

2054152

**FP GROUP LIMITED  
REPORT OF THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2002**

---

**DIRECTORS**

G.K. ASLET, MA, FIA  
D. MONGER, B Soc Sc (HONS), FCIS  
B.W. SWEETLAND, LLB, Solicitor, ACol

**SECRETARY**

B.W. SWEETLAND, LLB, Solicitor, ACol

**PRINCIPAL ACTIVITY**

The company is an investment holding company. No change in this activity is envisaged in the future.

**CHANGE OF STATUS**

The company was re-registered as a private limited company on 8 February 2002.

**RESULTS AND BUSINESS REVIEW**

The results for the year ended 31 December 2002 are shown in the profit and loss account on page 6.

On 20 February 2002, the company disposed of part of its holding in UK equities for a total cash consideration of £6,288,000. The proceeds, along with the remaining investment bank balance was advanced to Friends Provident Life and Pensions Limited to further increase the loan by a total amount of £7,337,868.

On 21 February 2002, a sum of £500,000 was recalled from the loan with Friends Provident Life and Pensions Limited. This sum was used to further increase the company's holding in issued share capital of Friends Provident Administration Services Limited on 22 February 2002 with the subscription of 500,000 ordinary shares of £1 each fully paid at par.

On 15 March 2002, a sum of £750,000 was recalled from the loan with Friends Provident Life and Pensions Limited and was advanced to Friends Provident Administration Services Limited as an intercompany subordinated loan.

On 22 April 2002, the company's holding in issued share capital of Friends Provident Administration Services Limited was further increased by £750,000 due to the subscription of 750,000 ordinary shares of £1 each fully paid at par.

**DIVIDEND**

The directors do not recommend the payment of a dividend for the year ended 31 December 2002 (2001:£Nil).

**DIRECTORS**

The directors named above held office throughout the year.



# FP GROUP LIMITED

## REPORT OF THE DIRECTORS (continued)

### DIRECTORS' INTERESTS

No directors had interests in any other company within the Friends Provident Group other than as disclosed below.

#### a. Shares

The interests of directors, their spouses and children under the age of eighteen in the shares of companies within the Friends Provident Group are shown in the table below:

	Friends Provident plc ordinary shares 10 pence		ISIS Asset Management plc ordinary shares 0.1 pence	
	At 1 January 2002	At 31 December 2002	At 1 January 2002	At 31 December 2002
G. K. Aslet	12,325	13,788	-	-
D. Monger	18,177	20,178	-	-
B.W. Sweetland	74,397	93,018	-	5,000

#### b. Options over Friends Provident plc ordinary shares of 10 pence

The directors participate in two Inland Revenue approved share schemes, the ShareSave Scheme (a savings-related share option scheme) and the Partnership Share element of the Share Incentive Plan (SIP) (formerly the All-Employee Share Ownership Plan) on the same basis as other eligible UK employees of the Group.

The directors participate in the Executive Share Option Scheme (ESOS) and the Executive Long Term Incentive Plan (LTIP) on the same terms as other eligible UK employees of the Group.

The table below provides an analysis of options under each scheme. Further details of the operation of these schemes is contained in the Group Report and Accounts of Friends Provident plc.

	Options at 01/01/02	Granted / (Exercised) during year	Lapsed during year	Options at 31/12/02	Exercise price (pence)	Earliest exercise date	Latest exercise date
<b>G.K. Aslet</b>							
ShareSave 2001	5,381		5,381		180.00	1 Aug 2004	1 Feb 2005
ShareSave 2002		15,358		15,358	107.76	1 Oct 2007	1 Apr 2008
SIP 2001 (a)	666	(1,113)			134.75	9 Jul 2002	9 Jul 2002
SIP 2002		1,059		1,059	141.65	5 Sep 2003	5 Sep 2003
ESOS 2002		82,051		82,051	195.00	14 Mar 2005	14 Mar 2012
LTIP 2002		41,025		41,025	10.00	14 Mar 2005	14 Mar 2012
<b>Total</b>	<b>6,047</b>	<b>138,380</b>	<b>5,381</b>	<b>139,493</b>			

