

THREADNEEDLE PORTFOLIO SERVICES LIMITED

(Registered Number: 285988)

**Report and Accounts
for the Nine Months Ended
30th September 2003**



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Threadneedle Portfolio Services Limited
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DIRECTORS

S H Davies	Chairman & Chief Executive
D F Sachon	Managing Director
A J Ainsworth	
T W Challenor	
W D Lowndes	
C J Henderson	

Secretary and registered office

A Kaye
60 St Mary Axe
London
EC3A 8JQ

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DIRECTORS' REPORT FOR THE NINE MONTHS ENDED 30th SEPTEMBER 2003

The Directors present their report and the audited financial statements for the nine months ended 30th September 2003.

Significant developments and principal activities

The principal activities of the Company continue to be the retail distributor in continental Europe on behalf of Threadneedle Investments Funds ICVC, as well as Portfolio Management Service manager of the range of Threadneedle Investment and Managed Funds. As such the Company is authorised and regulated by the Financial Services Authority. The Directors do not anticipate any change in the nature of activities in the foreseeable future.

Effective after close of business on 30th September 2003, American Express Financial Corporation, a company incorporated in the United States of America, acquired 100% of the ordinary share capital of Threadneedle Asset Management Holdings Limited from Zurich Financial Services.

Review of business, results and dividends

The profit and loss account for the period is set out on page 9. The level of business and the financial position at the end of the period are satisfactory.

The Directors do not recommend the payment of a dividend (year ended 31st December 2002: £nil).

Directors' and Officers' liability insurance

During the period, Threadneedle Asset Management Holdings Limited purchased and maintained liability insurance for the Directors and Officers on behalf of the Company.

Directors

The names of the Directors and Secretary of the Company are listed on page 2. The Directors all held office throughout the year unless otherwise shown.

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Directors' interests

The Directors had no interest in the shares or debentures of companies required to be disclosed under the Companies Act 1985, except as shown below:

Zurich Financial Services

	Directors' Interests in the Shares of Zurich Financial Services (including shares held in trust, through ISAs and by immediate family members)	Employees Sharesave Option Related	Transitional Options Plan
Holdings at 1st January 2003			
T W Challenor	-	56	2
C J Henderson	-	101	-
D F Sachon	11	45	2
Share options granted during the period			
T W Challenor	-	17	-
C J Henderson	-	30	-
D F Sachon	-	13	-
Holdings at 30th September 2003			
T W Challenor	-	73	2
C J Henderson	-	131	-
D F Sachon	11	58	2

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Threadneedle Asset Management Holdings Limited

Directors' Interests in the Shares of Threadneedle
Asset Management Holdings Limited (including
shares held in trust, through ISAs and by
immediate family members)

Holdings at 1st January 2003	'A' Ordinary shares	'B' Ordinary shares
A J Ainsworth	576,729	265,125
T W Challenor	490,798	112,500
C J Henderson	-	187,500
W D Lowndes	330,579	108,000
D F Sachon	1,143,894	480,375
 Shares purchased during the period		
A J Ainsworth	124,847	-
T W Challenor	68,725	-
C J Henderson	249,062	-
W D Lowndes	60,956	-
D F Sachon	234,088	-
 Holdings at 30th September 2003		
A J Ainsworth	701,576	265,125
T W Challenor	559,523	112,500
C J Henderson	249,062	187,500
W D Lowndes	391,535	108,000
D F Sachon	1,377,982	480,375

As Mr S H Davies is a director of Threadneedle Asset Management Holdings Limited, the Company's ultimate holding company in the United Kingdom, his interests in the shares of Zurich Financial Services and of Threadneedle Asset Management Holdings Limited are shown in the Threadneedle Asset Management Holdings Limited Directors' Report.

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Statement of Directors' responsibilities

The following statement sets out the responsibilities of the Directors in relation to the financial statements of the Company.

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss for the financial period. In preparing those financial statements, the Directors are required to:

- select appropriate accounting policies and 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 responsible for taking reasonable steps to safeguard the assets of the Company, 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 also required to prepare the financial statements.

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

Employee involvement

As part of the Zurich Financial Services Group ("the Group") the Company has adopted, where appropriate, Group policies and practice.

