

BRITANNIC FUND MANAGERS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2001

COMPANY REGISTRATION NUMBER 85610

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**BRITANNIC FUND MANAGERS LIMITED
REPORT BY THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2001**

PRINCIPAL ACTIVITY

The principal activity of the Company is the management of unit trusts, Personal Equity Plans (PEP's) and Individual Savings Accounts (ISA's) investing solely in unit trusts.

FINANCIAL STATEMENTS

The audited financial statements together with relevant notes and report of the auditors are shown on pages 4 to 14.

The loss for the year, after taxation, was £1,082,000 (2000 – profit £2,994,000) and the funds under management amounted to £1,918m at 31 December 2001 (31 December 2000 – £1,890m).

No interim dividends were paid during the year (2000 – £Nil). The Directors do not recommend the payment of a final dividend (2000 – £1,795,000). There is a surplus of £265,000 (2000 – surplus £1,347,000) carried forward in reserves.

SIGNIFICANT EVENTS

In September 2001 the company implemented a new customer administration system for unit trusts, PEP's and ISA's.

L McIntosh took over as Chief Executive Officer from D O'Neil on 1 July 2001.

DIRECTORS AND THEIR INTERESTS

Directors:	H Cottam	FCA - Chairman
	L McIntosh	MSI - Chief Executive Officer (from 1 July 2001)
	P Reid	MA ASIP - Chief Investment Officer
	D O'Neil	BSc FFA, Chief Executive Officer (until 30 June 2001)
	B Quinn	CBE
	Andrew Dewar-Durie	CBE (Appointed 14 February 2001)
	R Fortin	(Appointed 23 January 2001)
	Sir G H Laird	CBE (Resigned 14 February 2001)
	F Ghiloni	BSc FFA (Appointed 16 May 2001)
	I C Adam	CA (Resigned 14 March 2001)
	D Ferrans	BSc FFA (Resigned 31 May 2001)

**BRITANNIC FUND MANAGERS LIMITED
REPORT BY THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2000 (CONT'D)**

DIRECTORS AND THEIR INTERESTS (CONT'D)

H Cottam and R Fortin are Directors of Britannic plc, and details of their interests are disclosed in the accounts of Britannic plc. No other Director held any beneficial interest in the share capital of the Company or any group Company.

FUTURE DEVELOPMENTS

The Company will seek to increase its funds under management by looking at opportunities for new product launches and by acquisition.

AUDITORS

A resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD


D A WAGNER
Secretary

12 February 2002

Registered Office :
Britannic Court
50 Bothwell Street
GLASGOW G2 6HR

BRITANNIC FUND MANAGERS LIMITED CORPORATE GOVERNANCE

The Company strives to comply as far as possible, given its position as a subsidiary, with corporate governance best practice. Following a group wide review of the Corporate Governance structure, a full committee structure in accordance with Combined Code requirements was adopted by the Company in May 2000 and is now in operation. In keeping with governance best practice an annual review is carried out by the Corporate Governance Audit and Compliance Review Committee.

A detailed risk management framework in line with Turnbull Guidance is in place and operates effectively.

STATEMENT OF 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 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 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 ensuring appropriate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
BRITANNIC FUND MANAGERS LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2001**

We have audited the financial statements on pages 5 to 14.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the directors' report and, as described on page 3, 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 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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

1 March 2002

KPMG Audit Plc
Registered Auditor
Chartered accountants

24 Blythwood Square
Glasgow
G2 4QS

BRITANNIC FUND MANAGERS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

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	<u>Note</u>	<u>2001</u> £000	<u>2000</u> £000
Turnover		22,705	22,802
Administrative expenses		<u>(24,155)</u>	<u>(18,668)</u>
Operating (loss)/profit	2	(1,450)	4,134
Interest receivable		<u>195</u>	<u>225</u>
(Loss)/profit on ordinary activities before taxation		(1,255)	4,359
Taxation	5	<u>173</u>	<u>(1,365)</u>
(Loss)/profit for the financial year after tax		(1,082)	2,994
Dividends:			
Final dividend proposed		<u>-</u>	<u>(1,795)</u>
Transfer (from)/to reserves	10	<u><u>(1,082)</u></u>	<u><u>1,199</u></u>

Recognised Gains and Losses

The Company has no recognised gains or losses for the current or prior year other than those detailed above.

