

THREADNEEDLE PORTFOLIO SERVICES LIMITED

(Registered Number: 285988)

Report and Accounts

for the Year Ended

31 December 1997



Threadneedle Portfolio Services Limited
Report and Accounts for the Year Ended 31 December 1997

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DIRECTORS

P V S Manduca	Chairman	
D F Sachon	Managing Director	appointed 1 August 1997
A J Ainsworth		appointed 14 July 1997
G E P Beech		appointed 14 July 1997
M E Blair		appointed 14 July 1997
T W Challenor		appointed 22 September 1997
R D Clark		appointed 14 July 1997
S H Davies		appointed 14 July 1997
N J Kirk		appointed 14 July 1997
H J Maguire		appointed 14 July 1997

K R Baldwin, J W Grayburn, A P Leitch, A S Melcher, I G Seward, P Smith and B M Thomas resigned on 14 July 1997.

K J Davies and P A Hodgkinson resigned on 15 August 1997.

Secretary and registered office

A Kaye
60 St Mary Axe
London
EC3A 8JQ

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997

The directors present their report and the audited financial statements for the year ended 31 December 1997.

Principal activities and review of business

Allied Dunbar Unit Trusts Plc was acquired by Threadneedle Asset Management Limited from Hereditaments Limited, a subsidiary of Allied Dunbar Assurance plc, on 1 July 1997, for consideration of £77,000,000, discharged principally through issue of additional share capital and the payment of the balance in cash.

The principal activity of the company up to this date was as the unit trust manager of Allied Dunbar's range of unit trusts. The company changed its name from Allied Dunbar Unit Trusts Plc to Threadneedle Portfolio Services Limited on 26 August 1997.

On this date, 18 of the unit trusts formed the first phase of a conversion into Threadneedle Investment Funds ICVC. The remaining trusts were converted on 13 October 1997.

From 13 October 1997, the nature of the principal activities of the company changed from those of being a unit trust manager to those of PEP manager of the range of Threadneedle Investment and Managed Funds.

On 22 December 1997, the ultimate holding company reached agreement for the merger of its financial services subsidiaries (including the company) with those of Zurich Insurance Company of Switzerland. This transaction is expected to be completed during the course of 1998.

Results and dividends

The profit and loss account for the year is set out on page 9. The retained loss for the year of £4,409,000 (1996: £nil) has arisen due to the payment of the interim dividend. The level of business and the financial position at the end of the year are satisfactory and the directors expect the level of activity to be sustained for the foreseeable future.

The interim dividend of £11,957,000 in respect of 1997 being £119.57 per ordinary share of £1 each (1996: £1,920,000). The directors do not recommend the payment of a final dividend (1996: £7,872,000).

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Fixed assets

Movements in fixed assets during the year are set out in note 7 to the financial statements.

Directors

The names of the present directors are listed on page 2.

The directors had no interest in the share and loan capital of group companies except as shown below.

Position at 1 January 1997 or date of appointment				
	B.A.T Industries p.l.c.			
	B.A.T 25p Ordinary Shares	Employee Savings Related Options	"D" Scheme Options	"E" Scheme Options
A J Ainsworth	2,519	4,316	-	30,830
G E P Beech	762	-	-	3,460
M E Blair	-	-	-	-
T W Challenor	5,539	5,103	8,220	18,810
R D Clark	1,246	-	-	5,150
S H Davies	3,934	4,316	-	36,200
N J Kirk	5,750	4,775	-	22,480
H J Maguire	336	4,553	-	-
P V S Manduca	4,677	5,103	118,340	39,510
D F Sachon	-	-	-	-

Options granted / (exercised) during the year or after date of appointment						
		Employee Savings Related Options		"D" Scheme Options		"E" Scheme Options
		Granted	(Exercised)	Granted	(Exercised)	Granted (Exercised)
A J Ainsworth		-	-	-	-	6,050 -
G E P Beech		-	-	-	-	3,460 -
M E Blair		-	-	-	-	8,380 -
T W Challenor		-	-	-	-	4,730 -
R D Clark		4,199	-	-	-	5,120 -
S H Davies		-	-	-	-	8,840 -
N J Kirk		-	-	-	-	6,790 -
H J Maguire		-	-	-	-	- -
P V S Manduca		-	-	-	-	4,960 -
D F Sachon		4,199	-	-	-	6,490 -

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Position at 31 December 1997				
	B.A.T 25p Ordinary Shares	Employee Savings Related Options	"D" Scheme Options	"E" Scheme Options
A J Ainsworth	3,094	4,316	-	36,880
G E P Beech	762	-	-	6,920
M E Blair	929	-	-	8,380
T W Challenor	5,539	5,103	8,220	23,540
R D Clark	1,284	4,199	-	10,270
S H Davies	3,934	4,316	-	45,040
N J Kirk	5,750	4,775	-	29,270
H J Maguire	336	4,553	-	-
P V S Manduca	4,677	5,103	118,340	44,470
D F Sachon	-	4,199	-	6,490

In addition, on 31 December 1997, the B.A.T Industries Employee Share Ownership Trust held 7,246,691 shares in B.A.T Industries p.l.c. (1 January 1997 : 4,445,808). All employees, including the directors of the company, had a beneficial interest in these shares, which are held for the purpose of satisfying options granted from 1994 onwards under the B.A.T Industries "E" Option Scheme.

