

**Norwich Union
Investment Management
Limited**

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Norwich Union Investment Management Limited

Contents

Directors and officer	2
Directors' report	3 -6
Statement of directors' responsibilities in respect of the accounts	7
Report of the Auditors	8
Profit and loss account	9
Balance sheet	10
Statement of total recognised gains and losses	11
Notes to the accounts	12 - 19

Norwich Union Investment Management Limited

Directors and officer

Directors

R J Harvey
Chairman

K Jones
Managing Director

E C Bishop
D Rowlinson
M J Bishop
M A Hall
I B Womack
M N Biggs
L Woolterton

Secretary
M E Ward

Auditors
Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

Head office and registered office
Surrey Street
Norwich
NR1 3NG

Registered in England - no. 2152949

Regulated by the Investment Management Regulatory Organisation Limited

Norwich Union Investment Management Limited

Directors' report

to the 12th Annual General Meeting

The directors have pleasure in presenting their report on the operations of the company during the year ended 31 December 1999 together with the accounts.

Principal activity

The principal activity of the company is to provide securities and property fund management services.

Review

The company traded satisfactorily throughout 1999. The company seeks to expand its client base in 2000. The holding of OEICs shown in the 1998 accounts was disposed of during 1999, realising a profit before tax of £6,160,892. Of this amount, £4,254,144 had been previously recognised in the 1998 accounts.

Results and dividends

The profit for the financial year of £1,436,912 is set out in the profit and loss account. The directors have not recommended a dividend for 1999.

Fixed assets

Information relating to changes in fixed assets is given in notes 7 and 8 to the accounts.

Post balance sheet event

On 21 February 2000, the Board of Norwich Union plc announced that it had agreed terms for a proposed merger with CGU plc to create CGNU plc.

Year 2000

The Norwich Union Group's business has not been affected by the millennium date change due to the comprehensive testing of all business critical systems well in advance of 31 December 1999. Disclosures relating to the associated costs may be found in the group consolidated accounts of Norwich Union plc.

European economic and monetary union

Norwich Union has successfully introduced changes required of an investor in euro zone countries and conversion is being completed in the Group's international operations within the euro zone. The United Kingdom operations are developing conversion plans required to handle United Kingdom entry and changes are being made to systems which will reduce future conversion costs. The group costs associated with the introduction of the euro are disclosed in the accounts of Norwich Union plc.

Directors and directors' interests

The names of the directors are given on page 2.

Mr M N Biggs and Mrs L Woolterton were appointed as directors of the company on 1 January 1999.

Mr K Jones was appointed director of the company on 21 October 1999.

Norwich Union Investment Management Limited

Directors' report, continued

to the 12th Annual General Meeting

Directors and directors' interests continued

Mr P F Baynham resigned as a director of the company on 28 February 1999.

Mr J A Heyworth Dunne resigned as a director of the company on 31 October 1999.

Mr D J Pearce resigned as a director of the company on 9 February 2000.

The directors at 31 December 1999 and their interests in the share capital of the ultimate holding company were as follows:

	At 1/1/99 or subsequent date of appointment Ordinary Shares	At 31/12/99 Ordinary Shares
E C Bishop	2,618	3,080
M J Bishop	-	310
M A Hall	-	1,040
K Jones	150	150
D J Pearce	150	453
D Rowlinson	4,288	4,699
I B Womack	4,625	5,366
L Woolterton	1,479	5,500

No director held interests in the shares of the company at either date, or in the shares of any other group company.

Interests in options

No director had any interest in options in the company at 1 January 1999 or 31 December 1999.

Norwich Union plc has three sharesave schemes under which staff are granted options to subscribe for and acquire shares in Norwich Union plc.

The interests of the directors were as follows:

	At 1/1/99 or subsequent date of appointment.	Granted during year	At 31/12/99	Exercise Price (p)	Earliest and latest exercise date
E C Bishop					
- 1997 scheme	3,750	-	3,750	260	2000
M A Hall					
- 1999 scheme	-	4,674	4,674	361	2004
D J Pearce					
- 1997 scheme	6,634	-	6,634	260	2002
D Rowlinson					
- 1998 scheme	2,586	-	2,586	377	2001
I B Womack 97					
- 1997 scheme	6,634	-	6,634	260	2002
L Woolterton 97					
- 1997 scheme	6,634	-	6,634	260	2002
- 1998 scheme	-	4,575	4,575	377	2003

Norwich Union Investment Management Limited

Directors' report, continued

to the 12th Annual General Meeting

Norwich Union plc also has a long term incentive plan (LTIP) which is administered by the Remuneration Committee. The LTIP comprises two parts:

- (a) the Share Participation Scheme (SPS);
- (b) the Restricted Share Plan.

