

## GENERAL AND STATUTORY INFORMATION

### INFORMATION ON THE DIRECTORS

1. The names, ages, residences and principal occupations of the Directors are set out on page 25 of this Introductory Document.
2. The details of each of the Directors are as follows:-

*Martin J Gilbert, MA LL.B CA*

A founding Director and shareholder of the Company, Mr Gilbert is Chief Executive of Aberdeen and chairman of the Group's operating subsidiaries. He is chairman of Aberdeen Atlas Fund and sits on several investment trust boards as well as being a director of FirstBus PLC and Lombard International Assurance SA.

*Christopher D Fishwick, MSI (Dip)*

Mr Fishwick joined the Group in 1991 and was appointed to the Board in October 1995. He is a director of The Smaller Companies Investment Trust PLC, Aberdeen Lloyd's Insurance Trust PLC, Abtrust High Income Trust PLC and Aberdeen Asset Managers Limited.

*Beverley Hendry, MA CA*

Mr Hendry joined the Group in 1987 and is vice president and chief executive officer of Aberdeen Fund Managers Inc. He was appointed a Director of Aberdeen in June 1991.

*Andrew A Laing, MA LL.B*

Managing Director of Aberdeen, Mr Laing joined the Group in 1986. He is also managing director of Aberdeen Asset Managers Limited and a director of Atlantic Telecom PLC.

*John Plumpton, FIA*

Mr Plumpton was appointed to the Board of Aberdeen on 8 September 1997. He is a Fellow of the Institute of Actuaries, with 17 years investment experience and 16 years service at Prolific.

*William J Rattray, MA CA*

Mr Rattray joined the Group in 1985 as Company Secretary and subsequently became Group Financial Controller. He was appointed Finance Director of Aberdeen in January 1991.

*Hugh Young, BA*

Managing director of Aberdeen Asset Management Asia Limited, Mr Young was appointed a Director of Aberdeen in June 1991. He is also a director of Aberdeen New Dawn Investment Trust PLC, Aberdeen New Thai Investment Trust PLC, Abtrust Asian Smaller Companies Investment Trust PLC, J F Philippine Fund and Apollo Tiger Fund Limited.

*Angus M Pelham Burn, JP DL LL.D*

Appointed Chairman of Aberdeen in December 1992, Mr Pelham Burn is a director of Bank of Scotland and chairman of Scottish Provident.

*Ronald Scott Brown, MA LL.B LL.D*

A founding Director and shareholder of the Company, Mr Scott Brown is chairman of Aberdeen New Dawn Investment Trust PLC and a director of Temple Bar Investment Trust PLC as well as other investment trusts and he also sits on the local area board of Bank of Scotland.

*David E Woods, MA MSc FIA*

Mr Woods joined Scottish Provident as group managing director in 1988. He qualified as a Fellow of the Institute of Actuaries in 1973 and spent 17 years with the Equity & Law Life Assurance Society and two years with Royal Life Holdings before joining Scottish Provident.

He is also a non-executive director of Edinburgh Java Trust plc, Capital Opportunities Trust plc and the Moller Centre for Continuing Education.

*Richard H Booth, CPA CLU CHFC*

Mr Booth is executive vice president of strategic development for Phoenix Home Life Mutual Insurance Company. He was appointed to the Board of Aberdeen in May 1996. He is a director of a number of other companies including Hartford Steam Boiler & Inspection Company, Phoenix Duff & Phelps Corporation and Phoenix Charter Oak Trust Company.

*Dr Norval M Bryson, MSc DPhil FFA*

Dr Bryson is deputy group managing director and group finance director of Scottish Provident. He joined Scottish Provident in 1974 and qualified as a Fellow of the Faculty of Actuaries in 1977.

*Joseph Burnett-Stuart, BA*

Appointed to the Board of Aberdeen in December 1991, Mr Burnett-Stuart is a former chairman of Robert Fleming Holdings Limited. He is also a director of a number of companies including Caledonia Investments PLC and Murray Income Trust PLC.

*Anthony F Bushell*

Formerly chief investment manager of the Bank of England, Mr Bushell joined the Board in April 1992. He is also a director of Australian Opportunities Investment Trust PLC, Lloyds Smaller Companies Investment Trust PLC, GT Japan Investment Trust PLC and German Smaller Companies Investment Trust PLC.

*Clive M Gilchrist, BSc (Econ) AIIMR MSI*

Mr Gilchrist is managing director of BESTrustees PLC, an independent pension fund trustee company. He holds a number of non-executive directorships including British Empire Securities and General Trust PLC, Towry Law PLC and The Turkey Trust PLC.

*Philip McLoughlin*

Mr McLoughlin is executive vice president of investments for Phoenix Home Life Mutual Insurance Company. He was appointed to the Board of Aberdeen in September 1997. He is a director of a number of companies including Phoenix Duff & Phelps Corporation, Phoenix Real Estate Securities Inc and World Trust Fund.

*James L Pope, MA FCA*

Mr Pope, managing director of Philadelphia International Investment Corporation, the investment subsidiary of CoreStates Financial Corporation, was appointed to the Board in April 1995. He is a director of a number of other companies including The Heritable and General Investment Bank Limited, CoreStates Fund Management (Ireland) Limited, BR & Associés Banquiers SA and Banco Internacional de Panama SA.

*David R Pepin, CLU*

David Pepin was appointed as an Alternate Director to Mr Philip McLoughlin on 2 October 1997. He is also a director of Phoenix Duff & Phelps Corporation and Phoenix-Aberdeen International Advisors LLC.

*Richard C Shaw, CLU*

Appointed in May 1996, Mr Shaw became an Alternate Director to Mr Richard Booth on 29 August 1997. Mr Shaw is senior vice president, international of Phoenix Home Life Mutual Insurance Company. He is also a director of several Phoenix insurance and investment companies in the USA, Bermuda and the UK.

3. None of the Directors and substantial shareholders of the Company and its subsidiaries are related.
4. None of the Directors is or was involved in any of the following events:-
  - a petition under any bankruptcy laws filed in any jurisdiction against such person or any partnership in which he was a partner or any corporation of which he was a director or an executive officer;
  - a conviction of any offence, other than a traffic offence, or had judgment, including findings in relation to fraud, misrepresentation or dishonesty, given against him in any civil proceeding in Singapore or elsewhere or being a named subject of any pending proceedings which may lead to such a conviction or judgment;
  - a conviction in a criminal proceeding or being a named subject of a pending criminal proceeding; and
  - the subject of an order, judgment or ruling of any court of competent jurisdiction, tribunal or government body permanently or temporarily enjoining him from acting as an investment adviser, dealer in securities, director or employee of a financial institution and engaging in any type of business practice or activity.
5. Save as disclosed on page 25 of this Introductory Document, there are no existing or proposed service agreements between the Directors and any member of the Group.
6. In the financial year ended 30 September 1996, the aggregate of the remuneration paid and benefits in kind granted to the Directors by all members of the Group was approximately £1.4 million. The aggregate of the remuneration payable (excluding bonuses and benefits in kind) to the Directors in respect of the year ended 30 September 1997 under the arrangements in force at the date of this Introductory Document is approximately £1.1 million.
7. Save for Mr Fishwick, who exercised 80,000 options issued at a price of 33p each on 10 September 1997 pursuant to the Executive Share Option Scheme, there were no options granted to or exercised by any of the Directors during the two years preceding the date of this Introductory Document.
8. No Director or promoter or expert is interested, directly or indirectly, in the promotion of, or in any assets which have, within the two years preceding the date of this Introductory Document, been acquired or disposed of by, or leased to, the Company or any of its subsidiaries or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.
9. No Director has a material interest in any contract or arrangement which is significant in relation to the business of the Company or its subsidiaries, taken as a whole.
10. There is no shareholding qualification for Directors.

11. No sum has been paid or is agreed to be paid to any Director or expert or to any firm in which such Director is a partner or any corporation in which such Director or expert holds shares or debentures, in cash or shares or otherwise, by any person (i) in the case of a Director, to induce him to become, or to qualify him as, a Director, or (ii) in the case of a Director or an expert, for services rendered by him or by such firm or corporation in connection with the promotion or formation of the Company.

## **SHARE CAPITAL**

12. As at the date of this Introductory Document, there are three classes of shares in the Company namely, the Ordinary Shares, the Performance Shares and the Deferred Shares as described on page 13 of this Introductory Document. There are no founder or management shares. The rights of and privileges attached to the Ordinary Shares, the Performance Shares and the Deferred Shares are stated in the Articles of Association of the Company.
13. Save as disclosed in this Introductory Document, no shares in, or debentures of, the Company or any of its subsidiaries have been issued, or agreed or proposed to be issued, as fully or partly paid for cash, or for a consideration other than cash, within the two years preceding the date of this Introductory Document.
14. Save for the Loan Notes, the Warrants, the A Warrants, the options granted under the Share Option Schemes, the Performance Shares and the Deferred Shares, no person has been, or is entitled to be, given an option to subscribe for shares in, or debentures of, the Company or any of its subsidiaries. As at 17 November 1997, being the latest practicable date prior to the printing of this Introductory Document, the particulars of the outstanding Warrants, the A Warrants, the options granted under the Share Option Schemes, the Performance Shares and the Deferred Shares are as described on page 14 of this Introductory Document.

## **MEMORANDUM AND ARTICLES OF ASSOCIATION**

15. The Memorandum of Association of the Company provides that the Company's principal objects are to carry on the business of investment and financial managers, advisers and consultants. The objects of the Company are set out in full in clause 4 of its Memorandum of Association.

The Articles of Association of the Company (the "Articles") contain, *inter alia*, provisions to the following effect:-

### *(a) Voting Rights*

- (i) Subject to any special terms as to voting upon which any Ordinary Shares may be issued or may for the time being be held and subject to the provisions of the Articles, every holder of an Ordinary Share who, being an individual present in person or, being a corporation, is present by a duly authorised corporate representative shall have one vote on a show of hands and, on a poll, every such holder shall have one vote for every Ordinary Share of which he is the registered holder.
- (ii) The duly authorised representative of a corporate member may exercise the same powers on behalf of that corporation as it could exercise if it were an individual member. On a poll votes may be made in person or by proxy.
- (iii) A member is not entitled to vote unless all calls or other moneys due and payable by him in respect of shares in the Company have been paid.
- (iv) Holders of Performance Shares are entitled to receive notice of and attend, but not to speak or vote at, any general meeting of the Company. Holders of Deferred Shares have no right to receive notice of, attend or vote at any general meeting of the Company.

(b) *Suspension of Rights*

Where a member or any other person who appears to be interested in shares held by a member has been duly served with a notice under section 212 of the Act and, having failed to supply the Company with the information thereby required, or having supplied information which in the opinion of the directors is false or misleading in any material respect, within the period specified in such notice (being not less than 14 days where such shares represent at least 0.25 per cent. of their class and, in any other case, 28 days from the date of service of such notice), is served with a disenfranchisement notice:-

- (i) such member shall not be entitled to attend meetings or vote or to exercise any other right conferred by membership in relation to meetings; and
- (ii) where such shares represent at least 0.25 per cent. in nominal value of their class:-
  - (aa) any dividends or other sums payable in respect of capital in respect of such shares may be withheld (except on a winding up of the Company); and
  - (bb) no transfer, other than an approved transfer, of shares held by the member shall be registered unless the member can establish that he is not in default in supplying the information or that no person in default in supplying the information is interested in the shares. An approved transfer is defined in the Articles as a transfer pursuant to acceptance of an offer made to all holders of shares or any class of shares, a transfer through the London Stock Exchange or any recognised investment exchange or recognised clearing house or any stock exchange or market outside the UK in which the Company's shares are normally traded or a transfer which is shown to the satisfaction of the Board (as defined in the Articles) to be made in consequence of a *bona fide* sale of the whole of the beneficial interest in the shares in question to a person who is unconnected with the holder of such shares and with any other person appearing to be interested in such shares.

Such disenfranchisement will apply only for so long as the notice from the Company has not been complied with and unless otherwise determined by the Board for a period of one week thereafter.

(c) *Dividends*

- (i) Subject to the Act and any other statute concerning companies for the time being in force (the "Statutes"), the Company may by ordinary resolution declare dividends to be paid out of profits available for distribution to members according to their rights and priorities but no dividend shall be declared in excess of the amount recommended by the Board. Subject to the Statutes, the Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits available for distribution.
- (ii) Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be declared and paid *pro rata* according to the amounts paid or credited as paid up (other than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. All dividends unclaimed for a period of 12 years from the date of declaration shall be forfeited and shall revert to the Company.
- (iii) The Board may, if authorised by an ordinary resolution of the Company pay dividends wholly or partly in specie and may be satisfied in whole or in part by the distribution amongst shareholders of debentures or other securities of the Company or of any other company.
- (iv) The holders of Performance Shares and Deferred Shares are not entitled to receive any dividend or other distribution.

(d) *Distribution of Assets on a Winding Up*

- (i) On a winding up of the Company (whether voluntary, under supervision or by the court), the liquidator may, with the sanction of an extraordinary resolution of the Company and subject to the Insolvency Act 1986, divide among the members of the Company in specie the whole or any part of the assets of the Company, and vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as the liquidator, with the like sanction, shall determine.
- (ii) The surplus assets of the Company available for distribution on a winding up shall be applied first, in repaying the holders of Ordinary Shares the nominal value of the Ordinary Shares held by them; secondly, in repaying the holders of the Performance Shares the nominal value of the Performance Shares; thirdly, in repaying the holders of the Deferred Shares the nominal value of the Deferred Shares and fourthly, in distributing the remaining assets to the holders of Ordinary Shares *pro rata* to the amounts paid up on such shares.

(e) *Transfer of Shares*

Any member may transfer all or any of his shares by an instrument of transfer in the usual common form or in such other form as the Board may approve. Notwithstanding this, the Board may adopt procedures for transferring shares without a written instrument providing such procedures are in accordance with the Statutes and the Articles of Association. The instrument of transfer shall be executed by or on behalf of the transferor and (in the case of a partly paid share) by or on behalf of the transferee. There is no restriction on the registration of a transfer of shares provided the transfer:-

- (i) is duly stamped and lodged at the office of the Registrars of the Company or such other place as the Board may direct, accompanied by the relevant share certificate (s) and such other evidence of the right of the transferor to make the transfer as the Board may reasonably require;
- (ii) is in respect of only one class of share;
- (iii) is in favour of not more than four transferees;
- (iv) is in respect of a fully paid share; and
- (v) is in respect of a share on which the Company does not have a lien.

If any of the above conditions are not complied with, the Board may refuse to register the transfer in question. The Board may, in its absolute discretion and without assigning any reason therefor, refuse to register any transfer of shares, all or any of which are not fully paid provided that where any such shares are admitted to the Official List of the London Stock Exchange, such discretion may not be exercised in such a way as to prevent dealings in the shares from taking place on an open and proper basis.

