27 March 2003

EDINBURGH FUND MANAGERS GROUP PLC
PRELIMINARY RESULTS FOR YEAR TO 31 JANUARY 2003

Edinburgh Fund Managers Group plc is one of the UK's leading managers of investment trusts and funds for the retail and institutional markets. Its investment products are distributed primarily through IFAs and other professional advisers and through partnerships with major life and banking institutions.

Preliminary results for the year ended 31 January 2003

Key Features

- **New chairman:** appointed February 2003, joint managing directors appointed November 2002, new Chief Investment Officer appointed September 2002
- **Funds under management:** at £4.1 billion, down from £7.1 billion largely as a result of market movements and the loss of The Edinburgh Investment Trust mandate
- **Turnover:** down 12% to £30.7 million from £34.9 million
- **Pre-tax profit:** before goodwill and exceptional items £2.78 million (£6.51 million in 2001/02)
- **Earnings per share** (before goodwill and exceptional items) 7.0p (16.2p)
- **Dividend per share:** in light of the results for the year, no final dividend will be paid
- **Average fee rate** improved over the year from 0.46% of average funds under management last year to 0.55% this year
- **New business:** record gross sales achieved by Edinburgh Portfolio, which has become the leading retail fund of funds manager in the UK
- **Investment awards:** 6 awards for investment excellence across key areas of the business

For further information, please contact:

Charles Nunneley, Chairman 0131 313 1000
Edinburgh Fund Managers Group plc

Rod MacRae, Joint Managing Director
Edinburgh Fund Managers Group plc 0131 313 1000

Julian Polhill
Polhill Communications 0207 655 0540

Colin Browne 0207 379 5151
Maitland Consultancy 07733 103800

Chairman's statement

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

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

Business performance

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

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

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

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

New business

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

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

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

Future Strategy

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

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

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

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

Dividend

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

Review and outlook for business areas

1. Mutual funds

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

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

2. Investment trusts

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

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

3. Venture capital

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

4. Institutional business

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

Board appointments

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

Summary

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

OPERATING AND FINANCIAL REVIEW

KEY PERFORMANCE INDICATORS

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

INVESTMENT PERFORMANCE

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

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

Performance in our Institutional and Investment Trust businesses has been more mixed. In general, our range of income related and Tracker products have performed well. Our flagship Asia Pacific fund, Edinburgh Dragon Trust, has shown strong performance over both the short and long term and is ahead of benchmark over 1, 3 and 5 years.

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

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

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

FINANCIAL SUMMARY

Revenues

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

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

Operating costs

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

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

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

Exceptional costs

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

Goodwill amortisation

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

Operating profit

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

Investment gains and losses

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

Other income

Other income is principally interest received on cash deposits and is lower due to the fall in interest rates.

Interest payable

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

Pre-tax profit

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

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

Taxation

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

Earnings per share

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

Cash and borrowings

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

Risk management and financial instruments

The key business risk which Edinburgh Fund Managers faces is the level of stock markets and their impact on our clients' portfolios. Fund management income is directly related to the value of assets managed. Where client portfolios are invested overseas there is also a currency risk associated with the country in which the assets are invested.

FRS 13, Derivatives and Other Financial Instruments requires disclosure of financial instruments which are held by or issued by the group. The financial instruments which require disclosure include fixed asset investments, cash, bank overdraft, term loan and the unsecured guaranteed loan notes.

As part of our OEIC and unit trust activity we hold temporary positions which are at risk to market and currency movements. In order to manage the risk involved financial instruments may be used. There were no open derivatives positions at the year end.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 JANUARY 2003

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

CONSOLIDATED BALANCE SHEET
AT 31 JANUARY 2003

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JANUARY 2003

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

RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 JANUARY 2003

	2003 £000	2002 £000
(Loss)/Profit for the year	(1,731)	1,609
Dividends	–	3,507
Retained loss for the year	(1,731)	(1,898)
Other recognised losses	(757)	(1,530)
Issue of shares	123	96
Net reduction to shareholders' funds	(2,365)	(3,332)
Shareholders' funds at 31 January 2002	13,460	16,792
Shareholders' funds at 31 January 2003	11,095	13,460

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JANUARY 2003

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

ANALYSIS OF FUNDS UNDER MANAGEMENT
AT 31 JANUARY 2003

	2003 %
By Client	
Investment Trusts	35
Institutional	32
OEICs/Unit Trusts	22
Private Clients	7
Venture Capital	4
	100
By Geographic Split	
UK	69
North America	14
Europe	8
Pacific	7
Japan	2
	100

Notes:

1. Included in exceptional costs is Mr Watt's compensation for loss of office of £460,000.
2. The financial information set out above does not constitute the group's statutory accounts for the years ended 31 January 2003 or 2002. The financial information for 2002 has been extracted from the statutory accounts for 2002 which have been delivered to the registrar of companies. The auditors' report on the 2002 accounts was unqualified.
   The statutory accounts for 2003 contain an unqualified audit report and will be delivered to the registrar of companies following the company's Annual General Meeting which will be held at the registered office on Wednesday 4 June 2003 at 10.30am. The address of the registered office is Donaldson House, 97 Haymarket Terrace, Edinburgh EH12 5HD.
3. Copies of the annual report and accounts will be posted to shareholders in April 2003 and will be available to the public from then at the registered office.