The SPS is designed to provide an opportunity for executive directors and certain senior managers to earn an additional reward which depends on personal commitment from participants and which is directly aligned with shareholders' interests. The RSP gives the executive directors and a limited group of senior executives who have the greatest influence on the Group's performance an additional potential reward linked to relative corporate performance over the medium term. Full details of both of these schemes are included in the accounts of Norwich Union plc.

The interests of the directors were as follows:

	At 1/1/99 or subsequent date of appointment	Granted during year	At 31/12/99
E C Bishop	6,467	7,948	14,415
D J Pearce	7,349	-	7,349
D Rowlinson	5,459	7,065	12,524
I B Womack	6,299	6,623	12,922

The numbers of shares shown above are the number of shares to which each director would become entitled if all performance criteria under the long term incentive plan are met to the maximum extent.

The interests in the share capital and options of the ultimate holding company in respect of M N Biggs and R J Harvey are disclosed in the accounts of the ultimate holding company.

Payment Policy

It is the company's policy to adhere to the Confederation of British Industry Prompt Payer Code of Good Practice, (the CBI code) for external parties providing goods and services to the Company. This policy excludes payments to policyholders and shareholders. Company policy is:

- (a) to agree the payment terms when agreeing each transaction and to provide suppliers with clear guidance on payment procedures;
- (b) to have a consistent policy that bills are settled in accordance with contract and to not extend or alter these payment terms without prior agreement;
- (c) to ensure there is a system for dealing quickly with complaints and disputes and advise suppliers without delay when invoices or parts of invoices are contested.

Norwich Union Investment Management Limited
Directors' report, continued
to the 12th Annual General Meeting

When agreeing the terms of each transaction with its suppliers the Company's preferred payment policy accords with that of the ultimate parent undertaking, the details of which are disclosed in that company's accounts. As the Company uses Group systems to pay creditors it is not practical to calculate an average outstanding period for amounts due.

The CBI code is available from the Confederation of British Industry or from Group Purchasing department at Norwich Union Head Office.

Employees

All employees are employed by a fellow subsidiary company, Norwich Union Services Limited. Disclosures relating to employees may be found in the group consolidated accounts of Norwich Union plc.

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution will be submitted at the meeting to reappoint them as auditors and to authorise the directors to determine their remuneration.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'MNB' followed by a stylized flourish.

Director
Norwich Union Investment Management Limited

28 March 2000

Norwich Union Investment Management Limited

Statement of Directors' responsibilities in respect of the accounts

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

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

The directors confirm that the accounts comply with the above 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 accounts 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.

Norwich Union Investment Management Limited

Notes to the accounts

3 Directors' emoluments

Ten directors (1998 – nine directors) who held office during the year were remunerated for their services to the company. Details of their emoluments, as paid by Norwich Union Services Limited, are as follows:

	1999 £	1998 £
Aggregate emoluments	2,294,186	1,945,188
Members of defined benefit schemes	9	7
Members of defined contribution scheme	1	2
	10	9

The amount in respect of the highest paid director is as follows:

	1999 £	1998 £
Aggregate emoluments	564,118	641,814
Accrued pension	4,444	-

The other two directors who held office during the year were not primarily remunerated for their services to the company.

4 Other interest receivable

	1999 £	1998 £
Group undertakings	796,320	277,811

Norwich Union Investment Management Limited

Notes to the accounts

5	<u>Investments</u>	1999	1998
		£	£
	<i>Listed investments</i>		
	Market value at beginning of year	15,691,812	16,858,325
	Disposals	(17,598,560)	(1,993,139)
		<hr/>	<hr/>
		(1,906,748)	14,865,186
	Profit on disposals relating to the current year	6,160,892	43,700
	Revaluation reserve transfer	(4,254,144)	782,926
		<hr/>	<hr/>
	Market value at end of year	-	15,691,812
		<hr/>	<hr/>
	Cost	-	11,437,669
		<hr/>	<hr/>
6	<u>Taxation</u>	1999	Restated 1998
		£	£
	Provision for taxation on the results for the year has been made as shown below.		
	Corporation tax at 30.25% (1998 31%)	(852,003)	14,476
	Group relief	-	1,429,571
		<hr/>	<hr/>
	Total taxation for the year	(852,003)	1,444,047
	Adjustment in respect of prior years	(143,328)	882,738
		<hr/>	<hr/>
	(Credit) / Charge to the profit and loss account	(995,331)	2,326,785
		<hr/>	<hr/>
	Details of the full potential deferred taxation are given below:		
	<i>Not provided in accounts:</i>		
	Unprovided timing differences on capital items	(231,061)	(535,907)
	Unrealised appreciation on shareholders' fund investments	-	1,287,573
	Capitalised expenses	-	(237,554)
	Short term timing differences	-	(60,500)
		<hr/>	<hr/>
		(231,061)	453,612
		<hr/>	<hr/>