- (vi) Where a holder of Performance Shares ceases to be an eligible employee, the Performance Shares are automatically transferred to the employee share trust established by a deed dated 28 February 1997. The price of the transfer depends on the circumstances of his so ceasing to be eligible. In the event of the holder's death or his ceasing to be employed by reason of illness or disability or other circumstances agreed by the Remuneration Committee, the shares are transferred at a price which is the higher of the market value and the subscription price. If the holder ceases to be employed for any other reason or if he becomes bankrupt or the Company commences winding up (save for the purposes of reconstruction or amalgamation) the price to be paid is the lower of the market value and the subscription price.

Save as set out above, the Performance Shares are non-transferable. All Deferred Shares held by holders of Performance Shares following conversion are deemed automatically to have been offered for sale to the said employee share trust at a price of one pence for the entire holding.

(f) *Variation of Rights*

Whenever the capital of the Company is divided into different classes of shares, subject to the Statutes, the rights attached to any class may be varied or abrogated, either with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the affected class or with the sanction of an extraordinary resolution passed at a separate general meeting of such holders. The quorum at any such general meeting is two persons personally present holding or representing by proxy at least one third of the capital paid up on the issued shares of the class in question and, at any adjourned meeting, the quorum is one holder present in person or by proxy. Any holder of shares of the class in question present in person or by proxy may demand a poll. Every holder of shares of the class in question shall, on a poll, be entitled to one vote for every share of the class held by him. The rights or privileges attaching to any class of shares shall not, subject to the terms on which such shares may be issued, be deemed to be varied or abrogated by the creation or issue of new shares ranking *pari passu* with those already issued. The subdivision and redesignation of the Performance Shares upon conversion shall not be treated as a variation or abrogation of the rights attaching to the Performance Shares.

(g) *Share Capital and Changes in Capital*

- (i) Subject to the provisions of the Statutes and without prejudice to any special rights previously conferred on the holders of any existing shares, any share may be issued with such rights or restrictions as the Company may from time to time determine by ordinary resolution or, if the Company has not so determined, as the Board may determine. Subject to the provisions of the Statutes (but in the case of unclassified shares only), the Company may issue redeemable shares. Subject to the provisions of the Articles and the Statutes, the power of the Company to allot and issue shares shall be exercised by the Board at such time, for such consideration and upon such terms and conditions as the Board may determine.
- (ii) The Company may by ordinary resolution increase its share capital, consolidate its share capital into shares of larger amount and, subject to the provisions of the Statutes, sub-divide its shares or any of them into shares of smaller amount, cancel any shares which, at the date of the passing of the resolution, have not been subscribed for or agreed to be subscribed for by any person, and diminish the amount of its authorised share capital by the amount of the shares so cancelled.
- (iii) Subject to the Statutes and to any confirmation or consent by law, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.
- (iv) Subject to the provisions of the Articles and the Statutes and to the rights attached to any class of shares, the Company may purchase all or any of its own shares of any class (including any redeemable shares).

(h) *Conversion*

- (i) The Deferred Shares are non-convertible.
- (ii) The Performance Shares convert into a number of Ordinary Shares and Deferred Shares depending on the performance of the Group. If growth in earnings per share (adjusted to reflect the growth in the value of the indices appropriate to the stock markets in which the Group invests) equals or exceeds 5 per cent. per annum

compounded over 5 years then each Performance Share converts into the maximum number of 5 Ordinary Shares. If the adjusted growth in earnings per share is less than 1 per cent. per annum compounded over 5 years then each Performance Share converts into the maximum number of 5 Deferred Shares.

The Conversion Date in respect of any class of Performance Share is the publication date of the annual accounts of the Company for the fourth financial year following the financial year in which the Performance Shares are issued.

No conversion will take place if the holder of the Performance Shares is no longer an Eligible Employee (as defined in the Articles).

Ordinary Shares arising on conversion rank *pari passu* with the existing Ordinary Shares then in issue, save that they shall not rank for any dividend or other distribution payable declared or proposed prior to the relevant date of conversion.

(i) *Directors*

- (i) Save as mentioned below, a director shall not vote at a meeting of the Board or of a committee of the Board on any matter in which he has, directly or indirectly, a material interest (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company) or a duty which conflicts or may conflict with the interests of the Company. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.
- (ii) A director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters, namely:-
  - (aa) the giving of any guarantee, security or indemnity to him in respect of money lent to, or an obligation incurred by him at the request of or for the benefit of, the Company or any of its subsidiary undertakings;
  - (bb) the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings, for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - (cc) any proposal concerning his being, or intending to become, a participant in the underwriting or sub-underwriting of an offer of shares, debentures or other securities by the Company or any of its subsidiary undertakings for subscription or purchase;
  - (dd) any proposal concerning any other company in which he is interested, directly or indirectly, and whether as an officer or shareholder or otherwise howsoever, provided that he does not hold to his knowledge an interest in shares (as that term is used in Part VI of the Act) representing one per cent. or more of either any class of the equity share capital of such company or of the voting rights available to members of such company (any such interest being deemed to be a material interest in all circumstances);
  - (ee) any proposal concerning any scheme or arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which the director benefits in a similar manner to such employees and which does not accord to him any privilege or benefit not awarded to employees to whom such scheme or arrangement relates;
  - (ff) any proposal concerning any insurance which the Company is empowered to purchase and/or maintain for the benefit of any directors of the Company.



- (iii) Subject to the Statutes and provided that he has disclosed to the Board the nature and extent of any material interest, a director:-
  - (aa) may be a party to or otherwise directly or indirectly interested in any transaction or arrangement with the Company (or in which the Company is otherwise interested) and may be a member or director or other officer of, any body corporate in which the Company is a member or is otherwise interested and shall not be accountable to the Company for any benefit which he derives from any such transaction, arrangement, office, or interest;
  - (bb) may act in a professional capacity for the Company, for which he shall be entitled to remuneration.
- (iv) The directors shall be paid such remuneration (by way of fee) for their services as may be determined by the Board, save that, unless otherwise approved by ordinary resolution of the Company in general meeting, the aggregate of the remuneration (by way of fee) of all the directors shall not exceed £250,000 per annum. The limit of £250,000 shall be increased each year in proportion to the increase (if any) in the Index of Retail Prices. The foregoing provisions shall not apply to the remuneration of any managing director or executive director whose remuneration shall be determined by the Board. The directors shall also be entitled to be repaid all travel, hotel and other expenses of travelling to and from Board meetings, committee meetings, general meetings or otherwise incurred while engaged on the business of the Company. Any director who, by request of the Board, performs special or extra services for any purposes on behalf of the Company may be paid such extra remuneration by way of a lump sum participation in profits or otherwise as the Board may decide.
- (v) The Board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, to or for the benefit of any past director who held executive office or employment with the Company or with a body corporate which is or has been a subsidiary undertaking (or a predecessor in business of any of them) or to or for the benefit of any member of his family (including a spouse and a former spouse) or dependants.
- (vi) At each annual general meeting one-third of the directors, or if their number is not a multiple of three, then the number nearest to but not exceeding one-third, shall retire from office and shall be eligible for re-election. The directors to retire by rotation shall be those who wish to retire and not offer themselves for re-election or those who have been longest in office since their last election or, in the case of those who became or were re-elected directors on the same day, shall, unless they agree otherwise, be determined by lot. Any director appointed by the Board shall hold office only until the next annual general meeting, when he shall be eligible for election, but shall not be taken into account in determining the directors to retire by rotation at that meeting.
- (vii) Subject to the Act, every director shall retire at the first annual general meeting after the date of his 70th birthday but shall then be eligible for re-election for the period from that annual general meeting until the end of the next following annual general meeting. Any such retiring director shall be eligible for re-election for the period from that subsequent term or terms but on each occasion until the end of the next following annual general meeting after the date of his re-election.
- (viii) Unless and until otherwise determined by ordinary resolution of the Company, the directors (other than alternate directors) shall not be less than two and there is no maximum number.
- (ix) A director shall not be required to hold any qualification shares.

(j) *Borrowing Powers*

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) including uncalled capital and, subject to the Statutes, to issue debentures and other securities, whether outright or as collateral security, for any debt, liability or obligation of the Company or of any third party provided that the Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (so far as the Board is able in the case of the Company's subsidiary undertakings) that the aggregate amount for the time being outstanding of all borrowings by the Group shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to four times the adjusted total of the capital and reserves of the Group as calculated in accordance with the Articles.

(k) *Untraced Shareholders*

Subject to various notice requirements the Company may sell at the best price reasonably obtainable any share in the Company of a member provided that, for a period of twelve years, at least three dividends on those shares have become payable and no cheque, warrant or order in respect thereof has been cashed and the Company has received no indication either of the whereabouts or of the existence of the member.

## **INDEBTEDNESS AND WORKING CAPITAL**

16. At the close of business on 30 September 1997, the Group had outstanding borrowings or indebtedness in the nature of borrowings as follows:-

	(£'000)
Secured loans	Nil
Unsecured loans	Nil
Hire purchase and finance lease commitments	Nil
Loan Notes	24,027
Contingent liabilities or guarantees	Nil

Save as disclosed above and apart from intra-group indebtedness, the Group had no loan capital (including term loans) outstanding, or created but unissued, or any mortgages, charges, debentures or other borrowings, or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, obligations under finance leases and guarantees or other contingent liabilities.

17. The Directors are of the opinion that, after taking into account the existing bank facilities available to the Company, the Group has sufficient working capital for its present requirements.

## **CONSENTS**

18. KPMG Audit Plc, the Auditors, have given and have not withdrawn their written consent to the issue of this Introductory Document with the inclusion herein of their letter in relation to the unaudited interim results of the Company for the six months ended 31 March 1997 and the Auditors' Report and the inclusion of their name in the form and context in which it appears.
19. Coopers & Lybrand have given and have not withdrawn their written consent to the issue of this Introductory Document with the inclusion herein of the Accountants' Report on the Prolific Group and the inclusion of their name in the form and context in which it appears.
20. OUB, as the Sponsor, the Solicitors, the Principal Banker and the Share Registrar have given and have not withdrawn their respective written consents to the issue of this Introductory Document with the inclusion herein of their respective names in the form and context in which they respectively appear.

## MATERIAL CONTRACTS

21. The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years preceding the date of this Introductory Document and are or may be material:-

- (a) the Acquisition Agreement;
- (b) the Investment Management Agreement;
- (c) the Relationship Agreement;
- (d) the Note Purchase Agreement referred to on page 17 of this Introductory Document;
- (e) a joint venture agreement ("Joint Venture Agreement") between Aberdeen Fund Managers Inc ("AFM") and P M Holdings Inc ("PMH") dated 4 April 1996 pursuant to which the conduct of Phoenix-Aberdeen International Advisors LLC ("PAIA"), a Delaware registered limited liability company, is regulated. PAIA is jointly owned by AFM and PMH. The Joint Venture Agreement provides that the purpose of PAIA is to manage retail and institutional investment products in the US and the UK. These products are marketed through the distribution network of Phoenix and Phoenix Duff & Phelps Corporation ("PDP"). PMH and PDP are primarily responsible for undertaking the marketing and distribution in the US of the investment products to be promoted under the Joint Venture Agreement. Aberdeen provides the investment management functions in respect of investments outside the US, acting as a sub-adviser to PAIA. PDP acts as a sub-adviser to PAIA in respect of the management of assets in the US. The Joint Venture Agreement contains reciprocal representations and warranties from AFM to PMH and PMH to AFM. It also provides that each of the parties must indemnify the other in respect of, *inter alia*, damage, loss, liability, actions or claims resulting from any misrepresentation, breach of warranty or non-fulfillment of any obligation under the Agreement. The Agreement remains in full force and effect until 31 March 2026 unless (i) earlier terminated by the unanimous vote of all the members of PAIA, (ii) PAIA is dissolved, (iii) AFM or PMH is, *inter alia*, dissolved, removed as a member of PAIA, wound up or a receiver or administrator is appointed over its property, (iv) there is irreconcilable deadlock of the directors and the members of PAIA (unless the business of PAIA is continued by the consent of all the remaining members and there are at least two remaining members). The internal operation of PAIA is governed by an operating agreement entered into by AFM and PMH and also dated 4 April 1996;
- (f) an agreement for the sale and purchase of the share capital of Objective Asset Management (Institutions) Limited (now called Prolific Objective Asset Management Limited) dated 19 August 1996 pursuant to which Epicframe Limited (now called Prolific Objective Limited) agreed to purchase the whole of the issued and allotted share capital of Objective Asset Management (Institutions) Limited from Objective Asset Management Limited for a consideration, together with the consideration payable under the agreement referred to in paragraph 20(g) below, of £2.6 million;
- (g) an agreement for the sale and purchase of the share capital of Objective Unit Trust Management Limited (now called Prolific Objective Unit Trust Management Limited) dated 19 August 1996 pursuant to which Prolific Unit Trust Managers Limited purchased the issued share capital of Objective Unit Trust Management Limited from Objective Asset Management Limited for a consideration, together with the consideration payable under the agreement referred to in paragraph 20(f) above, of £2.6 million;
- (h) an agreement dated 19 August 1996 between Prolific Objective Asset Management Limited, Epicframe Limited and Mr P G Ainsworth and others regulating the terms of the joint venture between the parties; and
- (i) the Depository Agreement dated 24 November 1997 between the Company and CDP pursuant to which CDP agreed to act as share depository for the Company.

## **LITIGATION**

22. Neither the Company nor any of its subsidiaries is or has been involved in any legal or arbitration proceedings which may have, or have had during the twelve months preceding the date of this Introductory Document, a significant effect on the Group's financial position nor are any such proceedings pending or threatened against any member of the Group.

## **MISCELLANEOUS**

23. Save as disclosed herein, the Directors are not aware of any material information, including trading factors or risks, which are unlikely to be known or anticipated by the general public and which could materially affect the profits of the Company and the Group.
24. Save as disclosed in this Introductory Document, the financial condition and operations of the Group are not likely to be affected by any of the following:-
- (i) known trends or demands, commitments, events or uncertainties that will result in or are reasonably likely to result in the liquidity of the Group increasing or decreasing in any material way;
  - (ii) material commitments for capital expenditure;
  - (iii) unusual or infrequent events or transactions or any significant economic changes that had materially affected or will materially affect the amount of reported income from operations; and
  - (iv) known trends or uncertainties that have had or are reasonably expected to have a material favourable or unfavourable impact on revenues or operating income.
25. No amount of cash or securities or benefit has been paid or given to any promoter within the two years preceding the date of this Introductory Document or is proposed or intended to be paid or given to any promoter at any time.

## **SPONSOR'S STATEMENT**

26. OUB, as the Sponsor, acknowledges that, to the best of its knowledge and belief and based on information made available to it, this Introductory Document constitutes a full and true disclosure of all the material facts about the Introduction, the Company and its subsidiaries.

