

# Prudential Unit Trusts Limited

## 2010 Annual Report

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Incorporated and registered in England and Wales Registered no 1796126  
Registered office Laurence Pountney Hill, London EC4R 0HH

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## Directors' report

W J Nott (Chairman)  
L U Darby  
C I Jackson  
M Lewis  
G W MacDowall  
L J Mumford  
L J Scrine  
J R Talbot

### Principal activity, business review and results

The principal activity of the Company is the distribution and management of Unit Trusts, Individual Savings Accounts (ISAs) and as Authorised Corporate Director of Prudential Open Ended Investment Companies. During January 2011 the management of Unit Trust ISAs was transferred to M&G Financial Services Limited. At the end of December 2010 the value of these transferring funds under management (FUM) was £693 million out of a total FUM of £7,996 million.

The Company is regulated by the Financial Services Authority.

Improved market conditions have driven improved profitability over the year. The Company's operating profit for the year was £7,833,000 (2009 £7,259,000). The Company retained a profit of £733,000 (2009 retained loss of £172,000). Details of the results for the year are set out in the profit and loss account on page 7.

The risks and uncertainties faced by the Company are those inherent within the investment management industry, primarily

- Operational risk – exposure to losses resulting from inadequate or failed internal and external processes, systems and human error or from external events. M&G recognises that operational risk management is a vital element of its business. Each M&G Business Unit is accordingly expected to operate formal risk management procedures that comply with minimum standards approved from time to time by the M&G Group Risk Committee, and
- Market risk – exposure to fluctuations in revenue resulting from the impact of volatile equity, bond and property prices. The Board seeks to mitigate this risk by strict control of fixed overheads, diversification of assets under management and diversification of sales.

These are outlined further, along with the other risks and uncertainties faced by the Prudential Group, in the directors' report prepared by Prudential plc, the Company's ultimate parent company. Consolidated financial statements can be obtained from the address on page 14.

The Company's net assets as at 31 December 2010 were £11,574,000 (2009 £10,841,000).

### Dividends

Interim dividends totalling £5,000,000 (2009 £5,500,000) were paid during the year. The directors do not recommend the payment of a further dividend.

## Directors' report (continued)

### Directors

The directors in office during the year were as follows

	Appointed	Resigned
W J Nott (Chairman)		
T Cheal		31/03/2010
L U Darby		
C I Jackson		
M Lewis		
G W MacDowall		
L J Mumford		
L J Scrine		
J R Talbot		
M A Thompson	18/05/2010	10/12/2010

### Qualifying third party indemnities

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company provide for the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office.

### Employment policies

All staff were employed during the year by M&G Limited, the immediate parent company. Employment policies are described in the annual report and financial statements of that company.

### Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the 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 that are sufficient to show and explain the Company's transactions and 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 2006.

## Directors' report (continued)

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

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

### Auditors

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office

Approved by the Board



M&G Management Services Limited  
Company Secretary  
Laurence Pountney Hill  
London, EC4R 0HH

20 April 2011

## **Independent auditors' report to the members of Prudential Unit Trusts Limited**

We have audited the financial statements of Prudential Unit Trusts Limited for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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 directors and auditors**

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Independent auditors' report to the members of Prudential Unit Trusts Limited (continued)

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



**N Palmer (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
London E14 5GL

20 April 2011

**Profit and loss account for the year**

	note	2010 £'000	2009 £'000
Revenue	2	29,101	26,078
Operating expenses	3	<u>(21,268)</u>	<u>(18,819)</u>
<b>Operating profit</b>	4	<b>7,833</b>	<b>7,259</b>
Interest receivable and similar income	6	<u>123</u>	<u>144</u>
<b>Profit on ordinary activities before tax</b>		<b>7,956</b>	<b>7,403</b>
Tax on profit on ordinary activities	7	<u>(2,223)</u>	<u>(2,075)</u>
<b>Profit on ordinary activities after tax</b>		<b><u>5,733</u></b>	<b><u>5,328</u></b>

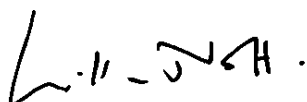
The Company had no recognised gains or losses other than the profit for the year as disclosed above, all of which is derived from continuing activities