B.A.T Industries Savings Related Share Option Scheme and Share Participation Scheme

All UK employees are eligible to participate in the B.A.T Industries Savings Related Share Option Scheme and Share Participation Scheme. An International Share Participation Scheme also operates for employees in EU member states. During the year, there was a distribution of shares under the UK and International Share Participation Schemes and a grant of options under the Savings Related Share Option Scheme.

Grants of options under the B.A.T Industries "E" Share Option Scheme, which succeeded the "D" Share Option Scheme, were made during the year to eligible executives.

Normally, options issued under the Savings Related Share Option Scheme are exercisable on completion of savings under a five year or three year SAYE contract and "D" and "E" Options after the 3rd anniversary of the date of grant. In addition, the exercise of "E" Options is subject to a performance condition set at the date of grant.

Employees

The company's policy is to recruit disabled persons on an equal opportunities basis, for those vacancies that they are able to fill. Once employed, all appropriate training and career planning assistance is given. Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

The company's policy is to consult and discuss regularly with employees all matters likely to affect their interests.

Creditor payment policy

It is the company's policy for 1998 concerning the payment of its suppliers to follow the Confederation of British Industry's Prompt Payment Code for all suppliers. This code was adopted by the company in 1997. Information about the Code may be obtained from the CBI, Centrepont, 103 New Oxford Street, London WC1A 1DU.

In respect of all its suppliers, it is the company's policy to :

- settle the terms of payment with those suppliers when agreeing the terms of each transaction
- ensure that those suppliers are made aware of the terms of payment
- abide by the terms of payment

The proportion which the amount owed to suppliers at 31 December 1997 bears to the amounts invoiced during the year then ended equates to an 18 days proportion of 365 days.

Directors' responsibilities

The following statement sets out the responsibilities of the directors in relation to the financial statements. The report of the auditors on page 8 sets out their responsibilities in relation to the financial statements.

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 the group as at the end of the financial year and of the profit or loss for the financial year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently, subject to any material departures being disclosed and explained;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and

- prepare the financial statements on the going concern basis, unless they consider that to be inappropriate.

The directors are responsible for ensuring that the company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the company and the group, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud and other irregularities.

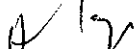
The directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

The directors consider that they have pursued the actions necessary to meet their responsibilities as set out in this statement.

Auditors

The company has elected by a resolution passed in accordance with section 386 of the Companies Act 1985 and dated 2 September 1997, to dispense with the obligation to appoint auditors annually.

By order of the board



A Kaye
Company Secretary

24 February 1998

**REPORT OF THE AUDITORS TO THE MEMBERS OF THREADNEEDLE
PORTFOLIO SERVICES LIMITED**

We have audited the financial statements on pages 9 to 18.

Respective Responsibilities of Directors and Auditors

As described on pages 6 and 7, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

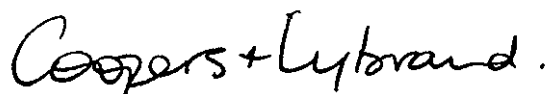
Basis of Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1997 and of its loss and total recognised losses for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND

Chartered Accountants and Registered Auditors
London

27 February 1998

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997**

	Note	1997 £'000	1996 £'000
Turnover	2	148,699	173,208
Cost of sales		<u>(129,676)</u>	<u>(149,200)</u>
Gross profit		19,023	24,008
Administrative expenses		(5,101)	(3,577)
Distribution costs		(6,353)	(10,657)
Other operating income		<u>3,067</u>	<u>3,445</u>
Profit on ordinary activities before taxation	4	10,636	13,219
Taxation	5	<u>(3,088)</u>	<u>(3,427)</u>
Profit on ordinary activities after taxation		7,548	9,792
Dividends	6	<u>(11,957)</u>	<u>(9,792)</u>
Retained loss for the year		<u><u>(4,409)</u></u>	<u><u>-</u></u>

The movements in reserves are set out in note 12.

All results are derived from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the retained loss above and their historical cost equivalents.

