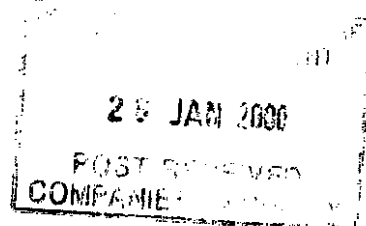


THREADNEEDLE PORTFOLIO SERVICES LIMITED

(Registered Number: 285988)

**Report and Accounts
for the Year Ended
31 December 1998**



Threadneedle Portfolio Services Limited
Report and Accounts for the Year Ended 31 December 1998

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DIRECTORS

S H Davies

Chairman

D F Sachon

Managing Director

A J Ainsworth

G E P Beech

M E Blair

T W Challenor

R Eats

Appointed 18 August 1998

N J Kirk

Resigned 31 March 1999

W Lowndes

Appointed 17 November 1998

H J Maguire

R D Clark

Resigned 22 May 1998

P V S Manduca

Resigned as Chairman on 22 February 1999

Secretary and registered office

A Kaye
60 St Mary Axe
London
EC3A 8JQ

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

The Directors present their report and the audited financial statements for the year ended 31 December 1998.

Significant developments and principal activities

The nature of the principal activities of the Company are those of PEP manager and Portfolio Management Service manager of the range of Threadneedle Investment and Managed Funds.

The development of the retail business continued during 1998 with the launch of TIF in Europe on 6 April 1998. This made Threadneedle the first group to offer OEIC products in Europe and was facilitated by the *in specie* transfer of assets into TIF from Threadneedle Global Assets (TGA), a Luxembourg based SICAV administered by a subsidiary company, Threadneedle Global Assets Fund Managers SA. Following the transfer, TGA was wound up and Threadneedle Global Assets Fund Managers SA was liquidated.

On 7 September 1998, the financial services businesses of B.A.T. Industries (including the Company) were merged with Zurich Insurance under Zurich Financial Services, a company incorporated in Switzerland.

On 8 September 1998 British American Financial Services (UK & International) Limited changed its name to Zurich Financial Services (UKISA) Limited. Zurich Financial Services (UKISA) Limited continues to act as the holding company of the Zurich Financial Services Group subsidiaries in the UK, Ireland and Southern Africa.

The Directors do not anticipate any change in the nature of activities in the foreseeable future. However, it is anticipated that in 1999 the ownership and business of the Threadneedle Asset Management Group, of which the Company is a member, will be sold to Scudder Kemper Investments Group, another part of Zurich Financial Services Group.

Results and dividends

The profit and loss account for the year is set out on page 8. The retained profit for the year is £182,000 (1997: £4,409,000 loss). The level of business and the financial position at the end of the year are satisfactory and the Directors expect the level of activity to be sustained for the foreseeable future.

The Directors do not recommend the payment of a dividend in respect of 1998 (1997: £11,957,000).

Year 2000 compliance

A programme to ensure that the Year 2000 date change does not disrupt the Company's operations started in early 1997. During 1998, the programme continued to progress in line with the Directors' expectations. The programme is based on a detailed risk assessment that includes such areas as continuity of supplied services, contingency planning and health and safety, as well as in-house individual computer systems. The overall cost of the programme for the Threadneedle Group of which the Company is a member is expected to be £3 million, incurred over 3 years.

Fixed assets

There were no movements in fixed assets during 1998.

Directors

The Directors of the Company are listed on page 2.

Mr. P.V.S. Manduca resigned as a Director on 22 February 1999 and Mr N.J. Kirk resigned as Director on 31 March 1999. The Board has placed on record its high appreciation of the contributions made by Mr. Manduca and Mr Kirk to the formation and development of the Company. Mr. S.H. Davies was appointed as Chairman in succession to Mr. Manduca on 22 February 1999.

Directors' interests

The Company is a subsidiary of Zurich Financial Services, a Company incorporated in Switzerland which is owned as to 57% by Zurich Allied AG, incorporated in Switzerland and as to 43% by Allied Zurich p.l.c, incorporated in England and Wales. Neither Zurich Allied AG nor Allied Zurich p.l.c. falls within the definition of a holding Company in Section 736, Companies Act 1985. None of the Directors are interested in any shares or debentures of Zurich Financial Services.