**FP GROUP LIMITED**

**REPORT OF THE DIRECTORS (continued)**

	<b>Options at 01/01/02</b>	<b>Granted / (Exercised) during year</b>	<b>Lapsed during year</b>	<b>Options at 31/12/02</b>	<b>Exercise price (pence)</b>	<b>Earliest exercise date</b>	<b>Latest exercise date</b>
<b>D. Monger</b>							
ShareSave 2001	9,375		9,375		180.00	1 Aug 2006	1 Feb 2007
ShareSave 2002		15,358		15,358	107.76	1 Oct 2007	1 Apr 2008
SIP 2001(a)	666	(1,113)			134.75	9 Jul 2002	9 Jul 2002
SIP 2002		1,059		1,059	141.65	5 Sep 2003	5 Sep 2003
ESOS 2002		11,187		11,187	195.00	14 Mar 2005	14 Mar 2012
<b>Total</b>	<b>10,041</b>	<b>26,491</b>	<b>9,375</b>	<b>27,604</b>			
<b>B.W. Sweetland</b>							
ShareSave 2001	5,381		5,381		180.00	1 Aug 2004	1 Feb 2005
ShareSave 2002		8,815		8,815	107.76	1 Oct 2005	1 Apr 2006
SIP 2001 (a)	666	(1,113)			134.75	9 Jul 2002	9 Jul 2002
SIP 2002		1,059		1,059	141.65	5 Sep 2003	5 Sep 2003
ESOS 2002		112,821		112,821	195.00	14 Mar 2005	14 Mar 2012
LTIP 2002		56,410		56,410	10.00	14 Mar 2005	14 Mar 2012
<b>Total</b>	<b>6,047</b>	<b>177,992</b>	<b>5,381</b>	<b>179,105</b>			

(a) Partnership Shares in respect of the 2001 SIP scheme were purchased on 9 July 2002 at the Market Value of 134.75p and are held in the Share Incentive Plan (SIP) trust. Note that the difference between the 666 options held at 1 January and the 1,113 exercised at 9 July, reflects the difference in share price at the two dates.

**AUDITORS**

Following the conversion of PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 23 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

The company has taken advantage of the Elective Regime, under section 386 of the Companies Act 1985, for dispensation from the annual appointment of auditors. The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office.

## **FP GROUP LIMITED**

### **REPORT OF THE DIRECTORS (continued)**

#### **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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements the directors are required to:

- select the most appropriate accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed with any material departures being 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 confirm that they have complied with these requirements.


The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Pixham End  
Dorking  
Surrey  
RH4 1QA

4 March 2003

Registered Number 2054153

ON BEHALF OF THE BOARD



B.W. SWEETLAND  
SECRETARY

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF FP GROUP LIMITED**

We have audited the financial statements on pages 6 to 12 which have been prepared in accordance with the accounting policies set out on page 8.

**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 Directors' responsibilities, on page 4.

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 into 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.

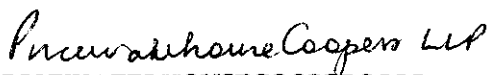
**BASIS OF AUDIT OPINION**

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 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
PRICEWATERHOUSECOOPERS LLP  
Chartered Accountants and Registered Auditors  
Southwark Towers  
32 London Bridge Street  
London  
SE1 9SY  
4 March 2003

**FP GROUP LIMITED**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002**

	Notes	2002 £000	2001 £000
<u>Continuing Operations</u>			
Administrative expenses		(2,517)	-
<b>OPERATING LOSS</b>		(2,517)	-
Income from other fixed asset investments		346	97
Profit on disposal of shares in associates		-	44,877
Loss on disposal of investments		-	(59)
Interest receivable and similar income - group		3,754	1,642
Interest receivable and similar income - other		6	11
Amounts written off - group undertakings	7	(6,268)	-
Unrealised losses on investments		(817)	-
Interest payable and similar charges	3	(36)	(402)
<b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	4	(5,532)	46,166
Tax charge on (loss) / profit on ordinary activities	6	(366)	(418)
<b>RETAINED (LOSS) / PROFIT FOR THE FINANCIAL YEAR</b>	12	(5,898)	45,748

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	2002 £000	2001 £000
(Loss) / Profit on ordinary activities after taxation	(5,898)	45,748
Tax on disposal of revalued asset	(669)	-
Unrealised losses on investments	(2,587)	(584)
<b>Total recognised (losses) / gains for the year</b>	(9,154)	45,164

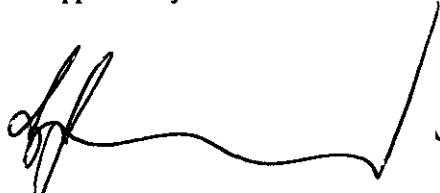
The profit on a historical cost basis is £370,000.