Norwich Union Investment Management Limited

Notes to the accounts

7	<u>Intangible assets</u>	1999 £	1998 £
	Development costs		
	1 January 1999	815,067	-
	Impairment loss	(815,067)	-
	At 31 December	-	-

Development expenditure is deferred on projects where the outcome is assessed as being reasonably certain as regards viability and technical feasibility. In the opinion of the directors, these circumstances justify the decision to defer the costs and not treat them as a realised revenue loss.

The expenditure deferred in 1998 has been fully amortised this year following an impairment review as the directors feel that there are uncertainties surrounding the potential future economic benefits arising from this expenditure.

8	<u>Tangible Assets</u>	<u>Computer Equipment</u>	<u>Office Furniture</u>	<u>Total</u>
		£	£	£
	Cost at 1 January 1999	-	-	-
	Additions	2,557,567	410,000	2,967,567
	Cost at 31 December 1999	2,557,567	410,000	2,967,567
	Accumulated depreciation at 1 January 1999	-	-	-
	Charge for the year	-	-	-
	Accumulated depreciation at 31 December 1999	-	-	-
	Net book value at 31 December 1999	2,557,567	410,000	2,967,567
	Net book value at 1 January 1999	-	-	-

Depreciation has not been charged because the assets were not brought into use during 1999.

Norwich Union Investment Management Limited

Notes to the accounts

9 Subsidiary undertakings

At the year end, the company held 100% of the allotted share capital of four subsidiary undertakings, being Centre Services (East) Limited, Queensgate Management Services Limited, Norwich Union Share Account Limited and Norwich Union Mortgage Management Limited. These companies are all registered in England and Wales.

The decrease in the valuation of subsidiary undertakings of £8,070 relates to a decrease in the net asset value of Norwich Union Mortgage Management Limited.

10	<u>Debtors</u>	1999 £	1998 £
	Trade debtors	700,803	407,510
	Other debtors	1,891	7,820
	Corporation Tax	1,905,030	-
	Due from parent undertaking and fellow subsidiaries	1,068,182	1,649,377
	Accrued income	62,354	94,128
		<u>3,738,260</u>	<u>2,158,835</u>

11	<u>Creditors : Amounts falling due within one year</u>	1999 £	1998 £
	Due to parent undertaking and fellow subsidiaries	4,193,124	2,879,278
	Corporation tax	-	36,994
	Other taxes	177,457	113,792
	Accruals	2,822,822	5,607,335
	Other creditors	177,838	26,228
		<u>7,371,241</u>	<u>8,663,627</u>

Norwich Union Investment Management Limited

Notes to the accounts

12 Reconciliation of shareholders' funds and movement on reserves

	Share Capital £	Revaluation Reserve £	Profit and Loss Account £	Total Shareholders' Funds £
At 1 January 1998	10,000,000	3,925,138	1,410,920	15,336,058
Profit for the financial year	-	-	274,894	274,894
Dividend and other Appropriations	-	-	(1,200,000)	(1,200,000)
Realised gain on disposal of investments		(453,920)	453,920	-
Increase in value of Investments	-	782,926	-	782,926
Increase in net asset value of subsidiary undertakings	-	8,296	-	8,296
At 31 December 1998	10,000,000	4,262,440	939,734	15,202,174
Profit for the financial year	-	-	1,436,912	1,436,912
Dividend and other Appropriations	-	-	-	-
Realised gain on disposal of investments	-	(4,254,144)	4,254,144	-
Decrease in net asset Value of subsidiary Undertakings	-	(8,070)	-	(8,070)
New share capital subscribed	4,000,000	-	-	4,000,000
At 31 December 1999	14,000,000	226	6,630,790	20,631,016

Norwich Union Investment Management Limited

Notes to the accounts

		1999 £	1998 £
13	<u>Share Capital</u>		
	Share Capital (authorised, allotted, called up and fully paid)		
	14,000,000 (1998: 10,000,000) ordinary shares of £1 each	14,000,000	10,000,000

During the year the authorised share capital was increased by £4,000,000 by the creation of 4,000,000 ordinary shares of £1 each. These were allotted at £1 each for the purpose of increasing the solvency ratios of the company.

