



PRUDENTIAL UNIT TRUSTS LIMITED

2003 ANNUAL REPORT AND FINANCIAL
STATEMENTS



CERTIFIED AS
TRUE COPY ¹²
(pages)

A handwritten signature in cursive script, appearing to read "K Macdonald".

Kerryn Macdonald
Secretary

PRUDENTIAL UNIT TRUSTS LIMITED

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

ANNUAL REPORT AND FINANCIAL STATEMENTS 2003

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PRUDENTIAL UNIT TRUSTS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2003

G P J Shaughnessy (Chairman)
 R M Cook
 D W Dibben
 C I Jackson
 M Lewis
 G W MacDowall
 J R Talbot

Principal activity and business review

The principal activity of the Company is the distribution and management of unit trusts and the equity element of Individual Savings Accounts (ISA's).

During the year the administration function for the Company was outsourced to a third party – International Financial Data Services (IFDS).

Results and dividends

Details of the results for the year are set out in the profit and loss account on page 4.

No dividends have been paid during the year (2002: £ nil). The Directors do not propose to recommend a final dividend (2002: £nil).

Directors

The Directors in office during the year were as follows:

	Appointed	Resigned
R M Cook	08/01/2004	
N A Courtenay-Smith		19/01/2004
D W Dibben		
R J Field		08/05/2003
C I Jackson	31/12/2003	
M Lewis		
G W MacDowall		
G P J Shaughnessy		
J R Talbot		

Directors' interests

Messrs M Lewis and G P J Shaughnessy are also Directors of M&G Limited, the immediate parent company, and their interests are shown in the annual report and accounts of that company.

Other Directors in office at the end of the year had interests as follows:

(a) in Prudential plc shares of 5p each:	Shares at 31.12.03	Shares at 01.01.03 or at date of appointment
C I Jackson	1,263	1,263
G W MacDowall	4,844	4,752
J R Talbot	28,766	27,148
(b) in Egg plc, a subsidiary of Prudential plc, shares of 50p each:		
J R Talbot	940	940

PRUDENTIAL UNIT TRUSTS LIMITED

Directors' interests continued

(c) in Prudential plc share options under the Prudential savings-related share option scheme:

	Options at 01.01.03 or at date of appointment	During the period			Options at 31.12.03
		Granted	Exercised	Cancelled	
C I Jackson	3,375	-	-	-	3,375
G W MacDowall	2,731	5,866	-	2,731	5,866
J R Talbot	4,747	5,866	-	4,747	5,866

Except as stated above none of the Directors in office at the end of the year:

- had any interest in shares in, or debentures of, any Group company either at the beginning of the year or at a later date of appointment or at the end of the year; or
- were granted or exercised any right to subscribe for shares in, or debentures of, any Group company during the year or, if appointed during the year, since the date of their appointment up to the end of the year.

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 and of the profit or loss for that period. In preparing these financial statements, 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 financial statements;
- 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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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.



Mrs F J Molloy
Secretary
Laurence Pountney Hill
London, EC4R 0HH.

31 March 2004

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PRUDENTIAL UNIT TRUSTS LIMITED

We have audited the financial statements on pages 4 to 10.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditor's 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

The Directors are responsible for preparing the Directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the Company is not disclosed.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and 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 Company's affairs as at 31 December 2003 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

31 March 2003

PRUDENTIAL UNIT TRUSTS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 £'000	2002 £'000
Revenue	2	29,520	34,176
Operating expenses		<u>(27,482)</u>	<u>(31,092)</u>
Operating profit from continuing operations	3	2,038	3,084
Interest receivable and similar income	5	662	424
Interest payable	6	<u>(85)</u>	<u>(7)</u>
Profit on ordinary activities before tax		2,615	3,501
Tax on profit on ordinary activities	7	<u>(651)</u>	<u>(884)</u>
Profit on ordinary activities after tax retained for the year		<u>1,964</u>	<u>2,617</u>

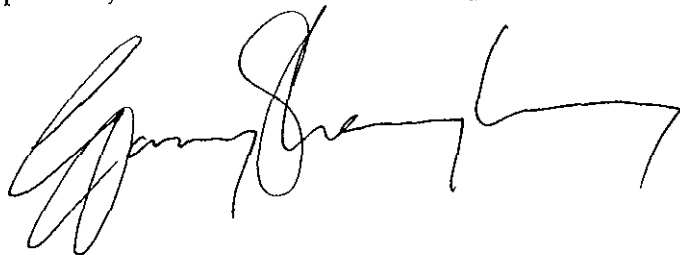
The Company has no recognised gains or losses other than the profit for the year as disclosed above, all of which is derived from continuing activities.

PRUDENTIAL UNIT TRUSTS LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2003

	Note	2003 £'000	2002 £'000
Current assets			
Stock		690	791
Deferred tax asset	8	190	253
Debtors	9	13,105	6,429
Cash at bank	10	4,544	8,105
		<u>18,529</u>	<u>15,578</u>
Creditors – amounts falling due within one year	11	(3,574)	(2,587)
Net assets		<u>14,955</u>	<u>12,991</u>
Capital and reserves			
Called up share capital	12	35,000	35,000
Profit and loss account		(20,045)	(22,009)
Total equity shareholders' funds		<u>14,955</u>	<u>12,991</u>

Approved by the Board of Directors and signed on its behalf by:



G P J Shaughnessy
Director



G W MacDowall
Director

31 March 2004

PRUDENTIAL UNIT TRUSTS LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2003

	2003 £'000	2002 £'000
Profit after tax attributable to shareholders	1,964	2,617
Opening equity shareholders' funds	12,991	10,374
Closing equity shareholders' funds	<u>14,955</u>	<u>12,991</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

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

Revenue from the purchase and sale of units is included in the profit and loss account as it is earned.