The notes on pages 8 to 12 form an integral part of these financial statements

**FP GROUP LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2002**

	Notes	2002 £000	2001 £000
<b>FIXED ASSETS</b>			
Investment in group undertakings	7	179,679	177,859
Other investments	8	8,683	18,376
		<u>188,362</u>	<u>196,235</u>
<b>CURRENT ASSETS</b>			
Debtors	9	3,723	1,853
Cash at bank and in hand		683	1,991
		<u>4,406</u>	<u>3,844</u>
<b>CREDITORS: Amounts falling due within one year</b>	10	(6,685)	(4,842)
<b>NET CURRENT LIABILITIES</b>		<u>(2,279)</u>	<u>(998)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		186,083	195,237
<b>CREDITORS: Amounts falling due after more than one year</b>	10	(700)	(700)
		<u>185,383</u>	<u>194,537</u>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	11	111,408	111,408
Revaluation reserve	12	-	4,812
Profit and loss account	12	73,975	78,317
<b>TOTAL SHAREHOLDERS' FUNDS - EQUITY</b>	12	<u>185,383</u>	<u>194,537</u>

Approved by the Board on 4 March 2003 and signed on its behalf by



**B. W. SWEETLAND**  
**DIRECTOR**

The notes on pages 8 to 12 form an integral part of these financial statements

## FP GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. PRINCIPAL ACCOUNTING POLICIES

(a) **Basis of preparation**

(i) The financial statements conform to applicable accounting standards and have been prepared under the historical cost convention, modified by the revaluation of certain assets as required by the Companies Act 1985.

(ii) The company is a wholly owned subsidiary of Friends Provident Life and Pensions Limited and is included in the consolidated financial statements of Friends Provident plc which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996).

(b) **Deferred taxation**

In accordance with FRS 19, provision is made for deferred taxation liabilities, using the liability method, on all material timing differences. Deferred taxation is calculated at the rates at which it is expected that the tax will arise and discounted to take into account likely timing of payments and pattern of expected realisation of investments. Deferred taxation 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.

(c) **Investments**

Investments are stated at cost unless their value has been impaired, in which case they are valued at their realisable value or value in use as appropriate.

Open Ended Investment Companies and listed investments are stated at middle market prices at the balance sheet date. Any unrealised gains or losses are transferred to or from the revaluation reserve.

(d) **Disposals of investments**

The surplus or deficit over the carrying value of an investment realised on disposal is recognised through the profit and loss account. Any previous revaluation surplus or deficit is transferred from revaluation reserve to the profit and loss account.

(e) **Investment Income**

Dividends, interest or other income receivable includes any withholding tax but excludes any other taxes, such as attributable credits, not payable wholly on behalf of the Group.

#### 2. TURNOVER

The company has only one class of business being the holding of shares and investments in United Kingdom subsidiary and associated undertakings.



**FP GROUP LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**3. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Interest payable on loan from ultimate parent undertaking	36	402
	<u>      </u>	<u>      </u>

**4. (LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

Auditors' remuneration for audit services for 2002 of £1,000 has been borne by Friends Provident Life and Pensions Limited. In 2001, the auditors' remuneration of £1,000 was partly paid by Friends Provident Life Office (for the first half of the year), and by Friends Provident Life and Pensions Limited (for the second half of the year).

**5. DIRECTORS AND EMPLOYEES**

All directors (including the Chairman) are employed by, and receive their emoluments from, another group undertaking. The directors holding office during 2002 consider that their services to the company are incidental to their other duties within the Friends Provident Group and accordingly no remuneration has been apportioned to this company. All staff were employed by Friends Provident Management Services Limited.

**6. TAXATION**

**(a) Tax on (loss) / profit on ordinary activities**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
The taxation charge for the year comprises:		
Group relief	(363)	(416)
Income Tax	(3)	(2)
	<u>      </u>	<u>      </u>
	<b>(366)</b>	<b>(418)</b>
	<u>      </u>	<u>      </u>

**(b) Factors affecting tax for the period**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
(Loss) / Profit on ordinary activities before tax	(5,532)	46,166
	<u>      </u>	<u>      </u>
(Loss) / Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent	(1,660)	13,850
Effects of:		
Franked Investment Income non taxable	(100)	(26)
Disposal of subsidiary not taxable	-	(13,462)
Difference in tax treatment to accounts on disposal of shares	-	56
Tax losses not utilised	245	-
Amounts written off in investment in group undertakings	1,881	-
	<u>      </u>	<u>      </u>
	<b>366</b>	<b>418</b>
	<u>      </u>	<u>      </u>

# FP GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 7. INVESTMENTS IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

(a)	Subsidiary undertakings £000	Loan to group undertakings £000	Total Investments £000
Balance at 1 January 2002	110,259	67,600	177,859
Acquisitions	1,250	8,088	9,338
Disposals	-	(1,250)	(1,250)
Write down in investment values	(6,268)	-	(6,268)
Balance at 31 December 2002	105,241	74,438	179,679

Included within loan to group undertakings, at 31 December 2002, is a subordinated loan of £750,000 to Friends Provident Administration Services Limited. The loan bears interest at a variable rate of 1% above LIBOR and has no set repayment date, but at least 12 months' notice must be given, and after five years (from 15 March 2002), at least 1 months' notice must be given.