During the period, the various companies within the Zurich Financial Services Group continued to implement their policy to involve staff on matters of concern to them as employees and to achieve an awareness of the financial and economic factors affecting the performance of the Group. This involved communication and consultation mechanisms such as regular meetings with employee representatives, team meetings and newsletters which were supplemented by various additional communication initiatives.

Each individual business produces its own material including PC based news information services and paper bulletins. There have also been a number of employee road shows where staff have the opportunity to meet and discuss matters of general importance with senior management. A number of employee representatives also attended meetings of the Zurich Financial Services European Employee Forum. The Zurich Financial Services Group operates a number of performance related bonus and share participation schemes based on the results achieved by the individual companies within the Group.

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Employee share schemes

The Directors recognise the importance of the involvement of employees through employee share schemes, which encourage awareness of the Company's and Group's financial performance and participation in the success of the Group.

An Employee Share Participation Plan is now being run. Under this plan, key senior staff are awarded shares in the Company. The purpose of the plan is to give key managers an interest in the success of the business with a view to encouraging even greater levels of commitment and team working in our goal to grow a highly successful and profitable business.

Employment of disabled staff in the United Kingdom

The Company's policy is to appoint and promote staff on the basis of their individual capability. Full and fair consideration is given to both disabled and able-bodied staff. The training divisions of the various companies are also equipped to meet any special needs of disabled individuals and favourable consideration is given to the modification of facilities and provision of special aids or equipment.

Creditor payment policy

In respect of all of 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; and
- abide by the terms of payment.

The Company's average creditor payment period, calculated by reference to the ratio of trade creditors at 30th September 2003 to amounts invoiced by suppliers during the period was 1 day (2003: 1 day).

Auditors

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

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1st January 2003, PricewaterhouseCoopers resigned on 18th February 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

By order of the Board



A Kaye
Company Secretary

29 January 2004

Threadneedle Portfolio Services Limited
Report and Accounts for the Nine Months Ended 30th September 2003

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THREADNEEDLE PORTFOLIO SERVICES LIMITED

We have audited the financial statements on pages 9 to 19 which have been prepared under the historical cost convention and the accounting policies set out on page 12.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements, in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements 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 financial statements, 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 30th September 2003 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



29 January 2004

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

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PROFIT AND LOSS ACCOUNT
FOR THE NINE MONTHS ENDED 30th SEPTEMBER 2003

	Notes	Nine Months Ended 30 th September 2003	Year Ended 31 st December 2002
		£'000	£'000
Turnover	2	4,927	6,523
Administrative expenses		(5,072)	(5,825)
Other interest receivable and similar income		4	5
(Loss)/profit on ordinary activities before taxation	4	(141)	703
Tax on (loss)/profit on ordinary activities	5	(111)	(228)
(Loss)/profit for the financial period		(252)	475

The movements on reserves are set out in note 11.

All results are derived from continuing operations.

There is no difference between the (loss)/profit on ordinary activities for the period and the retained (loss)/profit above, and their historical cost equivalents.

The notes on pages 12 to 19 form an integral part of these financial statements.

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**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE NINE MONTHS ENDED 30th SEPTEMBER 2003**

	Nine Months Ended 30 th September 2003	Year Ended 31 st December 2002
	£'000	£'000
(Loss)/profit for the financial period	(252)	475
Foreign exchange loss recognised through reserves	(196)	-
Total (losses)/gains recognised since last annual report	<u>(448)</u>	<u>475</u>

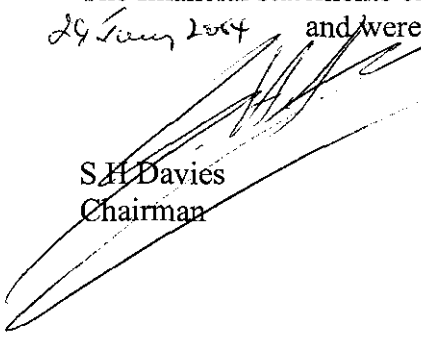
Threadneedle Portfolio Services Limited
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BALANCE SHEET
AS AT 30th SEPTEMBER 2003