## **DIRECTORS' RESPONSIBILITY STATEMENT**

27. The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Introductory Document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this Introductory Document is true and accurate in all material respects and is not misleading, that the opinions and statements of intention contained in this Introductory Document are honestly held and that there are no other material facts the omission of which would make any statement in this Introductory Document misleading.

## **DOCUMENTS FOR INSPECTION**

28. Copies of the following documents may be inspected at the office of Aberdeen Asset Management Asia Limited, a subsidiary of the Company, at 88A Circular Road, Singapore 049439 during normal business hours on any weekday (Saturdays and public holidays excepted) for a period of six months from the date of this Introductory Document:-
- (a) the Memorandum and Articles of Association of the Company;
  - (b) the Auditors' Report set out on page 33 of this Introductory Document;

- (c) the Auditors' Letter set out on page 27 of this Introductory Document in relation to the unaudited interim results of Aberdeen for the six months ended 31 March 1997;
- (d) the service contracts referred to on page 25 of this Introductory Document;
- (e) the material contracts referred to on page 72 of this Introductory Document;
- (f) the audited accounts of the Company and its principal subsidiaries for the last two financial years ended 30 September 1995 and 1996 and the unaudited interim results of Aberdeen for the six months ended 31 March 1997;
- (g) the rules of the Share Option Schemes, the Deed of Trust and Rules of the PSS, the Deed of Trust constituting the ESOT and the Performance Share Scheme;
- (h) the letters of consent referred to on page 71 of this Introductory Document; and
- (i) the document to Shareholders dated 11 August 1997 in relation to the Acquisition.

## DETAILS OF THE ACQUISITION AGREEMENT, THE INVESTMENT MANAGEMENT AGREEMENT AND THE RELATIONSHIP AGREEMENT

### The Acquisition Agreement

Aberdeen entered into an agreement dated 30 July 1997 with Scottish Provident pursuant to which Scottish Provident had agreed to procure the sale by Prolific Holdings Limited of, and Aberdeen agreed to purchase, the entire issued share capital of Prolific.

The consideration for the acquisition of the share capital was satisfied by the allotment and issue of 58,414,994 new Ordinary Shares to Prolific Holdings Limited. The new Ordinary Shares rank *pari passu* with the existing Ordinary Shares save that they will not be entitled to receive any dividend made, paid or declared in respect of the financial year ended 30 September 1997.

The Acquisition Agreement contains warranties and undertakings from Scottish Provident to Aberdeen in respect of Prolific, the liability under which is limited. The Acquisition Agreement also contains warranties and undertakings from Aberdeen to Scottish Provident in respect of Aberdeen, the liability under which is limited.

### The Investment Management Agreement

Under the terms of the Investment Management Agreement entered into between Scottish Provident and PAM, PAM is appointed as investment manager to Scottish Provident. PAM is entitled to receive from Scottish Provident for its services as investment manager a fee at the annual rates noted below (exclusive of VAT or any similar tax thereon) of the average monthly net asset value of the funds under management adjusted to reflect agreed fund allocation guidelines from time to time. This fee is payable monthly in arrear:

(i) in respect of the main and special portfolios of Scottish Provident:

Fixed interest and cash	0.05%
Real Property	0.35%
Equities – UK	0.10%
– Europe, Ireland and North America	0.15%
– Japan and Pacific Basin	0.30%
– Other	0.40%

(ii) in respect of the unit-linked portfolios of Scottish Provident: 0.25%

With regard to assets of Scottish Provident under the management of PAM which are holdings in collective investment schemes under the management of PAM or an Associate (as defined in the rules of the Investment Management Regulatory Organisation Limited) of PAM, PAM will refund to Scottish Provident all investment management fees and (subject to certain exceptions) any initial or exit charges accruing to the benefit of PAM or an Associate in connection with such schemes and reasonably attributable to such holdings.

The Investment Management Agreement is terminable by Scottish Provident (i) on 3 months' notice in the event of PAM failing to achieve a performance benchmark for a period of 2 consecutive calendar years, (ii) without notice in the case of material default by PAM and (iii) on 6 months' notice in any other case.

Upon termination of the Investment Management Agreement pursuant to (iii) above, Scottish Provident shall pay to PAM an amount (the "Compensation Payment") calculated in accordance with the formula noted below.

For the purposes of this paragraph the term “Compensation Period” means the longer of (i) the period from the date on which termination of the Investment Management Agreement becomes effective until the date falling five years after the commencement date of the Investment Management Agreement and (ii) the period of two years less the length of the notice period, provided that in no case shall the Compensation Period be less than 12 months. The Compensation Payment referred to shall be the aggregate of the amounts calculated according to sub-paragraphs (a) and, if applicable (b), (c) and (d) below, which shall be calculated as follows:

- (a) in respect of the first 18 months of the Compensation Period (the “First Period”), a payment at the rate of £6 million per annum;
- (b) in respect of the period (the “Second Period”), if any, commencing on expiry of the First Period and expiring on the earlier of (i) the expiry of the Compensation Period and (ii) the date falling 12 months after the expiry of the First Period, a payment at the rate of £3.5 million per annum;
- (c) in respect of the period (the “Third Period”), if any, commencing from the expiry of the Second Period and expiring on the earlier of (i) the expiry of the Compensation Period and (ii) the date falling 12 months after expiry of the Second Period, a payment at the rate of £3.25 million per annum; and
- (d) in respect of the period, if any, commencing on expiry of the Third Period and expiring on the expiry of the Compensation Period, a payment at the rate of £2.25 million per annum.

When a payment is to be calculated in respect of a period which is not a whole year, it shall be calculated *pro rata* on the basis of a 365-day year.

### **The Relationship Agreement**

It is a requirement of the LSE that the Company must be capable at all times of operating and making decisions independently of any controlling shareholder and that all transactions and relationships in the future between the Company and any such controlling shareholder must be at arm’s length and on a normal commercial basis. To comply with these requirements, Aberdeen entered into the Relationship Agreement with Scottish Provident to regulate their relationship. The Relationship Agreement deals with such matters as the exercise of voting rights, appointment of directors, competition, acquisition of and dealings in the Company’s Ordinary Shares, anti-dilution rights, arm’s length transactions, conflicts of interest, and certain other matters. A summary of the principal terms of the Relationship Agreement is set out below.

#### *Voting Rights*

The Scottish Provident Group has an aggregate holding of approximately 41 per cent. of the issued equity share capital of the Company. The Scottish Provident Group has agreed to exercise its voting rights in respect of the Ordinary Shares held by it, and will procure that its representatives on the Board will vote, in such a way as to ensure that the terms of the Relationship Agreement are implemented in full and that Scottish Provident complies with its obligations thereunder and that the independence of the Board is maintained in accordance with paragraph 3.13 of the listing rules of the LSE.

#### *Appointment of directors by Scottish Provident*

Scottish Provident is entitled to appoint two non-executive directors to the Aberdeen board for so long as it holds 25 per cent. or more of the issued ordinary share capital of Aberdeen (subject to reasonable prior consultation with Aberdeen on any person to be so appointed).

#### *Competition*

Scottish Provident covenants that for a period of two years following completion of the Acquisition, or, if longer, for so long as the Scottish Provident Group owns 25 per cent. or more of the issued ordinary share capital of Aberdeen, the Scottish Provident Group will not carry on any business (other than insurance business) which is competitive with any business carried on by the Aberdeen Group or the Prolific Group during the twelve months prior to completion of the Acquisition.

### *The Scottish Provident Group's shareholding*

Scottish Provident agrees that any disposal by any member of the Scottish Provident Group of any of the Ordinary Shares held by the Scottish Provident Group on completion of the Acquisition will be effected only after consultation with Aberdeen's brokers with a view to an orderly disposal of such shares. This will not prevent any member of the Scottish Provident Group from accepting, or undertaking to accept, a general offer in respect of the Ordinary Shares.

It has been agreed that until 1 January 2005 but only for so long as the Scottish Provident Group owns 25 per cent or more of the issued ordinary share capital of Aberdeen:

- on any issue by Aberdeen of Ordinary Shares for cash, Aberdeen will use all reasonable endeavours to ensure that the issue is carried out in a manner that provides the Scottish Provident Group with an opportunity to maintain its then current percentage holding of Ordinary Shares by subscribing for additional Ordinary Shares at the time of such issue;
- on any issue by Aberdeen of Ordinary Shares or securities with voting rights (or securities convertible or exchangeable into such Ordinary Shares or such securities) for a consideration other than cash, the Scottish Provident Group will have an opportunity to maintain its then current percentage holding of Ordinary Shares by subscribing for additional Ordinary Shares at a price equal to the average of the middle market quotations for an Ordinary Share for the ten business days prior to the date on which the relevant member of the Scottish Provident Group gives notice of its intention to subscribe for additional Ordinary Shares pursuant to these provisions;

save that these provisions will not apply to (i) any issue of Ordinary Shares on the exercise of any of the outstanding A Warrants or Warrants, (ii) any issue of Ordinary Shares upon exercise of options under the Share Option Schemes, (iii) the issue of further options under the Share Option Schemes, (iv) the issue of Performance Shares, Deferred Shares and Ordinary Shares pursuant to the Performance Share Scheme or (v) the issue of Ordinary Shares on the conversion of the Loan Notes. The number of Ordinary Shares to be issued to members of the Scottish Provident Group pursuant to these provisions shall not exceed 50,000,000 (disregarding for these purposes any Ordinary Shares acquired by any member of the Scottish Provident Group pursuant to any offer or other issue of securities made at any time to shareholders in Aberdeen generally).

Scottish Provident has further agreed that for a period of two years following completion of the Acquisition it will not, without the prior written consent of more than 50 per cent. of the directors of Aberdeen (other than the directors appointed by Scottish Provident) and will not permit any other member of the Scottish Provident Group to, acquire or agree to acquire directly or indirectly any Ordinary Shares, rights convertible into Ordinary Shares or other equity securities of Aberdeen if following such acquisition the Scottish Provident Group would hold more than 49 per cent. of the voting rights attributable to the equity share capital of Aberdeen on a fully diluted basis. This provision is without prejudice to the provisions of the City Code, in particular Rule 9 of the City Code which may require the making of a general offer to all the other shareholders in Aberdeen should the shareholding of the Scottish Provident Group increase.



## SUMMARY OF TERMS OF THE LOAN NOTES

### (a) *Note Purchase Agreement*

The Loan Notes are constituted by a Note Purchase Agreement dated 4 April 1996 as an unsecured obligation of the Company.

### (b) *Payment*

- (i) The entire outstanding principal amount of the Loan Notes shall be repaid on 29 March 2003 unless the term of all or any portion of such outstanding principal amount shall have been extended by the Company. The Company may, at its option, extend the term of all or any portion of the aggregate outstanding principal amount of the Loan Notes from 29 March 2003 for up to four six monthly periods, that is, to 29 March 2005.
- (ii) The Company may during any such extension period repay the principal amount of the Loan Notes in part or in whole on giving not less than 30 and not more than 60 days' notice to the Loan Noteholders. In the case of partial payment of the Loan Notes the principal amount to be repaid shall be allocated *pro rata* amongst all of the Loan Notes then outstanding.
- (iii) The Company will within five business days of a change in control (as therein defined) or the obtaining of knowledge of an event likely to lead to a change of control give written notice of such event to each Loan Noteholder. In the event of a change of control such written notice shall constitute an irrevocable offer by the Company to pay all of the Loan Notes held by such Loan Noteholder on a date being not less than 30 days and not more than 60 days after the date of such notice. This provision is subject to the right of any Loan Noteholder to convert all or any of its Loan Notes. If a Loan Noteholder shall neither have accepted the offer nor elected to convert any of its Loan Notes the Company shall be entitled, at its option, to repay the Loan Notes.
- (iv) In the event of early repayment of the Loan Notes as a result of default, the Company will repay the outstanding principal amount of the Loan Notes and all accrued interest. The Company may also be required to pay a Make-Whole Amount (as therein defined) which is calculated on a basis which compensates the Loan Noteholders for the loss of future interest. On a change of control, the Company and the Loan Noteholders each have the option to cause the Loan Notes to be pre-paid in which event a Make-Whole Amount at a reduced level may require to be paid.
- (v) If at any time the aggregate outstanding principal amount of the Loan Notes has fallen to 25 per cent. or less of the original aggregate outstanding principal amount of the Loan Notes the Company may, at its option, prepay all outstanding Loan Notes.

### (c) *Interest*

- (i) The Loan Notes carry interest (computed on the basis of a 360-day year of twelve 30-day months) until 29 March 2003 at the rate of 7.00 per cent. per annum payable in arrears on 1 April and 1 October each year.
- (ii) In the event of the term of the whole or any part of the Loan Notes being extended by the Company the Loan Notes will carry interest from 29 March 2003 to 29 March 2004 at the rate which is the greater of (i) the Applicable Treasury Rate (as therein defined) plus 1.50 per cent. per annum or (ii) 7.50 per cent. per annum.

In the event of the term of the whole or any part of the Loan Notes being extended by the Company beyond 29 March 2004, interest shall be payable from 29 March 2004 to 29 March 2005 at the rate which is the greater of (i) the Applicable Treasury Rate (as therein defined) plus 2.00 per cent. per annum or (ii) 8.00 per cent. per annum.

- (iii) To the extent permitted by law, interest shall be payable on any overdue payment of principal, interest or Make-Whole Amount (as therein defined) on the dates specified in paragraph (i) above (or, at the option of the Noteholder, on demand) at the rate per annum equal to the lesser of the highest rate allowed by applicable law or 2.00 per cent. above the rate which would otherwise be applicable.

(d) *Transfer*

Loan Notes may not be transferred (except within the group of companies of which Phoenix Home Life Mutual Insurance Company is a member) without the prior written consent of the Company.

(e) *Conversion*

(i) Manner of conversion

- (aa) The unpaid principal amount of any Loan Notes or any portion thereof may, at any time or from time to time at the election of the Loan Noteholder, be converted into the number of Ordinary Shares determined by dividing the unpaid principal amount of such Loan Note to be so converted by US\$2.15 (approximately 136 pence at an exchange rate of US\$1.58 : £1.00) as adjusted in accordance with the Note Purchase Agreement ("the Conversion Price").
- (bb) Conversion shall be effected by the Loan Noteholder surrendering such Loan Note together with the Notice of Conversion duly executed to the Company at its principal office in the UK. Upon any partial conversion the Company shall issue a new Loan Note in principal amount equal to the unpaid or unconverted principal amount of such surrendered Loan Note. Any partial conversion of a Loan Note shall be with respect to an unpaid principal portion of not less than the greater of (i) 10 per cent. of the total unpaid principal amount thereof or (ii) US\$1 million.
- (cc) Each conversion shall be deemed to be effected immediately prior to the close of business on the business day on which such Loan Note is surrendered to the Company for this purpose. Upon conversion the Company will pay to the Loan Noteholder all accrued interest on the principal amount to be converted. The Company will also issue appropriate certificates for the Ordinary Shares into which such principal amount has been converted.
- (dd) All Ordinary Shares issued by the Company in connection with any conversion of Loan Notes shall be deemed to be paid in full or credited as paid in full. The Ordinary Shares arising on conversion will rank *pari passu* with the existing Ordinary Shares.
- (ee) The Company shall use its best endeavours to ensure that the Ordinary Shares arising on conversion are admitted to listing on the Official List.