In the opinion of the directors, the aggregate value of the company's investments, including the embedded value of the in-force business, are not less than the amount at which the investments are stated in the balance sheet.

- (b) The principal subsidiary and associated undertakings of the company as at 31 December 2002 are set out below. Unless otherwise stated the share capital of each company comprises ordinary shares, all are incorporated and operate within the United Kingdom and, where denoted as subsidiary undertakings are wholly owned subsidiary undertakings.

<u>Subsidiary undertakings</u>	<u>Activity</u>
FP Financial Management Limited	Not trading
FP Life Assurance Limited	Long-term insurance business
FP Financial Management Group Services Limited	Not trading
Friends Provident First Call Limited	Sales and marketing company
FP Pension Trustees Limited	Pensioner trustee
SFM Holdings Limited *	Holding company
Friends Provident Administration Services Limited	Management Services
Friends Provident Pension Solutions Direct Limited	Stakeholder Pensions
Friends Milestones Limited	Ecommerce non insurance business
Friends Provident Trustees Limited	Not trading
London and Manchester (Mortgages) (No.7) Limited	Not trading
London and Manchester (Commercial Mortgages) Limited	Not trading

\* Indirectly held

**FP GROUP LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**8. OTHER FINANCIAL INVESTMENTS**

	<b>2002 £000</b>
Balance at 1 January 2002	18,376
Disposals	(6,288)
Revaluation	(3,405)
	<u>8,683</u>
Balance at 31 December 2002	<u>8,683</u>

These investments comprise an open-ended investment company holding with a market value of £8,663,931 (cost £9,475,310) and listed investments with a market value of £18,992 (cost £24,751).

**9. DEBTORS**

	<b>2002 £000</b>	<b>2001 £000</b>
Amounts falling due within one year:		
Amounts due from group undertakings - group relief (Prior Year)	-	211
- other	3,723	1,642
	<u>3,723</u>	<u>1,853</u>

**10. CREDITORS**

	<b>2002 £000</b>	<b>2001 £000</b>
Amounts falling due within one year:		
Amounts due to group undertakings - group relief	416	-
- other	5,238	4,426
Taxation Payable	1,031	416
	<u>6,685</u>	<u>4,842</u>
Amounts falling due after more than one year:		
Loans from group undertaking	<u>700</u>	<u>700</u>

This loan bears interest at a variable rate of 1% above LIBOR, and has no set repayment date, but at least 12 months' notice must be given.

**FP GROUP LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**11. CALLED-UP SHARE CAPITAL**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Authorised		
150,000,000 ordinary shares of £1 each	150,000	150,000
Allotted, called-up and fully paid		
111,407,905 ordinary shares of £1 each	111,408	111,408

**12. RECONCILIATION OF MOVEMENT IN TOTAL SHAREHOLDER'S FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES**

	<b>Share capital</b>	<b>Revaluation reserve</b>	<b>Profit and loss account</b>	<b>Total shareholder's funds</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 January 2002	111,408	4,812	78,317	194,537
Transfer between reserves	-	(2,225)	2,225	-
Loss for the financial year	-	-	(5,898)	(5,898)
Tax on disposal of revalued asset	-	-	(669)	(669)
Revaluation of investments	-	(2,587)	-	(2,587)
Balance at 31 December 2002	111,408	-	73,975	185,383

**13. RELATED PARTY TRANSACTIONS**

The results of the company are consolidated in the results of Friends Provident plc, the Company's ultimate parent and controlling company, whose financial statements are publicly available. Accordingly, the Company is exempt from the requirements of Financial Reporting Standard 8 concerning the disclosure of transactions with other companies which qualify as related parties within the Friends Provident Group.

**14. GUARANTEES, INDEMNITIES AND CONTINGENT LIABILITIES**

The company has given a guarantee to SFM Holdings Limited, a wholly owned subsidiary undertaking, in respect of liabilities which may arise following the sale of NM Life Assurance International Limited, a former wholly owned offshore subsidiary undertaking of SFM Holdings Limited.

The maximum potential liability under the guarantee is £4,500,000 and no claims have been made or are pending.

**15. ULTIMATE PARENT UNDERTAKING**

The company's ultimate parent undertaking is Friends Provident plc which is incorporated in the United Kingdom. Copies of the Group Report and Accounts of Friends Provident plc can be obtained by writing to its Secretary at Pixham End, Dorking, Surrey, RH4 1QA and can be viewed via its website at [www.friendsprovident.com](http://www.friendsprovident.com)