14 **Contingent liabilities**

There are contingent liabilities in respect of possible levies to meet liabilities arising from investor loss following insolvencies of other Investment Management Regulatory Organisation Limited members. The amounts are by their nature unknown, and there would be no possibility of reimbursement.

15 **Capital commitments**

The company had no capital commitments at either balance sheet date.

16 **Related party transactions**

Transactions with entities which are part of the Norwich Union plc Group have not been disclosed as permitted under FRS 8 - Related Party Disclosures.

17 **Parent undertaking and ultimate parent undertaking**

The company's immediate parent undertaking is Norwich Union Holdings Limited, registered in England. The company is a member of the Norwich Union plc Group and its ultimate parent undertaking is Norwich Union plc, registered in England. The accounts of the ultimate parent undertaking are available from its Registered Office, Surrey Street, Norwich, NR1 3NG.

18 **Post balance sheet event**

On 21 February 2000, the Board of Norwich Union plc announced that it had agreed terms for a proposed merger with CGU plc to create CGNU plc.

Norwich Union Investment Management Limited

Report of the Auditors

to the members of Norwich Union Investment Management Limited

We have audited the accounts on pages 9 to 19 which have been prepared under the historical cost convention as modified by the revaluation of investments and on the basis of the accounting policies set out on page 12 and 13.

Respective responsibilities of directors and auditors

As described on page 7 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

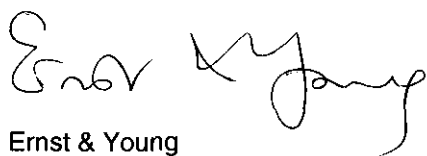
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relating to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by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

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

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London
28 March 2000

Norwich Union Investment Management Limited

Profit and loss account

for the year ended 31 December 1999

<i>Notes</i>		1999	Restated
<i>1(b)</i>		£	1998
	Turnover	34,676,232	31,872,875
<i>2&3</i>	Administrative expenses	(37,240,724)	(30,149,213)
	Operating (loss) / profit	(2,564,492)	1,723,662
<i>1(j)</i>	Income from investments	303,005	556,506
<i>4</i>	Other interest receivable	796,320	277,811
		(1,465,167)	2,557,979
<i>5</i>	Profit on disposal of investments	1,906,748	43,700
<i>1(j)</i>	Profit on ordinary activities before taxation	441,581	2,601,679
<i>6</i>	Taxation	995,331	(2,326,785)
<i>12</i>	Profit for the financial year	1,436,912	274,894
	Dividends	-	(1,200,000)
	Retained profit / (loss) for the financial year	1,436,912	(925,106)

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

All amounts reported in the profit and loss account relate to continuing operations.

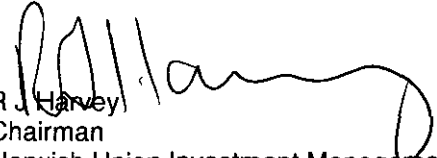
Norwich Union Investment Management Limited

Balance Sheet

at 31 December 1999

Notes		1999 £	1998 £
	Fixed assets		
1(h)& 7	Intangible assets	-	815,067
1(k)& 8	Tangible assets	2,967,567	-
1(d)& 5	Investments	-	15,691,812
9	Subsidiary undertakings	100,240	108,310
		<hr/>	<hr/>
		3,067,807	16,615,189
	Current assets		
10	Debtors	3,738,260	2,158,835
	Short term deposits	20,039,778	-
	Cash at bank	1,156,412	5,291,777
		<hr/>	<hr/>
		24,934,450	7,450,612
11	Creditors: amounts falling due within one year	(7,371,241)	(8,663,627)
	Net current assets / (liabilities)	<hr/>	<hr/>
		17,563,209	(1,213,015)
	Total assets less current liabilities	<hr/>	<hr/>
		20,631,016	15,402,174
	Creditors: amounts falling due after more than one year		
	Accruals	-	200,000
		<hr/>	<hr/>
		20,631,016	15,202,174
	Capital and reserves		
13	Called up share capital	14,000,000	10,000,000
1(f)&12	Revaluation reserve	226	4,262,440
12	Profit and loss account	6,630,790	939,734
12	Equity shareholders' funds	<hr/>	<hr/>
		20,631,016	15,202,174