(ii) Adjustment of Conversion Price

The Conversion Price shall be subject to adjustment in the event that the Company shall:

- (i) make or pay a dividend or distribution which is satisfied by the issue of Ordinary Shares other than in lieu of a cash dividend where shareholders are offered and elect to accept such dividend in the form of shares;
- (ii) reclassify by subdivision its outstanding Ordinary Shares into a greater number of shares; or

- (iii) reclassify by consolidation its outstanding Ordinary Shares into a smaller number of shares; then, and in each such case, the Conversion Price in effect after the effective date of such subdivision or consolidation shall be equal to the product of:

$$C \times \frac{S_a}{S_b}$$

where:

$S_a$  = the total number of outstanding Ordinary Shares immediately prior to such event,

$S_b$  = the total number of outstanding Ordinary Shares immediately after such event, and

$C$  = the Conversion Price in effect immediately prior to such event.

Such adjustment shall become effective on the effective date of such event. For the purposes of the determination of "outstanding Ordinary Shares" a right to subscribe for Ordinary Shares that is then outstanding shall be deemed to be equal to the Ordinary Shares such right could then acquire or be exchanged for (whether or not such right is then exercisable in accordance with its terms).

(iii) Distribution of Property

In the event that the Company shall distribute to holders of Ordinary Shares (including, without limitation, any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) shares or evidences of its indebtedness or assets (including, without limitation, any assets distributed or appropriated in respect of any capitalisation of profits or reserves) or rights to subscribe for Ordinary Shares and excluding cash dividends paid out of current profits or retained profits legally available for the payment of dividends then in each case the Conversion Price in effect after the record date in respect of which such shares, indebtedness, assets or rights were issued shall be equal to the product of:

$$C \times \frac{C - (FV / S_a)}{C}$$

where:

$S_a$  = the number of outstanding Ordinary Shares on such record date,

$FV$  = the then fair value (as determined in good faith and on a reasonable basis by the Board, whose determination, if so made, shall be conclusive) of the shares or assets or evidences of indebtedness so distributed or of such rights, and

$C$  = the Conversion Price in effect immediately prior to such record date.

Such adjustment shall be made whenever any such distribution is made, and shall become effective on the date of such distribution. For the purposes of the determination of "outstanding Ordinary Shares" a right that is then outstanding shall be deemed to be equal to the Ordinary Shares such right could then acquire or be exchanged for (whether or not such right is then exercisable in accordance with its terms).

(iv) Issuances of additional Ordinary Shares and other securities

In the event that the Company shall issue or sell Ordinary Shares or rights (other than Excluded Securities as therein defined which term includes, in particular, shares issued on the exercise of existing warrants and options) at a consideration per share lower than 95 per cent. of the then market price then the Conversion Price in effect after such issuance or sale shall be equal to the product of:

$$C \times \frac{Sa + (ACR/MP)}{Sa + AOS}$$

where:

Sa = the number of outstanding Ordinary Shares on the date of, and immediately prior to, such issuance or sale,

ACR = the aggregate consideration receivable in respect of such issuance or sale,

AOS = the number of additional Ordinary Shares so issued or sold (or then issuable pursuant to such rights, whether or not such rights are then exercisable in accordance with their terms),

MP = 95 per cent. of the market price on the date of and immediately prior to such issuance or sale, and

C = the Conversion Price in effect on the date of, and immediately prior to, such issuance or sale.

In the event that the Company shall issue and sell Ordinary Shares or rights for a consideration consisting, in whole or in part, of property (including, without limitation, a security) other than cash or its equivalent, then in determining the aggregate consideration receivable, the Board shall determine, in good faith and on a reasonable basis, the fair value of such property, and such determination, if so made, shall be binding upon all Loan Noteholders. For the purposes of the determination of "outstanding Ordinary Shares" a right that is then outstanding shall be deemed to be equal to the Ordinary Shares such right could then acquire or be exchanged for (whether or not such right is then exercisable in accordance with its terms).

(v) Consolidation, amalgamation or merger of the Company or any sale or conveyance of the property or any reclassification of the Ordinary Shares that results in the issue of the securities of the Company.

Provision shall be made as part of the terms of such transaction so that Loan Noteholders shall have the right to acquire, by way of a conversion of their Loan Notes, similar shares, securities and rights they would have received from such consolidation, merger, sale, conveyance or reclassification if such Loan Noteholders had converted their Loan Notes immediately prior to their transaction at the Conversion Price then in effect.

(f) *Loan Noteholders' Subscription Rights*

In the event that the Company at any time offers to sell any Ordinary Shares or rights then it shall offer each Loan Noteholder the right to purchase an equivalent proportion of the total number of such Ordinary Shares and rights on similar terms as if the Loan Noteholder had converted his Loan Notes in full.

## SUMMARY OF TERMS OF THE SHARE OPTION SCHEMES, ESOT, PSS AND PERFORMANCE SHARE SCHEME

### (a) *Executive Share Option Scheme*

#### (i) *Eligible Employees*

All employees of the Group (including executive directors and officers) who are required to devote at least 25 hours per week to the duties of their employment ("Eligible Employees") are eligible to be nominated for participation in the Scheme.

#### (ii) *Subscription Price*

Options entitle the recipient to subscribe for Ordinary Shares at the higher of (i) the nominal value of an Ordinary Share and (ii) the market value of an Ordinary Share on the day the invitation to apply for that particular option was issued.

#### (iii) *Grant of Option*

Options may only be granted by the Board (which term, for the purposes of this Appendix, shall refer to all the directors of the Company) within 21 days following the issue of invitations (which shall be at any time within a period of six weeks following the date on which the annual or half yearly results of the Company are announced).

Invitations to participate are made by the Directors who have an absolute discretion in selecting the persons to whom options are to be granted.

#### (iv) *Exercise of Options*

Options may be exercised in whole or in part at any time following the earliest of the third anniversary of the date of grant of the option; the death of an option holder; the option holder ceasing to be a director or employee of any participating company (meaning the Company and any other company of which the Company has control and which is nominated by the Board to be a participating company); or, at the discretion of the Board, for any other reason.

An option shall lapse on the earliest of, *inter alia*, the tenth anniversary of the date of grant; the first anniversary of the option holder's death; unless the Board otherwise decides, six months following the option holder ceasing to be a director or employee of a participating company or the option holder being adjudicated bankrupt.

#### (v) *Overall Limits*

No options shall be granted if such a grant would result in the aggregate of (i) the number of Ordinary Shares over which options have been granted and not exercised under this scheme; (ii) ordinary shares issued on exercise of options under this scheme; (iii) the number of ordinary shares over which options have been granted and not exercised under any other share option scheme during the previous 10 years; and (iv) the number of ordinary shares issued on exercise of options referred to in (iii), exceeding the lesser of ten per cent. of the number of Ordinary Shares then in issue and 31,000,000 (representing approximately 50 per cent. of the Ordinary Shares in issue on 26 February 1991) provided that the number of shares over which options have been granted under this scheme (which have not been exercised or lapsed) shall not exceed 5 per cent. of the shares in issue at the date of grant.

(vi) *Individual Limits*

No option shall be granted to an Eligible Employee if immediately following such grant he would hold existing options over Ordinary Shares with an aggregate subscription price exceeding four times the amount of the Eligible Employee's relevant emoluments (as defined in Schedule 9 to the Income and Corporation Taxes Act 1988 ("Schedule 9") for the current or preceding tax year (whichever gives the greater amount).

(vii) *Takeovers and Liquidations*

Options may be exercised in the event of a takeover or winding up or reconstruction of the Company. Alternatively in the event of a takeover or reconstruction existing options may be exchanged for new options over shares in the acquiring company, if it so agrees.

(viii) *Variation of Share Capital*

If the issued share capital of the Company is varied following a capitalisation or rights issue or any consolidation, sub division or reduction of capital, an adjustment shall be made to the options and the subscription price on the advice of the Company's auditors and with the approval of the Inland Revenue.

(ix) *Approval*

The Scheme has been approved by the Inland Revenue under the provisions of Schedule 9.

(x) *Amendment*

The Board may amend the Scheme provided that they first obtain Inland Revenue approval. The approval of the Company in general meeting is also required for amendments to the eligibility to participate in the Scheme, the calculation of the option price, the limits on the grant of options, and the periods during which and the manner in which options may be granted and exercised.

**(b) ESOT**

- (i) The ESOT is a Qualifying Employee Share Ownership Trust pursuant to Sections 66-74 of Schedule 5 to the Finance Act 1989. The beneficiaries include all full-time employees (including directors of the Company) who have been employed for two years by a company which has been within the Group for two years. Charities may benefit under the ESOT if there are no other beneficiaries and the ESOT is being wound up.
- (ii) The trustees of the ESOT receive contributions from the Company or other companies in the Group (or may borrow from the Company or elsewhere) and apply all cash sums received by them for (a) the acquisition of Ordinary Shares ("Securities"); (b) the repayment of sums borrowed; (c) the payment of interest on sums borrowed; (d) the payment of sums to beneficiaries and/or (e) the meeting of expenses. No company may contribute more than 5 per cent. of its profits on ordinary activities before taxation, interest and extraordinary items for each accounting period.
- (iii) The trustees transfer the Securities to beneficiaries directly or via the PSS. The entitlement to benefit is determined by the trustees in the same manner as for the PSS. The maximum annual entitlement for a beneficiary must not exceed Securities to the value of 25 per cent. of such beneficiary's annual basic salary at the start of a year of assessment.
- (iv) The first trustees of the ESOT are Jennifer Ann Love, Atholl Gordon Forbes and P&W Trustees (Aberdeen) Limited. There must be at least three trustees (being UK residents) one of whom must be a trust corporation, solicitor or a member of a professional body approved by the Inland Revenue for the purposes of the relevant legislation. The majority of the trustees must not be directors or former directors of companies in the Group but shall

otherwise be employees of companies in the Group. Future trustees are appointed following selection by a committee of employee representatives. Professional and corporate trustees may be paid in respect of acting as trustees and reimbursed for reasonable and properly incurred administration costs and expenses. The Company indemnifies the trustees in respect of claims arising from anything in the lawful and proper execution of the ESOT.

- (v) The trustees may exercise the voting rights of Securities held by them in such manner as they shall determine to be in the best interests of the beneficiaries. In all dealings with the Securities the trustees shall conform with the requirements of the rules of the London Stock Exchange generally, including the Model Code. The trustees may also participate in any rights issues in respect of the Securities held by them. In the event of a takeover, reconstruction or reorganisation of the Company, the trustees may exchange the Securities for shares in another company.
- (vi) The Company has the power to revoke and vary the terms of the ESOT provided the relevant provisions of the Finance Act 1989 continue to be satisfied. The prior approval of the Company in general meeting will be required for alteration in respect of beneficiaries, in respect of all provisions relating to and determining who may benefit the total number of Securities which may be subject to the ESOT and the maximum entitlement for each beneficiary.
- (vii) The maximum number of Securities:
  - (a) which may be issued to the trustees of the ESOT when aggregated with Securities issued during the preceding 10 years pursuant to other employee share schemes of the Group shall not exceed 10 per cent. of the issued ordinary share capital of the Company; and
  - (b) which may be held subject to the ESOT shall be 31,500,000 representing 50 per cent. of the Ordinary Shares in issue at the date of establishment of the ESOT.

**(c) PSS**

- (i) The PSS is an approved scheme in accordance with Section 186 and Schedules 9 and 10 to the Income and Corporation Taxes Act 1988 ("the Taxes Act").
- (ii) The trustees of the PSS receive contributions from the Company or other companies within the Group who join in the PSS with the Company's consent ("the Participating Companies"). No company may contribute more than 5 per cent. of its profits on ordinary activities before taxation, interest and extraordinary items for each accounting period. The trustees shall apply all sums received to pay expenses and to acquire Securities as defined therein. The trustees will appropriate the Securities to Eligible Employees (as defined therein) who enter into a contract of participation but will normally retain them for two years and can retain them for up to three years for Eligible Employees to obtain the maximum tax benefit. The qualification for Eligible Employees is broadly the same as for beneficiaries of the ESOT save that they must be chargeable to income tax under Case 1 of Schedule E of the Taxes Act.
- (iii) The entitlement of each participating Eligible Employee shall be determined by the Board and expressed as a proportion of the employee's earnings and/or a proportion of earnings for each complete period of service and/or a fixed amount per employee and/or a fixed amount per employee for each complete period of service. The basis of calculation of the entitlement must be the same for each employee. The real market value of shares appropriated for the benefit of an individual Eligible Employee at the time of appropriation shall not exceed the statutory limits contained in the Taxes Act, as amended from time to time.

- (iv) Whilst the Securities are retained, the participating Eligible Employees receive via the trustees all dividends payable in respect of their retained Securities and the trustees seek and comply with directions from those Eligible Employees regarding the exercise of voting rights attaching to such Securities. After the initial period of two years (or earlier death, retirement or redundancy), the trustees may sell the Securities following the directions of the Eligible Employee (or his personal representatives if appropriate) for whom they are held and remit the proceeds net of tax to that Eligible Employee or his personal representative if appropriate.
- (v) The first trustees are the same as for the ESOT. A trust corporation (as defined in the PSS trust deed) may be the sole trustee otherwise, there must be a minimum of three trustees. The Company has the power to appoint new or additional trustees and may remove any trustee. All trustees must be resident (for tax purposes) in the UK. Professional and corporate trustees may be paid in respect of acting as trustees and reimbursed for reasonably and properly incurred administration costs and expenses.
- (vi) The Company indemnifies the trustees in respect of claims arising from any act in the proper execution of the PSS. The costs of establishing the PSS and its management and administration (including the expenses and remuneration of trustees) shall be borne by Participating Companies in such proportions as the Company shall determine.
- (vii) Participating Eligible Employees may direct the trustees to participate in any rights issues in respect of the Securities held on behalf of those Eligible Employees. In the event of a takeover, reconstruction or reorganisation of the Company, the trustees may be directed by an Eligible Employee to exchange the Securities for shares in another company.
- (viii) The Company may amend the terms of the trust and rules establishing the PSS with the prior approval of the Inland Revenue. The prior approval of the Company in general meeting will be required in respect of all amendments to provisions relating to and determining who may benefit under the PSS, the total number of Securities which may be subject to the PSS and the maximum entitlement for each Eligible Employee.
- (ix) The maximum number of Securities
  - (a) which may be issued to the trustees in each calendar year shall not exceed 1 per cent. of the issued Ordinary Shares and at any time when aggregated with Securities issued during the preceding 10 years pursuant to other employee share schemes of the Group shall not exceed 10 per cent. of the issued Ordinary Shares; and
  - (b) which may be used for the PSS shall not exceed 31,500,000 representing 50 per cent. of Ordinary Shares in issue at the date of the establishment of the PSS.