	Notes	2003 £'000	As at 31 st December 2002 £'000
Tangible Assets			
Fixed Assets	6	<u>144</u>	<u>-</u>
		144	-
Current assets			
Debtors	7	6,120	6,887
Cash at bank and in hand		<u>529</u>	<u>469</u>
		6,649	7,356
Creditors:			
Amounts falling due within one year	8	<u>(2,730)</u>	<u>(5,306)</u>
Net current assets		<u>3,919</u>	<u>2,050</u>
Total assets less current liabilities		<u>4,063</u>	<u>2,050</u>
Creditors:			
Amounts falling due after more than one year	9	<u>(471)</u>	<u>(10)</u>
Net assets		<u>3,592</u>	<u>2,040</u>
Capital and reserves			
Called up share capital	10	2,100	100
Profit and loss account	11	1,342	1,790
Capital reserve	11	150	150
Total equity shareholders' funds	12	<u>3,592</u>	<u>2,040</u>

The notes on pages 12 to 19 form an integral part of these financial statements.

The financial statements on pages 9 to 19 were approved by the Board of Directors on 29 June 2004 and were signed on its behalf by:


S.H. Davies
Chairman

NOTES TO THE ACCOUNTS

1. Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

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) Turnover

Turnover represents income generated from the management and administration of the range of Threadneedle's Portfolio Management Service products and from the retail distribution business in continental Europe on behalf of Threadneedle Investment Funds ICVC and is recognised on an accruals basis.

c) Value added tax

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

d) Foreign currencies

Transactions in foreign currencies are translated at the rate ruling at the date of the transaction. Turnover and profits expressed in currencies other than sterling are translated into sterling at average rates of exchange. Assets and liabilities are translated at closing rates of exchange, or where appropriate the rate fixed under the terms of the relevant foreign exchange contract.

e) Deferred taxation

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and the pattern of the expected realisation of investments. The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses.

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2. Turnover

	2003 £'000	2002 £'000
Turnover by geographical destination		
Third Party		
Rest of Europe – excluding UK	<u>4,927</u>	<u>6,523</u>

3. Directors and employees

Employees

The average weekly number of persons (including Directors) employed by the Company during the period was 32 (2002: 22). These are categorised as follows:

	2003	2002
Sales	19	16
Administration	13	6
	<u>32</u>	<u>22</u>

The costs of these staff were as follows:

	2003 £'000	2002 £'000
Salaries	1,614	871
Social Security Costs	200	59
Pension and post retirement benefits	76	-
	<u>1,890</u>	<u>930</u>

Directors

	2003 £'000	2002 £'000
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Directors' remuneration

Aggregate emoluments	542	784
Pension contributions	49	86
	<u>591</u>	<u>870</u>

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Retirement benefits are accruing to 6 Directors under a defined benefit scheme (2002:6). Details of the pension scheme are disclosed in the accounts of Threadneedle Asset Management Holdings Limited.

	2003	2002
	£'000	£'000
In respect of the highest paid Director:		
Aggregate emoluments and amounts (excluding shares) receivable under long-term incentive schemes	238	371
Defined benefit pension scheme:		
Accrued pension at end of period	13	14

The emoluments of Mr S H Davies, the Chairman, who is also a Director of the Company's parent company, Threadneedle Asset Management Holdings 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. (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging:

	2003	2002
	£'000	£'000
Operating leases		
- Other	119	83
Depreciation	54	-
Auditors' remuneration for audit services	5	4

The audit fees were borne by Threadneedle Asset Management Holdings Limited and recharged to the Company. No remuneration was paid to the Company's auditors in respect of non-audit services (year ended 31st December 2002:£nil).

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5. Taxation

Taxation in the profit and loss account is as follows:

	2003	2002
	£'000	£'000
United Kingdom taxation:		
UK corporation tax at 30% (2002: 30%) for the period	(72)	225
Adjustments in respect of prior periods	-	2
	<u>(72)</u>	<u>227</u>
Overseas tax for the year	<u>198</u>	-
Current tax charge for the year	126	227
Deferred tax		
Origination and reversal of timing differences	(6)	1
Increase in discount	2	-
Adjustments in respect of prior periods	(11)	-
	<u>111</u>	<u>228</u>
Tax on profit on ordinary activities	111	228

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003	2002
	£'000	£'000
(Loss)/profit on ordinary activities before tax	(141)	703
(Loss)/profit on ordinary activities multiplied by the standard rate		
of corporation tax in the UK of 30% (2002: 30%)	(42)	211
Expenses not deductible for tax purposes	(41)	15
Overseas tax	198	-
Adjustments to timing differences in respect of previous periods	-	2
Adjustments to tax timing differences in respect of future periods	(6)	-
Movement in timing differences	17	(1)
	<u>126</u>	<u>227</u>