**Balance sheet**

	note	2010 £'000	2009 £'000
<b>Current assets</b>			
Stock		1,347	1,073
Deferred tax asset	9	27	35
Debtors	10	35,058	8,230
Cash at bank	11	6,396	9,865
<b>Total current assets</b>		<b>42,828</b>	<b>19,203</b>
<b>Creditors – amounts falling due within one year</b>	12	<b>(31,254)</b>	<b>(8,362)</b>
<b>Net assets</b>		<b>11,574</b>	<b>10,841</b>
<b>Capital and reserves</b>			
Called up share capital	13	5,000	5,000
Profit and loss account		6,574	5,841
<b>Total equity shareholders' funds</b>		<b>11,574</b>	<b>10,841</b>

Approved by the Board of directors and signed on its behalf by -



W J Nott  
Director



L U Darby  
Director

20 April 2011

**Reconciliation of movements in shareholders' funds**

	note	<b>2010</b> <b>£'000</b>	2009 £'000
Profit after tax attributable to shareholders		<b>5,733</b>	5,328
Dividends	8	<b>(5,000)</b>	(5,500)
Net increase/(decrease) in equity shareholders' funds		<u><b>733</b></u>	<u>(172)</u>
Opening equity shareholders' funds		<b>10,841</b>	11,013
<b>Closing equity shareholders' funds</b>		<u><b>11,574</b></u>	<u>10,841</u>

## Notes to the financial statements

### 1 Accounting policies

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

The Company has relied on the exemption given in FRS 1 (revised 1996) not to disclose a cash flow statement as the consolidated financial statements of its ultimate parent are publicly available

The principal accounting policies that the directors have adopted are set out below

#### a) Revenue recognition

Revenue from the purchase and sale of units/shares is accounted for as it is earned  
Management fees represent charges made to the trustees/depositaries of the funds/OEICs and are accounted for on an accrued basis  
Other revenue is included in the profit and loss account on an accrued basis

#### b) Expense recognition

Operating expenses include a recharge from the immediate parent company of costs borne on behalf of the Company as well as rebates of management fees earned  
Operating expenses also include fees payable to M&G Investment Management Limited for the management of the unit trusts/OEICs  
All expenses are included in the profit and loss account on an accrued basis

#### c) Deferred tax

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date

#### d) Stock

Stocks of units/shares are valued at the lower of cost and net realisable value

#### e) Interest receivable and similar income

Bank interest and interest receivable from group undertakings are included in the profit and loss account on an accrued basis  
Distributions on unit trusts/OEICs are included on a receipts basis

### 2 Revenue

	2010 £'000	2009 £'000
Gross sales of units/shares	837,179	2,049,372
Less cost of sales of units/shares	(836,075)	(2,048,413)
Revenue from the purchase and sale of units/shares	1,104	959
Management fees	20,456	18,507
Other revenue	7,541	6,612
	<u>29,101</u>	<u>26,078</u>

Other revenue comprises a recharge of expenses borne by the Company to other group undertakings

### 3 Operating expenses

Included in operating expenses are rebates of £3,352,285 (2009 £3,839,917) of management fees to other Prudential Group companies in respect of investments in the Company's unit trusts/OEICs  
These companies bear the expenses relating to such investments

## Notes to the financial statements (continued)

### 4. Operating profit

Amounts receivable by the Company's auditor in respect of the audit of the Company's financial statements are £29,309 (2009 £28,455) and are payable by M&G Limited, the immediate parent company. Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, Prudential plc.

All staff were employed during the year by M&G Limited, the immediate parent company. Analyses of staff costs, pension commitments and share-based payments are shown in the annual report and financial statements of that company.

### 5. Directors' emoluments

	2010 £'000	2009 £'000
Total directors' emoluments for the year are as follows		
Directors' emoluments	224	202
Amounts receivable under long term incentive schemes	83	84
	<u>307</u>	<u>286</u>

The directors' emoluments are based upon the apportionment of their time to the Company.

For the highest paid director the aggregate of emoluments was £57,855 (2009 £81,161) and amounts receivable under long term incentive schemes was £23,904 (2009 £35,376). He is a member of a defined benefit scheme, under which his accrued pension which would be available from normal retirement date assuming retirement at the year end was £102,143 (2009 £98,214). He did not exercise Prudential plc share options during the year but received awards under the long-term incentive scheme.

One director (2009 one) who was also a director of M&G Limited, the immediate parent company, received no emoluments in connection with the management of the affairs of the Company. His remuneration as director of the Group, is disclosed in the financial statements of M&G Limited.

One other director (2009 one) received no emoluments in connection with the management of the affairs of the Company.