**(d) 1994 Executive Share Option Scheme**

*(i) Eligible Employees*

Full time directors or employees of the Company or any other company of which the Company has control and which is for the time being nominated by the Board ("Eligible Employees") may participate in the Scheme, subject to invitation being made by the Board (or by the Remuneration Committee of the Board). However, no option may be granted under the Scheme to anyone within 3 years of retirement.

*(ii) Subscription Price*

The subscription price for Ordinary Shares in respect of which options may be granted is the higher of the nominal value of such shares and the market value thereof (being the average of the middle market quotations for the three dealing days prior to the invitation).



(iii) *Grant of Options*

Applications for options may be invited, at the discretion of the Board (or the Remuneration Committee), from any Eligible Employee within 6 weeks after:-

- (a) the date on which the Company's results are announced; or
- (b) the date of approval of the Scheme by the Inland Revenue; or
- (c) the date of adoption of the Scheme by the Company in general meeting.

(iv) *Performance Criteria*

Before an option can be exercised the Remuneration Committee will require to be satisfied that over a period of not less than 3 years commencing on the last preceding 30 September or 31 March before the date of grant of the option there has been an increase of not less than 5 per cent. per annum compound in the Company's earnings per share over the average movement in the stock markets in which the funds managed by the Company and its subsidiaries are invested.

The movement in stock markets is measured by indices appropriate to the funds managed by the Company and its subsidiaries and shall be determined by the Remuneration Committee.

The Company's earnings per share for the purpose of the performance criteria is determined by reference to the last preceding published annual or interim results of the Company. Such earnings per share shall be as defined by Financial Reporting Standard No. 3 but adjusted to remove the effects of:-

- (aa) gains or losses on the disposal of fixed assets or businesses;
- (bb) costs of acquisition or of elimination of discontinued activities; and
- (cc) reorganisation and other exceptional costs or exceptional income.

The Board has discretion to alter the performance criteria, subject to the approval of the Inland Revenue.

(v) *Exercise of Options*

No option may be exercised prior to the fifth anniversary of the date of its grant (although the option may be exercised earlier if the employee dies or ceases to be an employee through retirement, ill health etc.). The option will expire on the tenth anniversary of its date of grant.

(vi) *Individual Limits*

No participant may be granted options in respect of shares having a value at the subscription price in excess of four times annual emoluments.

(vii) *Overall Limits*

The maximum number of shares available under all schemes (including this Scheme) during the period of ten years prior to the date of grant of the option is the lower of 42,000,000 shares and 10 per cent. of the shares in issue at the relevant date of grant.

No more than 3 per cent. of the share capital may be appropriated for options during the period of three years ending on the date of grant.

The amount of share capital over which options may be granted under the Scheme is 5 per cent. of the share capital at the date of grant.

*(viii) Take-overs and Liquidations*

The option holder may exercise his options within six months of a change of control or he may exchange options for new options in the acquiring company.

*(ix) Variation of Share Capital*

If the share capital of the Company is varied the rules of the Scheme permit an alteration to the limits and to the subscription price in such manner as the auditors confirm to be fair and reasonable (and subject to the approval of the Inland Revenue).

*(x) Amendments*

No amendments can be made without the approval of the Company in general meeting if it would be to the advantage of an individual member unless it would be, in the opinion of the Board (or the Remuneration Committee), a minor amendment to benefit the administration of the Scheme.

**(e) The Performance Share Scheme**

*(i) Eligible Employees*

All Directors and employees of the Company and of such subsidiaries of the Company as are designated participating subsidiaries by the Remuneration Committee who devote substantially the whole of their working time to the affairs of the Group ("Eligible Employees") will be eligible to be selected for participation in the Aberdeen Performance Share Scheme ("the Scheme") at the discretion of the Remuneration Committee.

*(ii) Award of Performance Shares*

Selected Directors and senior employees will be offered the opportunity to subscribe for Performance Shares at a price which is the greater of the nominal value of the Performance Shares and their market value. The market value is determined by the Remuneration Committee on the advice of independent accountants.

Subject to the limits set out below a new class of Performance Shares can be issued each financial year. Performance Shares will be divided into five classes, each designated according to the financial year in which they can be issued: 1997, 1998, 1999, 2000 and 2001. The period over which performance is measured relative to each class commences at the start of the financial year in which the Performance Share is issued and finishes at the end of the fourth financial year following the financial year in which the shares are issued ("the Performance Period").

Each Performance Share will have a nominal value of 50p and will convert into five new shares of 10p each being a combination of Ordinary Shares and Deferred Shares depending on the extent to which the Company achieves the performance criteria. Ordinary Shares arising on conversion shall rank *pari passu* with the existing Ordinary Shares in the capital of the Company save that they shall not rank for dividends or other distributions payable declared or proposed prior to the date of conversion.

The Performance Shares and any Deferred Share arising on conversion shall have the rights and restrictions set out in the Articles of Association of the Company.

(iii) *Performance Criteria*

The Scheme compares the growth in earnings per share on the Company's Ordinary Shares over the Performance Period with the performance of the indices appropriate to the principal stock markets in which the Company invests.

	<b><i>No. of Ordinary Shares into which Performance Shares are converted</i></b>	<b><i>No. of Deferred Shares into which Performance Shares are converted</i></b>
Adjusted Growth in Earnings Per Share		
Less than 5.1 per cent.*	0	5
Equal to or more than 5.1 per cent.*	1	4
Equal to or more than 10.4 per cent.*	2	3
Equal to or more than 15.9 per cent.*	3	2
Equal to or more than 21.6 per cent.*	4	1
Equal to or more than 27.6 per cent.*	5	0

\*5.1 per cent. represents 1 per cent. growth per annum compounded for 5 years rounded to the nearest decimal place.

\*10.4 per cent. represents 2 per cent. growth per annum compounded for 5 years rounded to the nearest decimal place.

\*15.9 per cent. represents 3 per cent. growth per annum compounded for 5 years rounded to the nearest decimal place.

\*21.6 per cent. represents 4 per cent. growth per annum compounded for 5 years rounded to the nearest decimal place.

\*27.6 per cent. represents 5 per cent. growth per annum compounded for 5 years rounded to the nearest decimal place.

"Adjusted Growth in Earnings per Share" means, for any Performance Period, the Growth in Earnings Per Share minus the Weighted Average Stock Market Growth, multiplied by five.

"Growth in Earnings Per Share" in relation to any Performance Period is the sum arrived at by the following calculation expressed as a percentage:-

$$\frac{EPS_2 - EPS_1}{EPS_1}$$

where:-

EPS<sub>1</sub> is the IIMR headline earnings per share set out in the audited accounts of the Company (adjusted for the effects of any direct taxes on profits) for the last complete financial year immediately preceding the issue of the relevant class of Performance Share multiplied by five; and

EPS<sub>2</sub> is the aggregate of the IIMR headline earnings per share (adjusted for the effects of any taxes on profits) for each financial year in the Performance Period.

“Weighted Average Stock Market Growth” in relation to any Performance Period is the aggregate of the following sums calculated for each quarter during any Performance Period expressed as a percentage:-

$$\frac{WASM_2 - WASM_1}{WASM_1}$$

where  $WASM_1$  is the value of the indices appropriate to the Principal Stock Markets in which the Group invests funds weighted by reference to the value of such funds in each market at the commencement of each quarter during the Performance Period; and

$WASM_2$  is the value of the indices appropriate to the Principal Stock Markets in which the Group invests funds weighted by reference to the value of such funds in each market at the end of each quarter during the Performance Period.

The calculation of  $WASM_1$  and  $WASM_2$  shall be made by the Remuneration Committee having regard to advice received from independent accountants.

(iv) *Individual Limits*

The aggregate price of all shares under option (being their exercise price) granted in the previous 10 years to any Eligible Employee together with the subscription price of the Performance Shares will not exceed 4 times the remuneration (excluding benefits in kind) of such employee.

(v) *Overall Limits*

The maximum percentage of the Company's Ordinary Share capital which can be issued through the Company's employee share schemes including the Scheme over particular periods of time without the prior consent of shareholders in general meeting, is as follows:-

The maximum number of Ordinary Shares into which Performance Shares issued under the Scheme may convert, when added to the number of Ordinary Shares issued or issuable under options granted or issued under any share option scheme (except a savings related share option scheme) of the Company during the period of 10 years ending on the date on which the Performance Shares are issued, shall not exceed 10 per cent. of the Company's issued Ordinary Share capital for the time being; and

The maximum number of Ordinary Shares into which Performance Shares issued under the Scheme may convert, when added to the number of Ordinary Shares issued or issuable under options granted or issued under any share option scheme (except a savings related share option scheme) of the Company during the period of 3 years ending on the date on which the Performance Shares are issued shall not exceed 3 per cent. of the Company's issued Ordinary Share capital for the time being.

For the purpose of the above limits any Ordinary Shares which are already in issue when placed under option and any Ordinary Shares comprised in any option which has lapsed, shall be disregarded for the purposes of calculating the number of Ordinary Shares into which Performance Shares issued under the Scheme may convert and any Ordinary Shares which are issued pursuant to the grant of options shall be taken into account once only on the date they are placed under option.

(vi) *Employees ceasing to be Eligible Employees*

Performance Shares registered in the name of a Performance Shareholder shall automatically be transferred to an employee share trust (established by deed dated 28 February 1997 ("the Employee Share Trust")) at a price equal to the lower of market value and subscription price upon: (a) the Performance Shareholder ceasing to be an Eligible Employee (except by reason of death, injury or disability or any other circumstances resolved upon by the Remuneration Committee); or (b) the Performance Shareholder being declared bankrupt; or (c) the Company commencing winding up (except for the purposes of reconstruction or amalgamation).

If a Performance Shareholder ceases to be an Eligible Employee by reason only of death, injury or disability or any other circumstances resolved upon by the Remuneration Committee the Performance Shares will be transferred to the Employee Share Trust at a price equal to the higher of their market value and subscription price.

Performance Shares transferred to the Employee Share Trust will be available for transfer to other Eligible Employees.

(vii) *Approval*

The Scheme is not an approved scheme within the meaning of Chapter IV of Part V and Schedule 9 to the Income and Corporation Taxes Act 1988.

(viii) *Takeovers*

In the event of a change in control of the Company, the Board is obliged to use its best endeavours to ensure an appropriate offer is made to acquire the Performance Shares.

(ix) *Variation of Share Capital*

Adjustments are to be made to the number of shares arising on conversion in the event of any capitalisation of profits, rights issue or other pre-emptive issue or on consolidation, subdivision or reduction of capital. Such adjustment is to be confirmed by independent accountants.

(x) *Amendments*

The rules of the Scheme cannot be amended to the advantage of the participants without the prior approval of Ordinary Shareholders in general meeting (except for minor amendments to benefit the administration of the Scheme, to take account of a change in legislation or to obtain a favourable tax, exchange control or regulatory treatment for Eligible Employees, Performance Shareholders or members of the Group).

*The following report is reproduced entirely from the document issued by the Company to its shareholders dated 11 August 1997 in connection with the Acquisition.*

## ACCOUNTANTS' REPORT ON THE PROLIFIC GROUP

The Directors  
Aberdeen Asset Management PLC  
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ABERDEEN  
AB10 1QG

UBS Limited  
100 Liverpool Street  
LONDON  
EC2M 2RH

HSBC Investment Bank plc  
Thames Exchange  
10 Queen Street  
LONDON  
EC4R 1BL

Erskine House  
68-73 Queen Street  
Edinburgh  
EH2 4NH

11 August, 1997

Dear Sirs

### Introduction

- 1 We report in connection with the listing particulars dated 11 August, 1997 to the shareholders of Aberdeen Asset Management PLC ("the Company") concerning the proposed acquisition by the Company of the whole of the issued share capital of Prolific Financial Management plc ("PFM") pursuant to a conditional agreement dated 30 July, 1997.
- 2 We have examined the audited financial statements of PFM and each of its subsidiary undertakings other than dormant subsidiaries for the three years ended 31 December 1996. The 1996 financial statements were audited by Coopers & Lybrand, 1 Embankment Place, London WC2N 6NN who gave unqualified reports on them. The 1994 and 1995 financial statements were audited by Ernst & Young, 1 Lambeth Palace Road, London SE1 7EU who gave unqualified reports on them. No financial statements for PFM or any of its subsidiary undertakings have been prepared for any period subsequent to 31 December 1996.
- 3 PFM is an indirect subsidiary of Scottish Provident and as such, in accordance with the provisions of section 228 of the Companies Act 1985, has not been required to prepare consolidated financial statements during the three years ended 31 December 1996. For the purpose of this report, consolidated financial information has been prepared for PFM and its subsidiary undertakings (together the "PFM Group") after making such other adjustments to the audited financial statements as we consider necessary.
- 4 On 8 August 1997, Prolific Property Development (Kent) Limited ("PPD(K)L"), a subsidiary of PFM was transferred to another company within the Scottish Provident Group and is not to be acquired by the Company. The financial information set out below includes the results, assets and liabilities and cash flows relating to PPD(K)L; note 21(g) below gives financial information relating to PPD(K)L for the three years ended 31 December 1996.

- 5 Our work has been carried out in accordance with the Auditing Guideline: "Prospectuses and the reporting accountant".
- 6 In our opinion, the financial information set out below gives, for the purpose of the said listing particulars, a true and fair view of the state of affairs of the PFM Group as at 31 December 1994, 1995 and 1996 and of its consolidated profit, total recognised gains and losses and cash flows for each of the years then ended.

### **Accounting policies**

- 7 The principal accounting policies of the PFM Group all of which have been applied consistently in preparing the financial information set out in this report, are set out below.

### **Basis of accounting**

- 8 The consolidated financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards modified by the revaluation of certain fixed assets.

### **Basis of consolidation**

- 9 The consolidated financial information includes the results of PFM and its subsidiary undertakings. Intercompany transactions between members of the PFM Group have been eliminated on consolidation.

### **Turnover**

- 10 Turnover represents the amount receivable for the year in respect of fees, net of VAT, from the management of investments of external clients and the funds of Prolific and Scottish Provident Group undertakings, gross dealing profits from the sale of units in the unit trusts under management and income from land and buildings.

### **Associated undertakings**

- 11 The group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account, and the group's share of their net assets is included in the consolidated balance sheet. These amounts are taken from the latest audited financial statements of the undertakings concerned, which all have the same accounting reference date.

### **Goodwill**

- 12 Goodwill arising on the acquisition of subsidiaries and associates is written off immediately against reserves.

