

ARBUTHNOT FUND MANAGERS LIMITED

Registered No. 157798

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002**



Report of the Directors

The directors submit their report and the financial statements for the year ended 31 December 2002.

1. Activities

The principal activity of the Company is investment management. The Company is regulated by the Financial Services Authority.

2. Results for the year and future developments

The loss for the year was £272,873 (2001: £175,392). The directors do not recommend payment of a dividend. (2001: £nil).

It has been an exceptionally difficult year for equity markets and the company has not been immune to the effect of these difficulties. However, the Company is currently undergoing a period of significant restructuring. Staff numbers have been reduced and the Company has recently implemented a new computer system. Also, a new product is currently in the development phase. As a result of these changes, the directors remain confident for the future.

3. Directors and Directors' Interests

The directors of the Company who served on the Board during the year were:

H. Angest	(Chairman)
B. Rout	(Managing Director)
S. J. Lockley	
W. B. Mathews	
G.A. Alexander	Resigned 3 December 2002
N. B. Rawlings	Resigned 11 November 2002
W.B. Giesbrecht	Resigned 10 January 2002

The directors had no interest in the ordinary £1 shares of the Company throughout the year.

The interests of H Angest and S J Lockley in the shares of Secure Trust Banking Group PLC are disclosed in the directors' report of that company. The interests of B. Rout and W.B. Mathews are disclosed in the directors' report of Arbuthnot Latham & Co., Limited, the immediate parent company.

4. Fixed Assets

Details of the changes in tangible fixed assets are given in note 7 of the financial statements.

Report of the Directors (Continued)

5. Auditors

A resolution to re-appoint Rees Pollock as auditors of the Company will be proposed at the forthcoming Annual General Meeting at a fee to be agreed in due course by the Directors.

By order of the Board



J.R. Kaye

Secretary

19th March, 2003

Statement of Directors' Responsibilities

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

- ◆ select suitable accounting policies and then apply them consistently;
- ◆ make judgements and estimates that are reasonable and prudent;
- ◆ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- ◆ prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Independent Auditors' Report to the members of
Arbuthnot Fund Managers Limited**

We have audited the accounts on pages 5 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and the auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

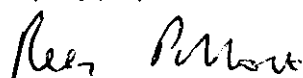
Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 2002 and of the loss of the company for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



Rees Pollock
Chartered Accountants
Registered Auditor
London
19th March 2003

Profit & loss account
for the year ended 31 December 2002

	Notes	2002 £	2001 £
Turnover	2	1,249,174	1,459,352
Administrative expenses		(1,636,926)	(1,715,335)
Operating (loss)/profit		(387,752)	(255,983)
Interest receivable		2,070	17,604
Loss on ordinary activities before taxation	3	(385,682)	(238,379)
Taxation credit	6	112,809	62,987
Retained loss for the financial year	13	(272,873)	(175,392)

All the above items relate to continuing activities.

There are no recognised gains or losses other than those included in the loss for those periods as shown above and accordingly a separate statement of total recognised gains and losses is not presented.

There is no difference between either the loss on ordinary activities before taxation or the retained loss for the year, as stated above, and their historical cost equivalents.

The notes on pages 7 to 12 form part of these financial statements.

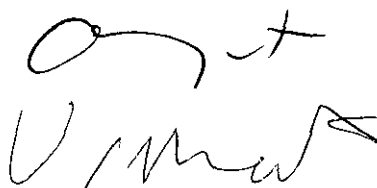
Balance sheet
as at 31 December 2002

	Notes	2002 £	2001 £
Fixed assets			
Tangible fixed assets	7	-	29,073
Investments in subsidiaries	8	25,202	25,202
		<u>25,202</u>	<u>54,275</u>
Current assets			
Debtors	9	351,814	482,437
Cash at bank and in hand		492,866	257,896
		<u>844,680</u>	<u>740,333</u>
Creditors: amounts falling due within one year	10	(292,457)	(144,310)
Net current assets		<u>552,223</u>	<u>596,023</u>
Creditors: amounts falling due in more than one year	11	(200,000)	-
Total assets less current liabilities		<u>377,425</u>	<u>650,298</u>
Capital and reserves			
Called up share capital	12	814,601	814,601
Profit & loss account	13	(437,176)	(164,303)
Equity shareholders' funds	14	<u>377,425</u>	<u>650,298</u>