Creditor payment policy

In respect of all 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
- abide by the terms of payment

The proportion which the amount owed to suppliers at 31 December 1998 bears to the amounts invoiced by suppliers during the year then ended equates to 2 days proportion of 365 days.

Directors' responsibilities

The following statement sets out the responsibilities of the Directors in relation to the financial statements of the Company. The report of the auditors on page 7 sets out their responsibilities in relation to the financial statements.

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 for the financial year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then 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 also 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 required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

Threadneedle Portfolio Services Limited
Report and Accounts for the Year Ended 31 December 1998

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

Auditors

The Company's auditors, Coopers and Lybrand, merged with Price Waterhouse on 1 July 1998 following which Coopers and Lybrand resigned and the Directors appointed the new firm, PricewaterhouseCoopers, as auditors. The Company has elected by a resolution passed in accordance with section 386, Companies Act 1985 and dated 2 September 1997, to dispense with the obligation to appoint auditors annually.

By order of the board


A Kaye

Company Secretary

28 April 1999

**REPORT OF THE AUDITORS TO THE MEMBERS OF THREADNEEDLE
PORTFOLIO SERVICES LIMITED**

We have audited the financial statements on pages 8 to 15.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report and Accounts, including as described on page 5, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and 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. 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 Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

30 April 1999

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998**

	Note	1998 £'000	1997 £'000
Turnover	2	98	148,699
Cost of sales		-	(129,676)
Gross profit		98	19,023
Administrative expenses		(526)	(5,101)
Distribution costs		-	(6,353)
Other operating income		687	3,067
Profit on ordinary activities before taxation	4	259	10,636
Taxation	5	(77)	(3,088)
Profit on ordinary activities after taxation		182	7,548
Dividends	6	-	(11,957)
Retained profit / (loss) for the year		182	(4,409)

The movements in reserves are set out in note 10.

All results are derived from continuing operations.

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

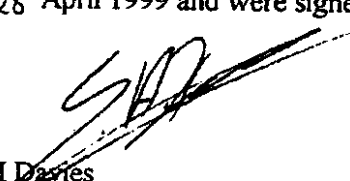
The Company has no recognised gains or losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented.

Threadneedle Portfolio Services Limited
Report and Accounts for the Year Ended 31 December 1998

BALANCE SHEET AS AT 31 DECEMBER 1998

	Note	1998 £'000	1997 £'000
Current assets			
Debtors	7	2,726	568
Cash at bank and in hand		<u>8,287</u>	<u>16,474</u>
		11,013	17,042
Creditors: Amounts falling due within one year	8	(4,837)	(11,048)
Net current assets		<u>6,176</u>	<u>5,994</u>
Total assets less current liabilities		<u>6,176</u>	<u>5,994</u>
Net assets		<u>6,176</u>	<u>5,994</u>
Share capital and reserves			
Called up share capital	9	100	100
Capital reserve		150	150
Profit and loss account	10	<u>5,926</u>	<u>5,744</u>
Equity shareholders' funds	11	<u>6,176</u>	<u>5,994</u>

The financial statements on pages 8 to 15 were approved by the Board of Directors on 28 April 1999 and were signed on its behalf:


S H Davies
Chairman
28 April 1999

NOTES TO THE ACCOUNTS

1. Accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 (schedule 4) and applicable Accounting Standards in the United Kingdom. The cash flows of the Company are included in the consolidated cash flow statement of the Company's ultimate parent, Zurich Financial Services. Accordingly, no separate cash flow statement for the Company has been presented.

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.

c) **Income recognition**

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

d) **Value Added Tax**

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

e) **Foreign currencies**

Transactions in foreign currencies are translated at the rate ruling at the date of the transaction. Assets and liabilities at the year end are translated at closing rates of exchange.