### **Interest and dividends receivable**

- 13 Interest is brought into account on an accruals basis and dividends on stocks of units are included when quoted ex-dividend.

### **Pension costs**

- 14 The contributions are determined by a qualified actuary on the basis of triennial valuations and are charged to the profit and loss account so as to spread the cost of pensions to secure the benefits set out in the rules of the scheme over employees' working lives with Group undertakings.

### **Fixed assets**

- 15 Depreciation of fixed assets, other than property, is calculated to write off their cost over their expected useful lives of four years on a straight line basis.

Property is stated at market value. The aggregate surplus or deficit is transferred to a revaluation reserve. Depreciation is not charged as the directors consider that maintenance of the property is sufficient to maintain the net realisable value.

### Leased assets

- 16 Rentals paid under operating leases are charged to the profit and loss account as incurred.

### Stocks of units

- 17 Stocks of units are valued at the lower of cost and market value.

### Deferred taxation

- 18 Deferred taxation is provided, using the liability method, on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate which it is anticipated the timing differences will reverse.

Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

### Foreign currencies

- 19 Trading activities denominated in foreign currencies are recorded in sterling at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.
- 20 The consolidated financial information prepared on the basis described in paragraphs 7 to 19 follows:-

### Consolidated profit and loss accounts

		<i>Years ended 31 December</i>		
	<i>Notes</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>(paragraph 21)</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	a	16,660	13,045	11,847
Administrative expenses		(16,752)	(13,931)	(12,143)
<b>Operating loss</b>		(92)	(886)	(296)
Interest receivable		624	523	383
Interest payable	b	(123)	(141)	(57)
<b>Profit/(loss) on ordinary activities before taxation</b>	b	409	(504)	30
Taxation credit on profit/(loss) on ordinary activities	e	85	483	111
<b>Retained profit/(loss) for the financial year</b>	o	494	(21)	141



## Statement of total recognised gains and losses

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit/(loss) for the financial year	494	(21)	141
Unrealised deficit on revaluation of land and buildings	(243)	(183)	(215)
Total recognised gains and losses related to the year	<u>251</u>	<u>(204)</u>	<u>(74)</u>

There is no material difference between the results as disclosed in the profit and loss account and their historical cost equivalents.

All profits/(losses) arising result from continuing activities.

## Consolidated balance sheets

	<i>Notes</i> <i>(paragraph 21)</i>	<i>Years ended 31 December</i>		
		<i>1996</i>	<i>1995</i>	<i>1994</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Fixed assets</b>				
Tangible fixed assets	f	2,393	2,407	2,195
Investments	g	1,967	30	30
		<u>4,360</u>	<u>2,437</u>	<u>2,225</u>
<b>Current assets</b>				
Stocks	h	150	82	145
Debtors	i	6,326	12,910	7,154
Cash at bank and in hand		15,452	7,869	9,195
		<u>21,928</u>	<u>20,861</u>	<u>16,494</u>
<b>Creditors:</b> amounts falling due within one year	j	(17,796)	(15,307)	(10,774)
<b>Net current assets</b>		<u>4,132</u>	<u>5,554</u>	<u>5,720</u>
<b>Total assets less current liabilities</b>		<u>8,492</u>	<u>7,991</u>	<u>7,945</u>
<b>Creditors:</b> amounts falling due after more than one year	k	(624)	—	—
<b>Provisions for liabilities and charges</b>	l	(679)	(250)	—
<b>Net assets</b>		<u>7,189</u>	<u>7,741</u>	<u>7,945</u>
<b>Capital and reserves</b>				
Called up share capital	n	7,521	7,521	7,521
Revaluation reserve	o	(641)	(398)	(215)
Profit and loss account	o	309	618	639
<b>Equity shareholder's funds</b>	o	<u>7,189</u>	<u>7,741</u>	<u>7,945</u>

## Consolidated cash flow statements

	Notes (paragraph 21)	Years ended 31 December		
		1996 £'000	1995 £'000	1994 £'000
<b>Operating activities</b>				
Net cash inflow/(outflow) from operating activities	p(i)	8,645	(982)	2,519
<b>Return on investments and servicing of finance</b>				
Interest received		624	523	383
Interest paid		(123)	(141)	(57)
<b>Net cash flow from returns on investments and servicing of finance</b>		501	382	326
<b>Taxation</b>				
Group relief received		28	394	192
<b>Investing activities</b>				
Purchase of investment in associate	g	(868)	—	—
Purchase of investment in subsidiary (net of cash acquired)	g	(6)	—	—
Purchase of tangible fixed assets		(961)	(1,017)	(2,137)
Proceeds from sale of tangible fixed assets		233	72	11
<b>Net cash (outflow) from investing activities</b>		(1,602)	(945)	(2,126)
<b>Increase/(decrease) in cash and cash equivalents</b>	p(iii)	7,572	(1,151)	911

## Notes to the financial information

### 21 (a) Turnover

	Years ended 31 December		
	1996 £'000	1995 £'000	1994 £'000
(i) <b>By business activity</b>			
Gross dealing profits	1,660	889	832
Investment management fees	14,870	12,040	11,015
Income from land and buildings	130	116	—
	16,660	13,045	11,847
(ii) <b>By geographical market</b>			
United Kingdom	14,575	11,998	11,092
Republic of Ireland	2,085	1,047	755
	16,660	13,045	11,847

**21 (b) Profit/(loss) on ordinary activities before tax**

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Profit/(loss) on ordinary activities before tax is stated after charging/(crediting):</b>			
Depreciation	598	533	640
(Profit)/loss on disposal of tangible fixed assets	(99)	17	(4)
Operating lease rentals	871	844	908
Auditors' remuneration for:			
Audit, group	35	30	27
Other services, group	45	48	64
	<u>          </u>	<u>          </u>	<u>          </u>

The profit/(loss) before tax includes interest payable on a loan from Scottish Provident of £123,000 (1995: £141,000; 1994: £57,000).

**21 (c) Directors' emoluments**

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Emoluments including pension contributions	<u>190</u>	<u>187</u>	<u>161</u>
Directors' emoluments include amounts paid in respect of:			
The highest paid director	<u>160</u>	<u>123</u>	<u>151</u>

The number of directors (including the highest-paid director) who received fees and other emoluments (excluding pension contributions) in the following ranges was:

£nil to £5,000	2	3	3
£35,001 to £40,000	—	1	—
£120,001 to £125,000	—	1	—
£150,001 to £155,000	—	—	1
£160,001 to £165,000	1	—	—

**21 (d) Staff costs**

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
<b>Average weekly number of persons (including directors)</b>			
Sales staff	40	36	32
Administration staff	128	116	93
	<hr/>	<hr/>	<hr/>
	168	152	125
	<hr/>	<hr/>	<hr/>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Staff costs</b>			
Wages and salaries	5,969	4,617	3,661
Social security costs	627	357	332
Pension costs	539	386	452
	<hr/>	<hr/>	<hr/>
	7,135	5,360	4,445
	<hr/>	<hr/>	<hr/>

**21 (e) Taxation on profit on ordinary activities**

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Corporation tax at 33%	(221)	(9)	(18)
Group relief at 33% – prior year	306	493	—
– current year	—	—	97
Corporation tax (under)/over provided	—	(1)	32
	<hr/>	<hr/>	<hr/>
	85	483	111
	<hr/>	<hr/>	<hr/>

**21 (f) Tangible fixed assets**

	<i>Freehold land and buildings £'000</i>	<i>Computer equipment £'000</i>	<i>Motor vehicles £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Total £'000</i>
<b>Cost or valuation</b>					
At 1 January 1994	—	1,125	485	937	2,547
Additions	1,186	363	280	308	2,137
Disposals	—	—	(40)	—	(40)
Deficit on revaluation	(215)	—	—	—	(215)
At 1 January 1995	971	1,488	725	1,245	4,429
Additions	226	395	272	124	1,017
Disposals	—	(5)	(181)	—	(186)
Deficit on revaluation	(183)	—	—	—	(183)
At 1 January 1996	1,014	1,878	816	1,369	5,077
Additions	29	458	310	164	961
Disposals	—	(931)	(394)	(921)	(2,246)
Deficit on revaluation	(243)	—	—	—	(243)
<b>At 31 December 1996</b>	<b>800</b>	<b>1,405</b>	<b>732</b>	<b>612</b>	<b>3,549</b>
<b>Depreciation</b>					
At 1 January 1994	—	748	96	765	1,609
Disposals	—	—	(15)	—	(15)
Charge for year	—	267	162	211	640
At 1 January 1995	—	1,015	243	976	2,234
Disposals	—	(5)	(92)	—	(97)
Charge for year	—	236	180	117	533
At 1 January 1996	—	1,246	331	1,093	2,670
Disposals	—	(932)	(259)	(921)	(2,112)
Charge for year	—	289	182	127	598
<b>At 31 December 1996</b>	<b>—</b>	<b>603</b>	<b>254</b>	<b>299</b>	<b>1,156</b>
<b>Net book value at</b>					
<b>31 December 1994</b>	<b>971</b>	<b>473</b>	<b>482</b>	<b>269</b>	<b>2,195</b>
<b>31 December 1995</b>	<b>1,014</b>	<b>632</b>	<b>485</b>	<b>276</b>	<b>2,407</b>
<b>31 December 1996</b>	<b>800</b>	<b>802</b>	<b>478</b>	<b>313</b>	<b>2,393</b>

Freehold land and buildings are included at the valuation made by an in-house qualified chartered surveyor at the end of each year. These valuations are based on the current open market value.

## 21 (g) Fixed asset investments

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Investment in associated undertaking	1,937	—	—
Other investment	30	30	30
	<u>1,967</u>	<u>30</u>	<u>30</u>

The other investment represents 30,000 subscriber shares of IR £1 each in Prolific International Fund plc.

### Interests in group undertakings

PFM owns the whole of the issued share capital of the following companies which are registered in England with the exceptions of Prolific International Management Limited which is incorporated in Guernsey and Prolific International Management Ireland Limited which is incorporated in the Republic of Ireland. All holdings are of ordinary shares.

Direct:	Prolific Unit Trust Managers Limited	— unit trust management
	Prolific Asset Management Limited	— investment management
	Prolific International Management Ireland Limited	— investment fund management
	Prolific Financial Management Services Limited	— not trading
	PFM Developments Limited	— not trading
Indirect:	Prolific Unit Trust Nominees Limited	— not trading
	Prolific International Management Limited	— not trading
	Prolific Technology Limited	— not trading
	Objective Unit Trust Management Limited	— unit trust management

On 1 October 1996 Prolific Unit Trust Managers Limited acquired the whole of the issued share capital of Objective Unit Trust Management Limited which is registered in England and Wales. The holding is of ordinary shares. Consideration of £50,000 was paid in cash for net assets comprising cash £44,000 and receivables relating to unit trust dealing of £6,000.

The directors of PFM consider the results of Objective Unit Trust Management Limited not to be material to the PFM Group. On 8 August, 1997 Prolific Property Development (Kent) Limited was transferred to a company within the Scottish Provident Group.

### Prolific Property Development (Kent) Limited

The consolidated profit and loss account and balance sheet include Prolific Property Development (Kent) Limited a wholly owned subsidiary, which on 8 August, 1997 was transferred to a company within the Scottish Provident Group and therefore is not included as part of the Acquisition. The results and balance sheet of Prolific Property Development (Kent) Limited are summarised below:

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	<u>130</u>	<u>116</u>	<u>—</u>
Profit/(loss) before tax	2	(27)	(55)
Tax	<u>8</u>	<u>—</u>	<u>18</u>
Retained profit/(loss) for the financial year	<u>10</u>	<u>(27)</u>	<u>(37)</u>

The profit/(loss) before tax includes interest payable on a loan from Scottish Provident of £123,000 (1995: £141,000; 1994: £57,000).

	£'000	£'000	£'000
Fixed assets	800	1,014	971
Current assets	116	120	405
Creditors: amounts falling due within one year			
Amounts due to fellow Prolific Group undertakings	(2)	(2)	—
Loan due to Scottish Provident	(1,577)	(1,591)	(1,250)
Bank overdraft	—	—	(267)
Accruals and deferred income	(31)	(3)	(111)
Other creditors	(1)	—	—
Net liabilities	<u>(695)</u>	<u>(462)</u>	<u>(252)</u>

### Associated undertakings

On 19 August 1996, PFM subscribed for 75 per cent. of the A ordinary share capital of Prolific Objective Limited ("POL") of £1 each and 75 per cent. of the C ordinary share capital of 1p each. Under the terms of the allotment, 8p was payable on allotment of the C ordinary shares and further share premiums of 4p are payable on a monthly basis ending June 1998 until the full subscription amount of £1 per share is paid.

The total cost of the investment was £2,740,000, including expenses, which was satisfied by a cash payment of £868,000 in 1996 and deferred consideration of £1,872,000, £1,248,000 of which is due in 1997 and £624,000 due in 1998. Goodwill of £803,000 arising on the acquisition has been written off directly to reserves (note 21(o)).

PFM are not able to exercise dominant influence over POL; the nature of the acquisition is that of a joint venture and so the company is treated as an associate. The directors consider the post acquisition results not to be material to the PFM Group results for the year.

## 21 (h) Stocks

	Years ended 31 December		
	1996	1995	1994
	£'000	£'000	£'000
Stocks of units	<u>150</u>	<u>82</u>	<u>145</u>

## 21 (i) Debtors

	Years ended 31 December		
	1996	1995	1994
	£'000	£'000	£'000
<b>Amounts falling due within one year</b>			
Trade debtors	2,967	7,490	1,209
Amounts owed by Scottish Provident undertakings	413	2,990	3,848
Other debtors	734	471	1,729
Prepayments and accrued income	2,212	1,959	368
	<u>6,326</u>	<u>12,910</u>	<u>7,154</u>

**21 (j) Creditors: amounts falling due within one year**

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank overdraft	319	308	483
Trade creditors	6,548	2,907	3,764
Amounts due to Scottish Provident undertakings	7,641	10,939	4,589
Corporation tax and group relief	45	102	191
Other creditors	304	245	248
Accruals and deferred income	1,691	806	1,499
Share premium due to associated undertaking (note 21(g))	1,248	—	—
	<u>17,796</u>	<u>15,307</u>	<u>10,774</u>

**21 (k) Creditors: amounts falling due after more than one year**

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Share premium due to associated undertaking (note 21(g))	624	—	—
	<u>624</u>	<u>—</u>	<u>—</u>

**21 (l) Provisions for liabilities and charges**

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Deferred payments under long term incentive schemes	679	250	—
	<u>679</u>	<u>250</u>	<u>—</u>

The Prolific Group offers long term incentives to executives and fund managers through annual and long-term bonuses. The latter element is paid after three years and is conditional on continuous employment for that period.