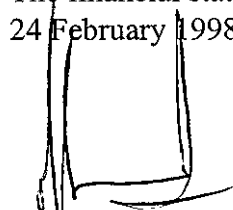
The company has no recognised gains or losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented.

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BALANCE SHEET AS AT 31 DECEMBER 1997

	Note	1997 £'000	1996 £'000
Fixed assets			
Investments	7	-	1,095
Current assets			
Stock		-	990
Debtors	8	568	13,339
Cash at bank and in hand		16,474	10,247
		17,042	24,576
Creditors: Amounts falling due within one year	9	(11,048)	(15,268)
Net current assets		5,994	9,308
Total assets less current liabilities		5,994	10,403
Net assets		5,994	10,403
Share capital and reserves			
Called up share capital	10	100	100
Capital reserve		150	150
Profit and loss account	12	5,744	10,153
Equity shareholders' funds	13	5,994	10,403

The financial statements on pages 9 to 18 were approved by the Board of Directors on 24 February 1998 and were signed on its behalf:



PVS Manduca
Chairman
27 February 1998

NOTES TO THE ACCOUNTS

1. Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. The cash flows of the company are included in the consolidated cash flow statement of the company's ultimate parent, B.A.T Industries p.l.c. Accordingly, no separate cash flow statement for the company has been presented.

The following is a summary of the company's principal accounting policies:

a) **Accounting convention**

The financial statements have been prepared under the historical cost convention.

b) **Group accounts**

Threadneedle Portfolio Services Limited is exempt under section 228 of the Companies Act 1985 (subsidiary undertaking of an EC parent) from preparing group financial statements. The above financial statements and attached notes are therefore in respect of the company only.

Threadneedle Portfolio Services Limited (then Allied Dunbar Unit Trusts plc) disposed of its holdings in Allied Dunbar International Fund Managers Limited, Allied Investors Development Company Limited and Allied Dunbar Marketing Services Limited on 24 June 1997 for consideration at book value of £1,095,000.

c) **Turnover**

Turnover represents income generated from managing and administering the range of Allied Dunbar's authorised unit trusts.

d) **Income recognition**

Income is included in the profit and loss account on an accruals basis.

e) Value Added Tax

Irrecoverable VAT is included with the expense on which it has been suffered.

f) Stock

Stocks of units are held for sale or liquidation and are stated at the lower of cost and market value.

g) Pensions and post retirement benefits

The company's employees are members of pension schemes operated by Allied Dunbar Assurance plc and Eagle Star Holdings PLC. The costs of providing pensions and post retirement healthcare benefits are charged against profits on a systematic basis with surpluses and deficits arising allocated over the expected average remaining service lives of current employees.

2. Segmental analysis

The company's activities during the first half of the year related wholly to the management of authorised unit trusts in the UK. In the second half of the year, the company's activities related to those of PEP management and related activities. Turnover is split between group undertakings and third parties as follows:

	1997 £'000	1996 £'000
Group undertakings	26,899	27,193
Third party	121,800	146,015
	<u>148,699</u>	<u>173,208</u>

3. Directors and employees

With effect from 1 July 1997, all staff involved in work relating to Threadneedle Portfolio Services Limited were employed by Allied Dunbar Marketing Services Limited. Amounts relating to this work were recharged to Threadneedle Portfolio Services Limited.

	1997	1996
Employees		
The average number of employees of the Company was: Administration	<u>25</u>	<u>47</u>

	1997 £'000	1996 £'000
--	---------------	---------------

The costs of these staff were:

Staff costs

Salaries	340	682
Social security costs	36	64
Pensions and post retirement benefits	19	39
	<u>395</u>	<u>785</u>

	1997 £	1996 £
Directors' remuneration		
Aggregate emoluments	112,117	-
Pension contributions	6,577	-
	<u>118,694</u>	<u>-</u>

No directors exercised share options in the year. Retirement benefits are accruing to 4 directors under a defined benefit scheme.

In respect of the highest paid director:

	1997 £	1996 £
Aggregate emoluments and amounts receivable under long-term incentive schemes	35,507	-
Defined benefit pension scheme:		
Accrued pension at end of year	1,353	-

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The emoluments of the Chairman and other directors of the company who are also directors of the company's parent company, Threadneedle Asset Management Limited, have been included in the directors' emoluments disclosed in the accounts of the parent company.

All directors' emoluments are borne by other group companies.