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


R. J. Harvey
Chairman
Norwich Union Investment Management Limited
28 March 2000

Norwich Union Investment Management Limited

Statement of total recognised gains and losses

for the year ended 31 December 1999

	1999	1998
	£	£
Profit for the financial year	1,436,912	274,894
Unrealised surplus on revaluation of investments for the year	-	782,926
Unrealised (deficit) / surplus on (decrease) / increase to net asset value of subsidiary undertakings	(8,070)	8,296
Total recognised gains and losses	1,428,842	1,066,116

Note of historical cost profits and losses

	1999	1998
	£	£
Reported profit on ordinary activities before taxation	441,581	2,666,592
Realisation of investment revaluation gains of previous years	4,254,144	453,920
Historical cost profit on ordinary activities before taxation	4,695,725	3,120,512
Historical cost profit / (loss) for the year retained after taxation and dividends	5,691,056	(471,186)

Norwich Union Investment Management Limited

Notes to the accounts

1 Accounting policies

(a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified by the revaluation of investments, and in accordance with applicable accounting standards.

The company is a wholly owned subsidiary of Norwich Union Holdings Limited, a wholly owned subsidiary of Norwich Union plc. Norwich Union plc prepares group accounts, and therefore under the provisions of section 228(2) of the Companies Act 1985, group accounts have not been prepared for the company and its subsidiary undertakings. The directors consider the value of the company's investment in subsidiary undertakings to be not less than the amount included in the accounts.

(b) Turnover

Turnover represents income from continuing securities and property fund management services provided, and is shown net of VAT and trade discounts.

(c) Deferred taxation

Deferred taxation is calculated on the liability basis, but is provided only where the timing differences are likely to crystallise in the foreseeable future.

(d) Valuation of investments

Investments are valued at market price.

(e) Shares in subsidiary undertakings

Subsidiary undertakings are valued at net asset value.

(f) Revaluation reserve

The revaluation reserve represents the difference between cost and market value of investments and subsidiary undertakings.

(g) Cash flow statement

The company is exempt under FRS 1 (Revised) from preparing a cash flow statement as it is 100% owned within the Norwich Union plc Group. The consolidated cash flow statement, which includes the company, can be found in the Group accounts of Norwich Union plc.

(h) Deferred expenditure

Certain expenditure incurred on the development of computer systems and certain other projects which is considered to have an economic benefit to the company lasting several years into the future and is substantial in amount is deferred and amortised over the period in which economic benefits are expected to emerge. The expenditure is subject to an annual impairment review.

(i) Group taxation relief

Where possible losses for taxation purposes arising within the company are utilised by other companies within the Norwich Union plc Group. These losses are transferred either at full value or at a value which reflects the prevailing rate of taxation, depending upon the financial circumstances.

Norwich Union Investment Management Limited

Notes to the accounts

(j) Dividend Income

Financial Reporting Standard 16 "Current Tax" was published by the Accounting Standards Board on 16 December 1999 following recent changes in the United Kingdom tax system. The principal requirement of the FRS is that United Kingdom dividends should be recognised at the amount receivable without any attributable UK tax credit with effect from the company's financial year ended on 31 December 1999 and the company has restated its results for 1998 so that these are comparable.

The change in accounting policy has a purely presentational effect and does not alter the profit of the company after taxation. Accordingly shareholders' reserves at 31 December 1999 and 31 December 1998 remain at the same level before and after the change in accounting for dividend income.

The impact of the change in accounting policy on profit before taxation is a reduction of £31,689 (1998: £64,913).

(k) Tangible assets

Computer equipment and other tangible assets are capitalised at cost, and depreciation is charged to the accounts over their estimated useful lives of between three and five years. Assets acquired under finance leases are capitalised and charged to the accounts over the shorter of the term of the leases or their estimated useful lives subject to a maximum of five years. Computer equipment acquired under a finance lease is capitalised and depreciated over the period of the lease. All tangible assets are tested for impairment where events or changes in circumstances indicate that the carrying amount may not be recoverable.

	1999 £	1998 £
2 <u>Administrative expenses</u>		
Administrative expenses include:		
Auditors' remuneration as auditors	11,500	11,500
Auditors' remuneration for other services	654,938	374,663
	<hr/>	<hr/>