	2010	2009
The number of directors with retirement benefits accruing under the defined benefit schemes	<u>7</u>	<u>7</u>
The number of directors who exercised Prudential plc share options	<u>4</u>	<u>1</u>
The number of directors in respect of whose services awards were received or receivable under long term schemes	<u>7</u>	<u>7</u>

**Notes to the financial statements (continued)****6. Interest receivable and similar income**

	2010 £'000	2009 £'000
Interest receivable from group undertakings	38	21
Bank interest receivable	63	98
Unlisted investments	22	25
	<u>123</u>	<u>144</u>

**7 Tax****(a) Analysis of charge in the period****Current tax**

Tax on profit on ordinary activities		
UK corporation tax on profits for the period	2,228	2,064
Adjustment in respect of previous periods	(5)	2
Total current tax	<u>2,223</u>	<u>2,066</u>

**Deferred tax**

Origination and reversal of timing differences	-	9
Total deferred tax	<u>-</u>	<u>9</u>

Tax charge on profit on ordinary activities

<u>2,223</u>	<u>2,075</u>
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**(b) Factors affecting tax charge for the period**

The tax assessed in the period is lower than the standard rate of corporation tax in the UK and the differences are explained below. The standard rate of tax has been determined by using the UK rate of corporation tax enacted for the period for which the profits of the Company will be taxed.

Profit on ordinary activities before tax	7,956	7,403
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	2,228	2,073

**Effects of**

Depreciation lower than capital allowances	-	(9)
Adjustments to current tax in respect of previous periods	(5)	2

Current tax charge for the period

<u>2,223</u>	<u>2,066</u>
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**(c) Factors that may affect future tax charges**

Based on the current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years.

## Notes to the financial statements (continued)

## 8 Dividends

	2010 £'000	2009 £'000
On 5,000,000 £1 ordinary shares		
Interim dividends, net	<u>5,000</u>	<u>5,500</u>

## 9. Deferred tax

## Provision for deferred tax

Accelerated capital allowances	<u>27</u>	<u>35</u>
Deferred tax asset at the start of the year	27	44
Deferred tax charged to profit and loss account for the year	-	(9)
<b>Deferred tax asset at the end of the year</b>	<u>27</u>	<u>35</u>

## 10 Debtors

Debtors for unit/share sales	25,741	1,634
Amounts owed by trustees/depositaries for cancellations	2,706	4,776
Amounts owed by group undertakings	5,533	783
Corporation tax	66	-
Amounts owed by trustees/depositaries for management fees	964	887
Other debtors	48	150
	<u>35,058</u>	<u>8,230</u>

## 11 Cash at Bank

Under the terms of the Company's arrangements with the Prudential Group's main UK banker, the bank has a right of set-off between credit balances at the bank and all overdrawn balances of those group undertakings with similar arrangements. At the 31 December 2010, total cash at bank included an amount of £2,246,564 (2009 £1,775,575) which was held with the Prudential Group's main UK banker.

## 12. Creditors - amounts falling due within one year

Creditors for unit/share redemptions	3,080	4,803
Amounts owed to trustees/depositaries for creations	25,561	1,395
Amounts owed to group undertakings	643	590
Corporation tax	1,099	977
Other creditors	871	597
	<u>31,254</u>	<u>8,362</u>

## 13 Called up share capital

## Authorised

35,000,000 ordinary shares of £1 each	<u>35,000</u>	<u>35,000</u>
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## Allotted, issued and fully paid

5,000,000 ordinary shares of £1 each	<u>5,000</u>	<u>5,000</u>
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**Notes to the financial statements (continued)****14. Immediate and ultimate parent company**

The Company's immediate parent company is M&G Limited

The Company's ultimate parent company is Prudential plc, a company registered in England and Wales. Consolidated financial statements are prepared by Prudential plc and copies of these are available from the Registered Office at Laurence Pountney Hill, London, EC4R 0HH

**15 Related party transactions**

In accordance with FRS 8 the Company is required to disclose details of its related party transactions with the unit trusts/OEICs that it manages. The Company earned £20,040,487 (2009 £18,236,088) during the year from the management of unit trusts/OEICs. An amount of £107,130 has been accrued as due to the Company as at 31 December 2010 (2009 £103,193)

The Company has taken advantage of the exemption under FRS 8 from disclosing transactions with other subsidiary undertakings of the Prudential Group. There are no other related party transactions.