**21 (m) Pension commitments**

Prolific Unit Trust Managers Limited and Prolific Asset Management Limited ("the companies") participate in the Scottish Provident Staff Pension Fund, which is a separately funded defined benefits scheme which provides benefits for UK employees based on final pensionable earnings. The most recent actuarial valuation was carried out, using the projected unit method of funding, at 31 December 1994 by an actuary who is an employee of Scottish Provident. The key valuation assumption was that the long-term annual return on the Fund's investments will on average be 2 per cent. more than the rate of increase in the level of pensionable earnings and 4 per cent. more than the rate of increases granted to present and future pensions in payment. At the date of the valuation the market value of the Fund's assets was £87.8 million and the actuarial value of these assets represented 100.5 per cent. of the accrued actuarial liability, including provision for future increases in earnings and in present and future pensions in payment. On the advice of the actuary the companies paid ordinary contributions to the Fund at the rate of 17.5 per cent. (1995: 17.5 per cent.; 1994: 14 per cent.) of the pensionable earnings of participating members.



During 1996 a smaller scheme of a similar nature, in which the companies also participated, was integrated with the above Fund without materially affecting the funding level.

Prolific International Management Ireland Limited is a member of the Scottish Provident Staff Pension Scheme for employees in the Republic of Ireland which provides benefits based on final pensionable earnings. On the advice of a professionally qualified actuary, Prolific International Management Ireland Limited paid ordinary annual contributions to the Fund at the rate of 20 per cent. of pensionable payroll in 1996 (1995: 23 per cent.) and these were charged to the profit and loss account. The contributions to the scheme are determined with the advice of a professionally qualified actuary employed by Scottish Provident. The Scottish Provident Staff Pension Scheme was established by an interim trust deed dated 1 October 1991 and the first actuarial valuation had not been completed at 31 December 1996.

The PFM Group total pension cost for the year, amounted to £539,000 (1995: £211,000; 1994: £332,000) and is charged to the profit and loss account.

## 21 (n) Called up share capital

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Authorised, allotted, called up and fully paid:			
30,084,100 ordinary shares of 25p per share	<u>7,521</u>	<u>7,521</u>	<u>7,521</u>

## 21 (o) Reconciliation of shareholder's funds and movements in reserves

	<i>Share capital £'000</i>	<i>Revaluation reserve £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
<b>Balance at 1 January 1994</b>	7,521	—	498	8,019
Profit for the financial year	—	—	141	141
Property revaluation	—	(215)	—	(215)
<b>Balance at 1 January 1995</b>	7,521	(215)	639	7,945
(Loss) for the financial year	—	—	(21)	(21)
Property revaluation	—	(183)	—	(183)
<b>Balance at 1 January 1996</b>	7,521	(398)	618	7,741
Profit for the financial year	—	—	494	494
Property revaluation	—	(243)	—	(243)
Goodwill arising on acquisition of Prolific Objective Limited (note 21(g))	—	—	(803)	(803)
<b>Balance at 31 December 1996</b>	<u>7,521</u>	<u>(641)</u>	<u>309</u>	<u>7,189</u>

The cumulative amount of goodwill resulting from acquisitions which has been written off to reserves is £803,000 (31 December 1995 and 1994: £Nil).

## 21 (p) Notes to the consolidated cash flow statements

### (i) Reconciliation of operating (loss) to cash flow from operating activities

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating (loss)	(92)	(886)	(296)
Depreciation charges	598	533	640
(Profit)/loss on disposal of fixed assets	(99)	17	(4)
(Increase)/decrease in stocks	(68)	63	13
Decrease/(increase) in debtors	6,590	(5,756)	(2,999)
Increase in creditors	1,287	4,797	5,165
Increase in provisions	429	250	—
<b>Net cash flow from operating activities</b>	<b>8,645</b>	<b>(982)</b>	<b>2,519</b>

### (ii) Analysis of changes in cash and cash equivalents

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash and deposits at 1 January	7,561	8,712	7,801
Net cash inflow/(outflow)	7,572	(1,151)	911
<b>Cash and deposits at 31 December</b>	<b>15,133</b>	<b>7,561</b>	<b>8,712</b>

### (iii) Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	<i>At</i>		<i>At</i>		<i>At</i>
	<i>31 December</i>	<i>Cash</i>	<i>31 December</i>	<i>Cash</i>	<i>31 December</i>
	<i>1996</i>	<i>flows</i>	<i>1995</i>	<i>flows</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at bank and in hand	15,452	7,583	7,869	(1,326)	9,195
Bank loans and overdrafts	(319)	(11)	(308)	175	(483)
<b>Cash and cash equivalents</b>	<b>15,133</b>	<b>7,572</b>	<b>7,561</b>	<b>(1,151)</b>	<b>8,712</b>

## 21 (q) Capital commitments

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Contracted	—	—	146

**21 (r) Contingent liabilities**

At 31 December 1996 and 31 December 1995 a contingent liability existed for guarantees given to Barclays Bank Plc in respect of loans to staff employed by the PFM Group of companies for season travel costs.

**21 (s) Financial commitments**

The group had annual commitments under non-cancellable operating leases as follows:

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Expiring within one year	2	—	75
Expiring between two and five years inclusive	150	138	47
Expiring in more than five years	661	661	661
	<u>813</u>	<u>799</u>	<u>783</u>
Being in respect of:			
Land and buildings	661	661	661
Other	152	138	122
	<u>813</u>	<u>799</u>	<u>783</u>

**21 (t) Related parties**

The PFM Group entered into transactions with the Scottish Provident Group as follows:

	<i>Years ended 31 December</i>		
	<i>1996</i>	<i>1995</i>	<i>1994</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Nature of transaction</b>			
Management fees received	<u>6,324</u>	<u>6,003</u>	<u>5,968</u>
Rent received	<u>130</u>	<u>116</u>	<u>—</u>
Commission paid	<u>320</u>	<u>180</u>	<u>146</u>
Interest paid	<u>123</u>	<u>141</u>	<u>57</u>

There are no related party transactions in respect of directors of PFM which are not disclosed in the accounts of Scottish Provident.

Yours faithfully

Coopers & Lybrand  
Chartered Accountants

## FUNDS MANAGED BY THE GROUP

### *Unit Trusts*

<b><i>Name of Fund</i></b>	<b><i>Objective of Fund</i></b>
1. Aberdeen American Fund	To provide growth of both income and capital, over the medium-term to long-term, from investment in North America in a balanced portfolio of quality stocks.
2. Aberdeen Emerging Markets Fund	To provide long-term capital growth from investment in emerging stock markets world-wide and/or companies traded on established stock markets which derive a substantial proportion of their earnings from the world's emerging markets.
3. Aberdeen Ethical Fund	To provide capital growth over the long-term from investment internationally in companies which meet certain ethical criteria.
4. Aberdeen European Fund	To provide consistent above-average capital growth over the medium-term to long-term from investment in a balanced portfolio of growth orientated European stocks.
5. Aberdeen Exempt Managed Fund	To provide a higher rate of return than the average pension fund on a rolling three year basis, by investing in a range of Aberdeen Unit Trusts comprising UK and international equities as well as fixed interest securities.
6. Aberdeen Extra Income Fund	To provide a higher income than the average rate that can be obtained from ordinary shares of UK companies. The portfolio has been structured to provide a spread of investments in the ordinary shares and convertible stocks of quality companies which have prospects of capital appreciation and continued dividend growth. Part of the portfolio is invested in fixed interest stocks.
7. Aberdeen Far East Emerging Economies Fund	To achieve capital growth by investing in countries of the Far East and Pacific Basin with the exception of Japan.
8. Aberdeen Fixed Interest Fund	To provide a high yield from a portfolio of soundly based preference and other fixed interest securities and gilt edged stocks. At any time the portfolio may contain a combination of any or all of the abovementioned securities.
9. Aberdeen Frontier Markets Fund	To achieve long-term capital appreciation through direct or indirect investment in the emerging markets of Europe (including the Baltic Republics), the Commonwealth of Independent States, Africa and the Middle East.
10. Aberdeen Fund of Investment Trusts	To invest within the UK in the Investment Trust Sector. To provide a high income with the prospect of capital appreciation over the medium-term to long-term through investing in a range of investment trusts.

11. Aberdeen Gilt Income Fund	To provide a high level of income from investment in UK Government gilts and other UK public securities.
12. Aberdeen Global Bond Fund	To provide a high level of income together with capital appreciation from investment world-wide and in any economic sector, in government or other public securities bearing fixed or variable rate income and, where appropriate, warrants or other securities convertible into equities.
13. Aberdeen Japan Fund	To provide consistent above average capital growth over the medium-term to long-term from investment in a balanced portfolio of quality Japanese stocks.
14. Aberdeen Latin American Fund	To provide long-term capital growth from investment, whether direct or indirect, in South America and/or Central America and/or Mexico (together "Latin America"). Investment will be directly in securities issued in or by issuers incorporated or established in Latin America or bodies or investment vehicles in the US or Europe (including the UK) which invest in such securities.
15. Aberdeen Master Growth Fund	To provide capital growth with a modest level of income from investment in UK authorised or recognised collective investment schemes investing in any type of security, any economic sector and in any part of the world.
16. Aberdeen Master Income Fund	To provide a higher than average income within this constraint to protect capital value by investing in UK authorised or recognised collective investment schemes investing in any type of security, any economic sector and in any part of the world.
17. Aberdeen Pacific Fund	To provide consistent above average capital growth over the medium-term to long-term from investment in a balanced portfolio of quality investments in the Pacific Basin including Japan.
18. Aberdeen Property Share Fund	To provide long-term capital growth together with a moderate level of income from a diversified portfolio of investments in the shares of UK property companies. Holdings will be concentrated in the UK, however the portfolio may include investments in overseas markets.
19. Aberdeen UK Emerging Companies Fund	To achieve capital growth with a moderate level of income from investment in UK companies being companies which are not included within the 200 largest UK companies, in terms of market capitalisation.
20. Aberdeen UK Growth Fund	To provide capital growth from investment in UK companies or companies with a significant presence in the UK.
21. Aberdeen World Portfolio Fund	To provide capital growth and income by investing in stocks in any economic sector in any part of the world.

## *Investment Trusts*

<b><i>Name of Fund</i></b>	<b><i>Objective of Fund</i></b>
1. Aberdeen European Investment Trust PLC	To provide investors with a balanced portfolio of growth orientated European stocks with a view to securing above average capital growth.
2. Aberdeen Lloyd's Insurance Trust PLC	To provide income and capital growth for shareholders from a combination of investment returns and underwriting activities at Lloyd's.
3. Aberdeen New Dawn Investment Trust PLC	To provide shareholders with a high level of capital growth through equity investment in the Asia Pacific countries, principally Thailand, Taiwan, South Korea, Hong Kong, Singapore, Malaysia, the Philippines, Indonesia, India and China.
4. Aberdeen New Thai Investment Trust PLC	To provide shareholders with a high level of long-term, above average capital growth through investment in Thailand.
5. Abtrust Asian Smaller Companies Investment Trust PLC	To invest for long-term capital growth in smaller companies of the emerging economies of Asia.
6. Abtrust Convertible Income Trust PLC	To provide a high gross dividend yield with potential for capital growth through investment principally in quoted convertible securities of UK companies.
7. Abtrust Emerging Asia Investment Trust Limited	To invest for long-term capital growth in emerging countries of Asia.
8. Abtrust Emerging Economies Investment Trust PLC	To invest for long-term capital growth in global emerging markets.
9. Abtrust High Income Trust PLC	To provide a high level of income payable quarterly, together with the potential for capital growth and income growth. It is intended that the majority of the company's portfolio will consist of high-yielding shares in UK investment trusts which will be selected to give a well balanced and diversified portfolio with the aim of providing an exposure to a range of UK and overseas equities.
10. Abtrust Latin American Investment PLC	To invest for long-term capital growth from equity investments in Latin America.
11. Abtrust New Preferred Income Investment Trust PLC	To invest mainly in UK securities which produce high franked investment income, including geared ordinary income shares of other investment trusts and convertible preference shares with the objective of generating a high gross portfolio yield while providing exposure to the UK equity market.
12. Abtrust Preferred Income Investment Trust PLC	To invest in securities which produce high franked investment yields, including convertible preference shares, preference shares and income shares of other investment trusts to produce a high gross portfolio yield together with an exposure to equity markets.

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|--|---|
| 13. Abtrust Scotland Investment Company PLC    | To provide above average long-term capital appreciation principally by investing development capital in private companies in Scotland.  |
| 14. Danae Investment Trust PLC                 | To achieve capital return or income from a portfolio of UK shares.  |
| 15. Jove Investment Trust PLC                  | To achieve capital and income growth from a portfolio of high yielding securities.  |
| 16. Radiotrust PLC                             | To achieve above average returns for shareholders through the capital growth of its underlying investments in quoted and unquoted companies, whose activities are entirely or mostly concerned with sound broadcasting.   |
| 17. The Smaller Companies Investment Trust PLC | To secure a high level of overall long-term return for its shareholders from capital growth and income through a diversified portfolio of quoted UK smaller company securities, including companies which are listed on the Irish Stock Exchange and those which have been admitted to the Alternative Investment Market. |
| 18. The Taverners Trust PLC                    | To achieve above average capital growth, mainly through investment in the equity of companies in the breweries, pubs and restaurants sector.  |
| 19. The Turkey Trust PLC                       | To achieve long-term capital growth through investment in both quoted equities traded on the Istanbul Stock Exchange and unquoted companies expected to obtain quotation there in the short-term to medium-term.  |

*Offshore Funds*

- |  |   |
|--|---|
| 1. Aberdeen Atlas Continental Europe Portfolio | To provide long-term capital growth from investment in equity securities of companies whose principal activities are based in Continental Europe including Scandinavia.   |
| 2. Aberdeen Atlas Dollar Portfolio             | To provide a maximum return to investors comprising principally of income from investment in relatively short-dated marketable securities of first class issuers.   |
| 3. Aberdeen Atlas Global Capital Portfolio     | To provide long-term capital growth from investment in equity securities of companies quoted on the major stock exchanges of the world.   |
| 4. Aberdeen Atlas Gold Portfolio               | To provide long-term capital growth from investment in equity securities of companies engaged in the mining of precious metals, principally gold. Due to the concentration of securities in one sector and because of the influence on this sector of the often volatile prices of precious metals, the portfolio may be considered to be subject to greater than normal market risk. |
| 5. Aberdeen Atlas Japan Portfolio              | To provide long-term capital growth from investment in equity securities of companies whose principal activities are based in Japan.  |