Management fees represent the Company's periodic charge made to the trustee of the funds and are accounted for on an accruals basis.

b) 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.

c) Stock

Stocks of units are valued at net realisable value at the balance sheet date.

d) Interest receivable

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

e) Interest payable

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

f) Investment Income

Dividends on equities and distributions on unit trusts are included when the investments are quoted ex-dividend.

g) Expenses recognition

Operating expenses include a recharge from the immediate parent company of costs borne on behalf of the Company.

2. Revenue

	2003 £'000	2002 £'000
Gross sales of units	230,939	235,776
Less: cost of sales of units	<u>(229,173)</u>	<u>(234,439)</u>
Revenue from the purchase and sale of units	1,766	1,337
Management fees	<u>27,754</u>	<u>32,839</u>
	<u>29,520</u>	<u>34,176</u>

PRUDENTIAL UNIT TRUSTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

3. Operating profit

The operating profit for the year ended 31 December 2003 is stated after crediting the following exceptional item:

	2003 £'000	2002 £'000
Release of the Prudential plc's Retail Sales Force redundancy costs	<u>-</u>	<u>(449)</u>

Auditors' remuneration was paid by M&G Limited, the immediate parent company.

All staff were employed during the year by M&G Limited, the immediate parent company and as a consequence details of their remuneration are shown in the annual report and accounts of that company.

4. Directors' emoluments

Total Directors' emoluments for the year are as follows:

Directors' emoluments	236	204
Amounts receivable under long term incentive schemes	<u>49</u>	<u>53</u>
	<u>285</u>	<u>257</u>

The services of Messrs N Courtenay-Smith and R J Field were provided by Prudential Services Limited and no part of their remuneration is specifically attributable to their services to Prudential Unit Trusts Limited.

Mr M Lewis was also a Director of M&G Limited and received no emoluments in connection with the management of the affairs of the Company. His remuneration, as a Director of M&G Limited, is disclosed in the accounts of that company.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £ 141,469 (2002: £135,839). He is a member of the defined benefit scheme, under which the accrued pension which would be available from normal retirement date assuming retirement at the year end was £9,900 (2002: £7,560). He did not exercise any share options during the year but received shares under the long term incentive scheme.

	Number of Directors	
	2003	2002
The number of Directors with retirement benefits accruing under the defined benefit schemes	<u>4</u>	<u>4</u>
The number of Directors who exercised Prudential plc share options	<u>1</u>	<u>2</u>
The number of Directors in respect of whose services shares were received or receivable under long term schemes	<u>3</u>	<u>3</u>

5. Interest receivable and similar income

Interest receivable from group undertakings	582	380
Sundry income	1	23
Other interest receivable	68	-
Unlisted investments	<u>11</u>	<u>21</u>
	<u>662</u>	<u>424</u>

PRUDENTIAL UNIT TRUSTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

6. Interest payable	2003	2002
	£'000	£'000
Interest payable to group undertakings	5	2
Other interest payable	<u>80</u>	<u>5</u>
	<u>85</u>	<u>7</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	721	966
Adjustments in respect of previous periods	<u>(133)</u>	<u>(179)</u>
	<u>588</u>	<u>787</u>
Deferred tax		
Origination and reversal of timing differences	63	84
Adjustments in respect of previous periods	<u>-</u>	<u>13</u>
Tax charge on profit on ordinary activities	<u>651</u>	<u>884</u>
b) Factors affecting tax charge for the period		
The tax assessed in the year 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	<u>2,615</u>	<u>3,501</u>
Profit on ordinary activities at standard rate of corporation tax in the UK of 30% (2002 : 30%)	<u>784</u>	<u>1,050</u>
Effects of:		
Deferred tax recognised in period	(63)	(84)
Adjustments to current tax in respect of previous periods	<u>(133)</u>	<u>(179)</u>
	<u>588</u>	<u>787</u>
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 periods.		
8. Deferred tax asset		
Provision for deferred tax		
Accelerated capital allowances	<u>190</u>	<u>253</u>
Deferred tax asset at start of period	253	350
Deferred tax in respect of previous periods	-	(13)
Deferred tax charged to the profit and loss account for the period	<u>(63)</u>	<u>(84)</u>
	<u>190</u>	<u>253</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

9. Debtors	2003 £'000	2002 £'000
Debtors for unit sales	952	157
Unit trust trustees for units cancelled	845	645
Amounts due from group undertakings	10,957	5,450
Corporation tax	229	-
Other debtors	122	177
	<u>13,105</u>	<u>6,429</u>

10. 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.

11. Creditors: amounts falling due within one year

Creditors for unit redemptions	1,430	539
Unit trust trustees for units created	284	139
Amounts owed to group undertakings	1,389	1,589
Corporation tax	329	81
Other creditors	142	239
	<u>3,574</u>	<u>2,587</u>

12. Share capital

Authorised, allotted, issued and fully paid
35 million ordinary shares of £1 each

<u>35,000</u>	<u>35,000</u>
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13. Immediate and ultimate parent company

The immediate parent company is M&G Limited.

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

14. Related party transactions

In accordance with FRS 8 the Company is required to disclose details of its related party transactions with the unit trusts that it manages. The Company earned £27,444,664 (2002: £32,418,197) during the year from the management of unit trusts.

The Company has taken advantage of the exemption under FRS 8 from disclosing transactions with other subsidiary undertakings of the Prudential Group.