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6. Tangible fixed assets

	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost			
At 1 st January 2003	-	-	-
Exchange adjustment	2	1	3
Additions	100	10	110
Transfers from group companies	111	78	189
At 30th September 2003	213	89	302
	£'000	£'000	£'000
Depreciation			
At 1 st January 2003	-	-	-
Exchange adjustment	1	1	2
Charge for the period	33	21	54
Transfers from group companies	54	48	102
At 30th September 2003	88	70	158
Net book value at 30th September 2003	125	19	144
Net book value at 1 st January 2003	-	-	-

7. Debtors

	2003 £'000	2002 £'000
Amounts due from parent and fellow subsidiary undertakings	6,059	6,829
Deferred tax	18	3
Other debtors	32	55
Prepayments	11	-
	6,120	6,887

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Included within the above are the following amounts provided for deferred tax:

Deferred Tax	2003 £'000	2002 £'000
As at 1 st January	3	4
Provided in the period	15	(1)
As at 30th September/31st December	18	3

The deferred tax asset comprised:

	2003 £'000	2002 £'000
Accelerated capital allowances	8	3
Other short term timing differences	12	-
Discount	(2)	-
Provision for deferred tax	18	3

8. Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Trade creditors	1	-
Amounts due to parent and fellow subsidiary undertakings	2,111	4,301
Corporation Tax	128	452
Other tax and social security	5	5
Other creditors	118	4
Accruals and deferred income	367	544
	2,730	5,306

9. Creditors: amounts falling due after more than one year

	2003 £'000	2002 £'000
Accruals and deferred income	471	10

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10. Called up share capital

	2003 £'000	2002 £'000
Authorised		
10,000,000 (2002: 100,000) ordinary shares of £1 each	<u>10,000</u>	<u>100</u>
Allotted, called up and fully paid		
2,100,000 (2002:100,000) ordinary shares of £1 each	<u>2,100</u>	<u>100</u>

On 29th January 2003 the Company issued 2,000,000 ordinary shares at par to restructure the Company's equity base for regulatory purposes.

11. Movements in reserves

	Profit and Loss Account £'000	Capital Reserve £'000	Share Capital £'000	Total £'000
At 1 st January 2003	1,790	150	100	2,040
Foreign exchange loss	(196)	-	-	(196)
Retained loss for the period	(252)	-	-	(252)
Issued Share Capital	-	-	2,000	2,000
At 30th September 2003	<u>1,342</u>	<u>150</u>	<u>2,100</u>	<u>3,592</u>

12. Reconciliation of movement in shareholders' funds

	2003 £'000	2002 £'000
Share Capital Issued	2,000	-
Movement on reserves	(448)	475
Opening shareholders' funds	2,040	1,565
Closing shareholders' funds	<u>3,592</u>	<u>2,040</u>

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13. Ultimate parent company

The largest group in which the results of the company are consolidated is that of Zurich Financial Services, a company incorporated in Switzerland. Copies of the consolidated financial statements of Zurich Financial Services can be obtained from The Secretary, Zurich Financial Services, Mythenquai 2, 8002 Zurich, Switzerland.

Threadneedle Asset Management Holdings Limited is the parent company of the smallest group of companies, of which the Company is a wholly owned subsidiary, for which group accounts are drawn up. Copies of the consolidated financial statements of Threadneedle Asset Management Holdings Limited Group can be obtained from The Secretary, Threadneedle Asset Management Holdings Limited, 60 St. Mary Axe, London EC3A 8JQ.

14. Related party transactions

Advantage has been taken of the exemption provided by FRS 8 from disclosing details of transactions with Zurich Financial Services and its subsidiaries.

15. Financial commitments

At 30th September 2003 and 31st December 2002 the Company had annual commitments under non-cancellable operating leases expiring as follows:

Land and buildings	2003 £'000	2002 £'000
Expiring within one year	7	8
Expiring during years two to five	163	164
Expiring in more than five years	-	-

16. Post balance sheet event

Effective after close of business on 30th September 2003, the Threadneedle Group was sold by Zurich Financial Services to American Express Financial Corporation, a company incorporated in the United States of America.