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|-----|--|---|
| 6.  | Aberdeen Atlas Pacific Portfolio             | To provide long-term capital growth from investment in equity securities of companies whose principal activities are based in South East Asia but excluding Japan.  |
| 7.  | Aberdeen Atlas Sterling Portfolio            | To provide a maximum return to investors comprising principally of income from investment in relatively short-dated marketable securities of first class issuers.   |
| 8.  | Aberdeen Atlas UK Growth of Income Portfolio | To provide long-term capital growth from investment in UK companies which overall offer a dividend yield in excess of the yield available on the FT-A All-Share Index.  |
| 9.  | Aberdeen Atlas United States Portfolio       | To provide long-term capital growth from investment in equity securities of companies whose principal activities are based in the US.   |
| 10. | Aberdeen India Fund Limited                  | To achieve long-term capital appreciation and/or income return predominantly through direct and indirect investment in shares, debentures and other securities issued by companies incorporated in India or which carry on a substantial part of their business in or with India. |
| 11. | Aberdeen Singapore Growth Fund               | To achieve medium-term to long-term capital appreciation by investing primarily in securities of corporations with assets in or earnings derived from Singapore.  |

### ***Funds Managed By Prolific***

#### *Unit Trust*

- |    |  |   |
|----|--|---|
| 1. | Prolific American Income Unit Trust        | Aims to produce a high income and capital growth, mainly from investments in the US. To achieve this, the Manager may invest across a spectrum of companies operating in key sectors including banks, insurance companies, oils and utilities; cyclical growth sectors such as chemicals; and a range of high growth industries including technology. The Manager will seek to invest in companies which will not only provide the Trust with a good immediate income but which also, through increasing profits, should generate substantial dividend increases in the future. Although the Trust's investments will be heavily concentrated in the US, a small proportion may be in Canadian companies. |
| 2. | Prolific American Opportunities Unit Trust | Aims to achieve long-term capital growth from investment in America. Investment will be in securities quoted on American stock exchanges or in companies operating in America and quoted elsewhere. The Trust may invest in US smaller companies that are outside the Top 400 companies on the S&P Index including companies quoted on the "over the counter" market. The Trust may also invest in securities quoted on other stock exchanges in North and South America.   |
| 3. | Prolific Convertible & Gilt Unit Trust     | Aims to produce a high income and capital growth through investment in convertible stocks, other fixed interest securities arising from conversion of convertible stocks which immediately prior to conversion formed part of the property of the Trust, mainly in the UK but also overseas.  |



- |   |   |
|---|---|
| 4. Prolific European Growth Unit Trust                | Aims for maximum capital growth through investment in a broad spread of European securities. The Manager will invest in European Companies, which offer good prospects for capital growth. Whilst the Trust will invest principally in companies incorporated in Europe, the Manager may also invest in companies which derive an important proportion of their earnings from European trade or operations. It is intended that the Trust will have little or no exposure to the UK. A limit of 10% is proposed but should the Manager believe that it is in the holders' best interest to increase this exposure at some stage in the future they reserve the right to do so. The Manager will also take opportunities as they arise to invest in European emerging markets. |
| 5. Prolific European Special Opportunities Unit Trust | Aims to maximise capital growth from a portfolio of Continental European securities which, in the opinion of the Manager offer good prospects for long-term capital appreciation. The Manager will focus on stocks that he believes will attain higher than average, sustainable earnings growth, but may also take the opportunity to invest in stocks which are believed to be recovery situations and are likely take-over candidates or where assets appear to be undervalued. The Manager may invest in Continental European emerging markets but does not intend to invest in UK stocks or shares.  |
| 6. Prolific Extra Income Unit Trust                   | Aims to produce a high and growing income together with capital growth, mainly from the ordinary shares of UK companies. To achieve a yield substantially above the average for UK shares up to 25% of the Trust may be invested in fixed interest investments including convertibles and preference shares.  |
| 7. Prolific Far East Unit Trust                       | Aims for capital appreciation through a spread of investments in Far Eastern markets. The emphasis is on Japan, Hong Kong, Singapore and Malaysia.  |
| 8. Prolific Global Income Unit Trust                  | Aims to achieve a high level of income, with capital growth potential, from investment in any economic sector in a flexible international portfolio typically including equity shares, convertibles and fixed interest securities. Warrants and short-term deposit type investments may also be held, the latter possibly to a substantial extent if the investment outlook is considered sufficiently adverse.   |
| 9. Prolific High Income Unit Trust                    | Aims for a high and increasing level of income together with above average capital growth, primarily through investing in UK ordinary shares.   |
| 10. Prolific International Unit Trust                 | Aims for capital appreciation from an international spread of shares mainly from US, UK, European and Japanese companies.   |
| 11. Prolific Japan Unit Trust                         | Aims to achieve capital growth through investment mainly in Japanese securities. The Trust will invest in companies listed on the 1st and 2nd Sections of the Japan Stock Markets as well as the over-the-counter market.   |

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| 12. Prolific North American Unit Trust              | Aims for capital growth from a portfolio of North American securities. The emphasis is on the US, primarily in companies with good long-term growth prospects across a broad range of intermediaries.  |
| 13. Prolific Preference & Fixed Interest Unit Trust | Aims for a high and stable income through investment in preference shares, convertibles, gilts and other fixed interest securities in the UK. Income will provide the main source of returns, although non-gilt holdings also provide potential for capital growth. Investment may be in any economic sector.  |
| 14. Prolific Recovery Unit Trust                    | Aims for capital growth through investment principally in a spread of UK shares offering prospects for recovery. Investments may be retained following recovery, if the Manager believes this to be in the best interest of holders. Whilst the emphasis is on the UK stock market, the Manager may also invest in any other geographical area.  |
| 15. Prolific Special Situations Unit Trust          | Aims to maximise capital growth from a portfolio of securities which the Manager believes will offer exceptional scope for capital appreciation. The Manager will focus on a wide variety of different categories of undervalued and likely take-over candidates. The Manager may also invest in shares where they feel the potential for long-term growth in earnings is outstanding. Whilst the emphasis is on the UK stock market, the Manager will also have the flexibility to invest overseas. |
| 16. Prolific Technology Unit Trust                  | Aims for above average long-term capital growth from an international portfolio of shares in companies involved in high technology industries. The US is the prime area for investment but Japan and the UK are also important.  |
| 17. Prolific UK Blue Chip Unit Trust                | Aims for an above average total return of capital growth and income, by investing chiefly in a portfolio of well known UK companies, primarily constituents of the FTSE 100 Index. The income will be broadly in line with the average for the UK Equity market. The Manager may also invest in companies of such substance and size that in the opinion of the Manager they fall into the category of "Blue Chip".  |

#### *Investment Trust*

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| 1. Prolific Income PLC | Aims to provide shareholders with above average growth in income and capital (relative to the FTSE All Share Index) over the long term from a portfolio consisting predominantly of ordinary shares mainly in UK quoted companies. A proportion of the company's assets, not to exceed 20%, may be invested in fixed interest instruments. |
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#### *Offshore Funds*

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| 1. Prolific International American Fund | Aims for capital growth from a portfolio of American securities. The emphasis is on UK investments, mainly in companies with good long-term prospects across a broad range of industries. A proportion of the Fund may be invested in other North American stock markets and in South America. |
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| 2. Prolific International Asia Pacific Fund        | Aims to achieve capital growth by investing in a range of Asian and Pacific markets excluding Japan. Investment will be mainly in Hong Kong, Australia, India, Indonesia, Malaysia, Singapore and Thailand although the exact mix of the portfolio is under constant review to anticipate and take advantage of the changing market conditions in the Asian and Pacific markets.  |
| 3. Prolific International China Opportunities Fund | Aims for capital growth by investment in companies which either invest or trade with China or are domiciled in China. As the stock markets in China develop, the Fund will increasingly invest directly with companies which are domiciled in China, but always within the investment limit set out in the Regulations. At present, the Fund is restricted to investing up to 60% of its assets in the markets of China.  |
| 4. Prolific International European Growth Fund     | Aims for maximum capital growth through investment in a broad spread of European securities. Whilst the Fund will invest principally in companies incorporated in Europe, the Manager may also invest in companies which derive an important proportion of their earnings from European trade or operations. Companies will be chosen which offer good prospects for capital growth.  |
| 5. Prolific International Global Growth Fund       | Aims for capital appreciation from an international spread of equities, mainly in the US, the UK, Europe and the Far East. The geographical weightings will be adjusted to reflect the Manager's strategic view of the outlook for world markets and to take advantage of changing world-wide market conditions.  |
| 6. Prolific International India Opportunities Fund | Aims to achieve long-term capital appreciation by investing in the equity of companies which are incorporated in India or which derive significant revenue or profit from India. A flexible approach to the investment parameters will be taken, in order to optimise growth potential from the portfolio of investments and to minimise the risks typical of emerging market investment and specifically in relation to liquidity and settlement issues. As a result, the Manager intends to invest in India via companies listed on the Indian stock exchanges, in Indian securities listed on other international stock exchanges, such as Global Depository Receipts ("GDRs") and investing in companies listed on other international exchanges which derive significant revenue or profit from India. The Manager holds its Indian investments indirectly with a Mauritian subsidiary. Mauritius is a widely used jurisdiction offering a wide range of administration and taxation services beneficial to collective Indian investments. Prolific International Opportunities Fund (Mauritius) Limited hold the Indian investments for the purposes of Efficient Portfolio Management. The subsidiary is authorised only to invest in accordance with the investment objective, policies and restrictions of the Fund. |
| 7. Prolific International Japan Growth Fund        | Aims for capital growth by investing in Japanese securities. The Fund will invest in companies on the 1st and 2nd Sections of the Japan Stock Markets, as well as the over-the-counter market.  |

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| 8. Prolific International Sterling High Yield Fund | Aims for a high income together with capital growth through investment in a broadly based portfolio of UK securities including government stocks which pay interest gross.  |
| 9. Prolific International Technology Fund          | Aims for above average long-term capital growth from an international portfolio of shares in companies involved in high technology industries. Investment will be predominantly in companies that are providing technologically-based, productivity-enhancing goods and services mainly in the US, although Japan and the UK are also important. Whilst the Fund may invest in other geographical areas, those will be the principal areas. |
| 10. Prolific International UK Equity Income Fund   | Aims for a growing income together with capital growth, principally from the ordinary shares of companies, most of which will be active in the UK. Up to 25 per cent. of the Fund may be invested in fixed interest securities, including convertibles.   |
| 11. Prolific International World Bond Fund         | Aims to provide a high income, with prospects for capital growth, from a geographically diversified portfolio of bonds, including government issues, supra-nationals and high quality corporate bonds.  |

## UK TAXATION

The following paragraphs, which are intended as a general guide only and are based on current legislation and Inland Revenue practice, summarise the position of Shareholders who are resident or ordinarily resident in the UK for tax purposes and who hold their Ordinary Shares as an investment.

### *Capital Gains*

Shareholders resident or ordinarily resident in the UK for taxation purposes may, depending upon their personal circumstances, be liable to tax on chargeable gains arising from the sale or other disposal of their Ordinary Shares for the purposes of the Taxation of Chargeable Gains Act 1992.

Shareholders who are not for the purposes of UK taxation resident or ordinarily resident in the UK will not normally be liable to UK taxation on chargeable gains arising from the sale or other disposal of their Ordinary Shares unless those Ordinary Shares are held through a UK branch or agency although they may be subject to charges to foreign taxation depending upon their personal circumstances.

### *Dividends (other than Foreign Income Dividends)*

Under current UK law, no tax will be withheld by the Company when it pays a dividend. However, when paying a dividend, the Company has to account to the Inland Revenue for advance corporation tax ("ACT") currently at the rate of 20/80ths of the amount of the dividend.

An individual Shareholder resident in the UK for taxation purposes who receives a dividend will be entitled to a tax credit of an amount equal to the related ACT. The net cash dividend received by an individual, together with the tax credit, is included in arriving at the individual's total income for UK tax purposes. The tax credit is then set against the individual's overall tax liability and may be repaid wholly or partly if his total tax credits exceed his overall liability. A UK resident individual Shareholder who is not liable to income tax at a rate greater than the basic rate (currently 23%) has no further liability to taxation on the dividend. An individual so resident who is liable to tax at the higher rate (currently 40%) will have an additional tax liability of 20%.

The Finance (No. 2) Act 1997 contains provisions which will apply to dividends paid after 5 April 1999. The amount of the tax credit attaching to such dividends will be reduced to 10 per cent. of the aggregate of the dividend and the tax credit. Furthermore, that tax credit will not be available for repayment in the manner described above. Individual Shareholders not liable to income tax at a rate greater than the basic rate will continue to have no further liability to income tax on dividends. Individual Shareholders liable to tax at the higher rate will have an additional tax liability of 22.5 per cent. of the aggregate of the dividend and the tax credit.

A corporate Shareholder resident in the UK for taxation purposes will not generally be liable to UK corporation tax on any dividend received nor will the tax credits attaching to dividends be available for repayment. The dividend received and related tax credit will constitute franked investment income.

Subject to certain exceptions for individuals who are Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands, nationals of States which are part of the European Economic Area and certain others, the right of a holder of an Ordinary Share who is not resident in the UK (for tax purposes) to claim payment from the Inland Revenue of a proportion of the tax credit relating to him will depend, in general, upon the existence and terms of any double tax treaty between the UK and the country in which that person is resident. Persons who are not resident in the UK for taxation purposes should consult their own tax advisers concerning their tax liabilities (in the UK and any other country) on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so, and whether any double taxation relief is due in any country in which they are subject to tax.

### *Foreign Income Dividends ("FIDs")*

Under the provisions of Part IV, Chapter VA of the Income and Corporation Taxes Act 1988, the Company may elect or be deemed to pay a dividend which is a FID for UK tax purposes. A FID does not carry any right to repayment of a tax credit but is otherwise treated in the hands of an individual Shareholder in the same way as an ordinary dividend. The FID rules will cease to apply after 5 April 1999.

### *Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

An agreement to transfer Ordinary Shares will normally be subject to stamp duty reserve tax at the rate of 0.5 per cent. of the actual consideration paid or, if the transferee is a person to whom the depository receipt or clearance service charge to stamp duty reserve tax may apply, at the rate of 1.5 per cent. of the actual consideration paid. If an instrument of transfer of the Ordinary Shares is subsequently produced (if the Ordinary Shares are not transferred through CREST) it will generally be subject to stamp duty at the rate of 50p for every £100 (or part thereof) of the actual consideration paid or if the transferee is a person to whom the depository receipt or clearance service charge to stamp duty may apply, at the rate of £1.50 for every £100 (or part thereof) of the actual consideration paid. When such stamp duty is paid, the stamp duty reserve tax charge will be cancelled and any stamp duty reserve tax already paid will be refunded.

When Ordinary Shares are transferred into CREST, there will be no charge to stamp duty or stamp duty reserve tax on the transfer (unless made for a consideration, in which case SDRT at the rate of 0.5 per cent. of the actual consideration paid will be payable).

Liability to pay stamp duty or stamp duty reserve tax is that of the transferee or purchaser.

Any person who is in doubt as to his taxation position or who requires more detailed information than that outlined above should consult his professional adviser.