2. Turnover

The Company's activities relate to those of PEP management and related activities. Turnover is split between group undertakings and third parties as follows:

	1998 £'000	1997 £'000
Group undertakings		
- Europe	-	-
- UK	-	26,899
Third party		
- Europe	98	-
- UK	-	121,800
	<u>98</u>	<u>148,699</u>

3. Directors and employees

From the beginning of 1998, all staff involved in work relating to Threadneedle Portfolio Services Limited were employed by Threadneedle Investment Services Limited or Threadneedle International Fund Management SA.

	1998	1997
Employees		
The average number of employees of the Company was: Administration	<u>-</u>	<u>25</u>

	1998 £'000	1997 £'000
--	---------------	---------------

The costs of these staff were:

Staff costs

Salaries	-	340
Social security costs	-	36
Pensions and post retirement benefits	-	19
	<u>-</u>	<u>395</u>

Threadneedle Portfolio Services Limited
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	1998	1997
Directors' remuneration	£	£'000
Aggregate emoluments	597	112
Pension contributions	28	7
	<u>625</u>	<u>119</u>

Eight Directors exercised share options in the year. Retirement benefits are accruing to 11 Directors under a defined benefit scheme.

In respect of the highest paid Director:

	1998	1997
	£'000	£'000
Aggregate emoluments and amounts receivable under long-term incentive schemes	152	36
Defined benefit pension scheme:		
Accrued pension at end of year	6	1

The emoluments of the Chairman and other Directors of the Company who are also Directors of the Company's parent Company, Threadneedle Asset Management 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. Profit on ordinary activities before taxation

The remuneration of the Company's auditors of £15,000 has been borne by its parent company (1997: £16,000).

Threadneedle Portfolio Services Limited
Report and Accounts for the Year Ended 31 December 1998

5. Taxation

The tax charge for the year is based upon the taxable income in the profit and loss account and is made up as follows:-

	1998 £'000	1997 £'000
UK corporation tax at 31% (1997: 31.5%)	(77)	(2,639)
Imputed tax credits	-	(449)
	<u>(77)</u>	<u>(3,088)</u>

6. Dividends

	1998 £'000	1997 £'000
<u>Interim Dividend Paid</u>		
£Nil per ordinary share of £1 paid (1997: £119.57)	-	11,957
	<u>-</u>	<u>11,957</u>

7. Debtors

	1998 £'000	1997 £'000
Amounts due from group undertakings	346	-
Other debtors	2,343	555
Prepayments	37	13
	<u>2,726</u>	<u>568</u>

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Report and Accounts for the Year Ended 31 December 1998

8. Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Amounts due to group undertakings	4,544	8,148
Other creditors	33	80
Tax payable	260	2,820
Proposed dividend	-	-
	<u>4,837</u>	<u>11,048</u>

9. Share capital

	1998 £'000	1997 £'000
Authorised, allotted, called up and fully paid 100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>

10. Movement in reserves

	1998 £'000	1997 £'000
At 1 January	5,744	10,153
Retained profit / (loss) for the year	182	(4,409)
At 31 December	<u>5,926</u>	<u>5,744</u>

11. Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Shareholders' funds at 1st January	5,994	10,403
Profit for the year	182	7,548
Dividends	-	(11,957)
Shareholders' funds at 31 December	<u>6,176</u>	<u>5,994</u>

12. Ultimate parent company

The Company's ultimate parent company is Zurich Financial Services, which is incorporated in Switzerland. Zurich Financial Services is owned as to 57% by Zurich Allied AG, incorporated in Switzerland, and as to 43% by Allied Zurich p.l.c. incorporated in England and Wales.

Copies of the consolidated financial statements of Zurich Financial Services can be obtained from The Secretary, Allied Zurich p.l.c., 22 Arlington Street, London SW1A 1RW.

The immediate parent company is Threadneedle Asset Management Limited, a company registered in England and Wales. Copies of the consolidated financial statements of Threadneedle Asset Management Ltd. can be obtained from The Secretary, Threadneedle Asset Management Ltd, 60 St. Mary Axe, London EC3A 8JQ.

13. 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.