The notes on pages 8 to 14 are an integral part of these financial statements.

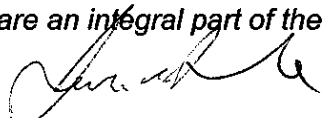
BRITANNIC FUND MANAGERS LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2001

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	<u>Note</u>	<u>2001</u> £000	<u>2000</u> £000
FIXED ASSETS			
Tangible Assets	6	<u>276</u>	<u>151</u>
CURRENT ASSETS			
Stock of units		510	706
Debtors	7	3,925	7,846
Cash at bank	15	<u>1,924</u>	<u>5,584</u>
		6,359	14,136
CREDITORS:			
Amounts falling due within one year	8	<u>(4,542)</u>	<u>(11,112)</u>
Net current assets		<u>1,817</u>	<u>3,024</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,093</u>	<u>3,175</u>
CAPITAL AND RESERVES:			
Called up share capital	9	1,308	1,308
Share premium account	11	520	520
Profit and loss account	10	<u>265</u>	<u>1,347</u>
TOTAL SHAREHOLDERS' FUNDS - EQUITY		<u>2,093</u>	<u>3,175</u>

The financial statements were approved by the Directors on 12 February 2002.

The notes on pages 8 to 14 are an integral part of these financial statements.


L McIntosh

Director

BRITANNIC FUND MANAGERS LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2001

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	<u>Note</u>	<u>2001</u> £000	<u>2000</u> £000
NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES	13	<u>(705)</u>	<u>5,634</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		<u>195</u>	<u>225</u>
TAXATION			
Corporation tax paid		<u>(871)</u>	<u>(1,454)</u>
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		<u>(484)</u>	<u>-</u>
EQUITY DIVIDENDS PAID		<u>(1,795)</u>	<u>(1,677)</u>
(DECREASE) / INCREASE IN CASH	14	<u><u>(3,660)</u></u>	<u><u>2,728</u></u>

The notes on pages 8 to 14 are an integral part of these financial statements.

**BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001**

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1. ACCOUNTING POLICIES

1.1 Accounting convention

The financial statements are prepared under the historical cost convention in compliance with the Companies Act 1985, and in accordance with applicable Accounting Standards.

1.2 Turnover

Turnover represents the net income accruing to the company from the continuing activity of the management of Unit Trusts, Personal Equity Plans and Individual Savings Accounts.

1.3 Pensions

The Company operates a contributory defined benefit scheme providing benefits on a final pensionable salary basis. Assets of the scheme are held in an independent trustee administered fund. Contributions are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives. The regular cost is attributed to individual years using the attained age method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet.

1.4 Stock of units

Stock of units are valued at the lower of cost and net realisable value.

1.5 Depreciation of tangible fixed assets

Tangible fixed assets are capitalised and stated at cost less depreciation which is calculated to write down the cost of the assets to the residual value over their expected useful lives as follows :-

Computer equipment	3 years straight line
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1.6 Deferred Taxation

Deferred taxation is calculated using the liability method and is provided only where a liability is expected to arise in the future.

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2001

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2. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging:

	<u>Note</u>	<u>2001</u> £000	<u>2000</u> £000
Auditors' Remuneration		15	15
Depreciation		359	143
Staff Costs	3	<u>4,099</u>	<u>3,202</u>

The Company had recharged costs of £10,191,328 (2000 - £6,914,000) from Britannic Investment Managers Limited, a fellow group undertaking.

3. STAFF COSTS

	<u>2001</u> £000	<u>2000</u> £000
Wages and salaries	3,402	2,663
Pension costs	410	324
Social security costs	<u>287</u>	<u>215</u>
	<u>4,099</u>	<u>3,202</u>

All staff are employed by Britannic Investment Managers Limited and the staff costs are recharged on the basis of the duties performed for Britannic Fund Managers Limited.