The notes on pages 7 to 12 form part of these financial statements which were approved by the Board of Directors on 19th March, 2003 and signed on its behalf by:-

H Angest - Chairman

WB Mathews - Finance Director



Notes to the financial statements
for the year ended 31 December 2002

1. Accounting Policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been consistently applied, is set out below.

Basis of accounting

The financial statements are prepared under the historical cost convention.

Consolidated financial statements

The Company has taken advantage of section 228 (1) of the Companies Act 1985 and has not produced consolidated financial statements, since it is a wholly owned subsidiary undertaking of another United Kingdom registered company.

Fees Receivable

Investment management fees, exclusive of value added tax, are included as income by the Company when receivable.

Commission Income

Dealing commissions are recognised in the accounting records at the time of the underlying transaction

Tangible fixed assets

Tangible fixed assets were stated at cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost of the tangible fixed assets, on a straight line basis over their useful economic lives. The annual rates used were:

%

Computer and other equipment	20 - 25
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Investments in subsidiaries

Investments in subsidiaries are stated at cost but are written down to their net realisable value if, in the opinion of the directors, there has been a permanent diminution in their value.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Cashflow Statement

These financial statements do not include a cashflow statement as the Company is exempted from the provisions of FRS 1(revised) by virtue of being a wholly owned subsidiary of a parent undertaking which publishes consolidated financial statements.

Related Party Transactions

In accordance with the exemptions provided by FRS 8, the Company has made no disclosure of transactions with other group companies.

Notes to the financial statements
for the year ended 31 December 2002 (Continued)

2 Turnover

Turnover represents commissions, fees and interest margin earned during the year.

	2002 £	2001 £
Commissions	501,529	592,146
Fees	674,413	754,285
Interest margin	<u>73,232</u>	<u>112,921</u>
	<u><u>1,249,174</u></u>	<u><u>1,459,352</u></u>

3 Profit on ordinary activities before taxation

	2002 £	2001 £
This is stated after charging:		
Depreciation	-	18,238
Operating lease rentals	39,477	39,477
Auditors' remuneration	10,500	11,500

4 Directors' remuneration

	2002 £	2001 £
Remuneration of directors for services to the Company:		
Management remuneration	251,381	256,700
Pension contributions	<u>18,217</u>	<u>20,196</u>
	<u><u>269,598</u></u>	<u><u>276,896</u></u>

H Angest, SJ Lockley and WB Mathews were remunerated by other Group companies, which make no recharge to the Company. B Rout is remunerated by Arbuthnot Latham & Co., Limited and a portion of his salary is recharged to the Company.

The Directors' remuneration includes amounts paid to the highest paid Director in respect of:

	2002 £	2001 £
Emoluments	104,175	127,657
Pension contributions	<u>11,419</u>	<u>12,852</u>
	<u><u>115,594</u></u>	<u><u>140,509</u></u>

Notes to the financial statements
for the year ended 31 December 2002 (Continued)

5 Information on Employees including Executive Directors

	2002 £	2001 £
Staff costs:		
Wages and salaries	913,143	941,314
Social security costs	83,429	93,074
Pension costs	<u>68,730</u>	<u>66,539</u>
	<u><u>1,065,302</u></u>	<u><u>1,100,927</u></u>

Pension costs relate to both Group and individual defined contribution schemes. At 31st December 2002, pension contributions totalling £nil had been accrued but not yet paid to the Group Scheme. The average number of employees (including executive directors) during the year was 17 (2001: 19).