4. Profit on ordinary activities before taxation

Profit on ordinary activities is stated after charging / (crediting):

	1997 £'000	1996 £'000
Auditors' remuneration	16	58
Other fees paid to auditors	-	6
	<u> </u>	<u> </u>

5. Taxation

	1997 £'000	1996 £'000
UK corporation tax at 31.5% (1996: 33%)	(2,639)	(1,169)
Payment for Advance Corporation Tax relief	-	(1,797)
Over provided in previous years	-	30
Tax credits on franked investment income	(449)	(491)
	<u>(3,088)</u>	<u>(3,427)</u>

The corporation tax charge in 1996 has been reduced by £1,797,000 in respect of Advance Corporation Tax surrendered for consideration of £1,797,000.

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6. Dividends

	1997 £'000	1996 £'000
<u>Interim Dividend Paid</u>		
£119.57 per ordinary share of £1 paid (1996: £19.20)	11,957	1,920
<u>Final Dividend</u>		
Nil (1996: £78.72 per ordinary share of £1 paid)	-	7,872
	<u>11,957</u>	<u>9,792</u>

7. Fixed asset investments

	1997 £'000	1996 £'000
Shares in subsidiary undertakings	<u>-</u>	<u>1,095</u>

The company disposed of its interests in Allied Dunbar International Fund Managers Limited, Allied Investors Development Company Limited and Allied Dunbar Marketing Services Limited at book value to Allied Dunbar Assurance p.l.c. on 24 June 1997.

8. Debtors

	1997 £'000	1996 £'000
Debtors for units sold	-	129
Amount due from trustees (note 15)	-	674
Amounts due from group undertakings	-	11,127
Other debtors	555	1,372
Prepayments	<u>13</u>	<u>37</u>
	<u>568</u>	<u>13,339</u>

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9. Creditors: amounts falling due within one year

	1997 £'000	1996 £'000
Creditors for units repurchased	-	2,528
Due to trustees for units created	-	905
Amounts due to group undertakings	8,148	1,839
Other creditors	80	157
Prepaid income	-	634
Tax payable	2,820	1,333
Proposed dividend	-	7,872
	<u>11,048</u>	<u>15,268</u>

10. Share capital

	1997 £'000	1996 £'000
Authorised, allotted, called up and fully paid 100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>

11. Pension fund arrangements

Employees of the company are members of a number of defined benefit and defined contribution schemes, the majority belonging to schemes, funded externally, operated by fellow subsidiaries of British American Financial Services (UK and International) Limited: Allied Dunbar Assurance plc and Eagle Star Holdings PLC. Full details of these schemes are provided in the accounts of those companies.

Details of the last formal triennial valuations of the two main schemes are as follows:

	Allied Dunbar	Eagle Star
Date of last valuation	31 December 1996	30 June 1995
Actuarial valuation of scheme assets	£171 million	£895 million
As a percentage of accrued benefits	126%	147%

The principle assumptions used by the actuaries, which have the most significant impact on the results of the valuations, were an excess of rate of return of investments over salary increases of 2% and rates of increases in pensions of 4.5%.

The contributions made by the company have been assessed in accordance with the advice of qualified actuaries, two of whom were members of Eagle Star group companies at the dates of the last valuations, who generally use the projected unit method. The surpluses identified at the last valuations of the schemes are being eliminated through reducing the rate of company contributions and enhancement of scheme benefits.

12. Movement in reserves

	1997 £'000
At 1 January	10,153
Retained loss for the year	(4,409)
At 31 December	<u>5,744</u>

13. Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Shareholders' funds at 1 January	10,403	10,403
Profit for the year	7,548	9,792
Dividends	<u>(11,957)</u>	<u>(9,792)</u>
Shareholders' funds at 31 December	<u>5,994</u>	<u>10,403</u>

14. Ultimate holding company

The directors regard B.A.T Industries p.l.c., a company registered in England and Wales, as the ultimate parent company. Copies of the parent's consolidated financial statements may be obtained from The Secretary, B.A.T Industries p.l.c., Windsor House, 50 Victoria Street, London SW1H 0NL.

The immediate parent company is Threadneedle Asset Management Limited, a company registered in England and Wales. Copies of the consolidated financial statements of Threadneedle Asset Management Limited are available from The Secretary, Threadneedle Asset Management Limited, 60 St Mary Axe, London, EC3A 8JQ.

15. Related party transactions

Advantage has been taken of the exemption provided by FRS8 from disclosing details of transactions with B.A.T Industries p.l.c. and its subsidiaries.

Threadneedle Portfolio Services Limited (formerly Allied Dunbar Unit Trusts Plc) has acted as the unit trust manager in respect of all transactions of units in the range of Allied Dunbar unit trusts.

The aggregate monies paid through creations were £50,006,000 and received through cancellations were £160,208,000. There were no balances outstanding at the end of the accounting period.

Amounts received in respect of gross management charges were £29,553,000 and for registrar services were £1,076,000. No balances were due at the end of the accounting period.