fund management groups. 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. It is also completely penalty free.

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.

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 PEPs, may be changed by future legislation.

Keeping you informed

The company's share price appears under the heading 'Investment Trusts' in the Financial Times, The Daily Telegraph, The Guardian, The Independent, The Daily Mail, The Scotsman and The Herald. Investors can also obtain the latest share price by phoning FT Cityline on 0336-432 422. All calls cost 50p per minute.

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

The Client HelpDesk

Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
Telephone: 0131 313 1000
or FREE on 0800-838 993 (24 hours)

InvestIT Administrator

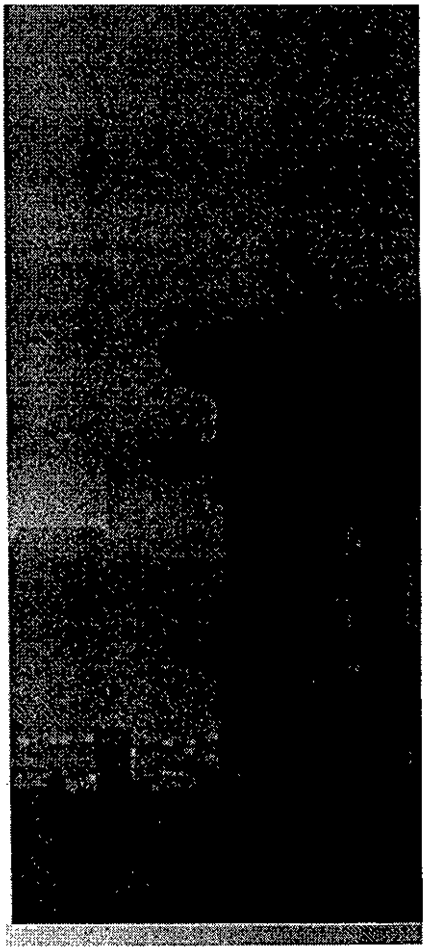
Bank of Scotland
Registrar Department (SP)
Apex House
9 Haddington Place
Edinburgh EH7 4AL
Telephone: 0131-243 5070

Personal Equity Plan Administrator

Bank of Scotland
PEP Administrator
101 George Street
Edinburgh EH2 3JH
Telephone: 0131-243 8053

Pension Administrator

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



Edinburgh

FUND MANAGERS

Head Office

Donaldson House

97 Haymarket Terrace

Edinburgh EH12 5HD