6 Taxation credit

The tax credit for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £	2001 £
Loss on ordinary activities before tax	<u>385,682</u>	<u>238,379</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax	115,705	71,514
Depreciation in excess of capital allowances	-	(793)
Expenses not deductible for tax purposes	(2,896)	(8,868)
Adjustment in respect of a prior year	-	1,134
	<u><u>112,809</u></u>	<u><u>62,987</u></u>

7 Tangible fixed assets

	Computer & other equipment £
Cost	
At 1 January 2002	151,786
Group transfers	(151,786)
	<u>-</u>
At 31 December 2002	<u>-</u>
Depreciation	
At 1 January 2002	122,713
Charge for the year	-
Group transfers	(122,713)
	<u>-</u>
At 31 December 2002	<u>-</u>
Net book value	
31 December 2002	<u>-</u>
At 1 January 2002	<u><u>29,073</u></u>

Notes to the financial statements
for the year ended 31 December 2002 (Continued)

8 Investment in subsidiaries

	£
As at 31 December 2001 and 31 December 2002	<u>25,202</u>

Details of the subsidiary undertakings are as follows:

Name of company	Country of incorporation	Activity	%
Arbuthnot Unit Trust Management Limited	England	Unit Trust Management	100
Arbuthnot Latham (Nominees) Limited	England	Nominee Company	100
Nelson Nominees Limited	England	Nominee Company	100
John K Gilliat & Co. Limited	England	Dormant	100

9 Debtors

	2002 £	2001 £
Amounts owed by group companies	6,492	11,525
Group relief receivable	159,472	61,853
Other debtors	16,436	72,863
Prepayments and accrued income	169,414	336,196
	<u>351,814</u>	<u>482,437</u>

10 Creditors: amounts falling due within one year

	2002 £	2001 £
Amounts owed to group companies	278,497	102,974
Other creditors including taxation and social security	-	9,035
Accruals and deferred income	13,960	32,301
	<u>292,457</u>	<u>144,310</u>

Notes to the financial statements
for the year ended 31 December 2002 (Continued)

11	Creditors: amounts falling due in more than one year	2002	2001
		£	£
	Sub-ordinated loan from immediate parent company undertaking	<u>200,000</u>	<u>-</u>
	Under the terms of the sub-ordinated loan, the loan is not due for repayment before 20th September 2007. Repayment will require consent from the Financial Services Authority.		
	Interest is charged on the loan at 3 month LIBOR and is payable on a six monthly basis.		
12	Called up share capital	2002	2001
		£	£
	Authorised: 1,200,000 ordinary shares of £1 each	<u>1,200,000</u>	<u>1,200,000</u>
	Allotted, called up and fully paid: 814,601 ordinary shares of £1 each	<u>814,601</u>	<u>814,601</u>
13	Profit & loss account	2002	2001
		£	£
	Retained (loss)/profit at 1 January	(164,303)	11,089
	Loss for the year	<u>(272,873)</u>	<u>(175,392)</u>
	Loss at 31 December	<u>(437,176)</u>	<u>(164,303)</u>
14	Reconciliation of movement in shareholders' funds	2002	2001
		£	£
	Loss for the year	(272,873)	(175,392)
	Opening shareholders' funds	<u>650,298</u>	<u>825,690</u>
	Closing shareholders' funds	<u>377,425</u>	<u>650,298</u>

Notes to the financial statements
for the year ended 31 December 2002 (Continued)

15 Operating lease obligations

	2002 £	2001 £
At the year end, annual commitments under non-cancellable operating leases on land and buildings were:		
Expiring:		
- within one year		
- between one and five years	145,406	145,406

A proportion of the above commitment will be charged to other Group companies.

16 Ultimate parent company

The ultimate parent company and the company which heads both the smallest and largest group for which consolidated financial statements are prepared at 31 December 2002 was Secure Trust Banking Group PLC, incorporated in Great Britain and registered in England. Copies of the accounts of Secure Trust Banking Group PLC are available from One Arleston Way, Solihull, B90 4LH.

17 Pension scheme

The Company is a member of the Secure Trust Pension Scheme, a defined contribution scheme whose membership is open to all companies in the Secure Trust Banking Group.

18 Going concern status

The immediate parent company, Arbuthnot Latham & Co. Limited has confirmed that it will continue to provide support to the company for the foreseeable future. Hence, the directors believe that the going concern basis is appropriate.