The average number of staff was 86 (2000 - 82)

4. DIRECTORS' REMUNERATION

H Cottam, B Quinn, R Fortin, A Dewar-Durie, I C Adam and Sir G H Laird CBE were not members of the defined benefit pension scheme.

The aggregate emoluments of the Directors are detailed in full below.

	<u>2001</u> £000	<u>2000</u> £000
Emoluments and fees	<u>250</u>	<u>160</u>
	<u>2001</u> No.	<u>2000</u> No.
Members of defined benefit pension scheme	<u>5</u>	<u>7</u>

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2001

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4. DIRECTORS' REMUNERATION (CONT'D)

The amounts in respect of the highest paid director, who is D O'Neil (2000 - D O'Neil) are as follows :

	<u>2001</u> £000	<u>2000</u> £000
Emoluments	92	70
Accumulated total accrued pension at 31 December	<u>106</u>	<u>79</u>

5. TAXATION

Taxation (credit)/charge for the year comprises:

	<u>2001</u> £000	<u>2000</u> £000
Group relief available for losses	(243)	-
Taxation charge	-	1,365
Prior year adjustment	70	-
	<u>(173)</u>	<u>1,365</u>

6. TANGIBLE FIXED ASSETS

	Computer software £000
Cost :	
At 1 January 2001	430
Additions	484
At 31 December 2001	<u>914</u>
Depreciation :	
At 1 January 2001	279
Charge for the year	359
At 31 December 2001	<u>638</u>
Net Book Value :	
At 31 December 2001	<u>276</u>
At 1 January 2001	<u>151</u>

The computer software has been depreciated at a rate of 33 1/3%.

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2001

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7. DEBTORS

	<u>2001</u>	<u>2000</u>
	£000	£000
Trade debtors	2,781	6,521
Cancellation debtors	260	1,309
Other debtors	812	16
Corporation tax recoverable	72	-
	<u>3,925</u>	<u>7,846</u>

8. CREDITORS

Amounts falling due within one year:

	<u>2001</u>	<u>2000</u>
	£000	£000
Trade creditors	950	1,436
Amount due to fellow group undertaking	715	1,180
Other creditors	2,877	5,970
Corporation tax	-	731
Proposed final dividend	-	1,795
	<u>4,542</u>	<u>11,112</u>

9. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company at 31 December 2001 and 31 December 2000 consists of :-

	<u>Authorised</u>	<u>Issued and fully paid</u>	
	<u>Number</u>	<u>Number</u>	£000
Ordinary shares of £1 each	<u>5,000,000</u>	<u>1,307,600</u>	<u>1,308</u>

There was no movement in the authorised and issued share capital during the year.

10. PROFIT AND LOSS ACCOUNT

	<u>2001</u>	<u>2000</u>
	£000	£000
Balance at 1 January	1,347	148
Profit/(loss) retained for year	<u>(1,082)</u>	<u>1,199</u>
Balance at 31 December	<u>265</u>	<u>1,347</u>

11. SHARE PREMIUM

	<u>2001</u>	<u>2000</u>
	£000	£000
Balance as at 31 December	<u>520</u>	<u>520</u>

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2001

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12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>2001</u>	<u>2000</u>
	£000	£000
(Loss) / Profit for the financial year	(1,082)	2,994
Dividend	-	(1,795)
	<u>(1,082)</u>	<u>1,199</u>
Shareholders' funds at 1 January	3,175	1,976
Shareholders' funds at 31 December	<u>2,093</u>	<u>3,175</u>

13. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	<u>2001</u>	<u>2000</u>
	£000	£000
Operating (loss) / profit	(1,450)	4,134
Depreciation charges	359	143
Increase /(Decrease) in stock of units	196	(308)
Decrease in debtors	3,993	5,685
(Decrease) in creditors	(3,803)	(4,020)
Net cash (outflow) / inflow from operating activities	<u>(705)</u>	<u>5,634</u>

14. ANALYSIS OF CHANGES IN CASH

	<u>2001</u>	<u>2000</u>
	£000	£000
Cash at bank movement :		
At end of year	1,924	5,584
Less : At start of year	<u>5,584</u>	<u>2,856</u>
Net cash (outflow) / inflow	<u>(3,660)</u>	<u>2,728</u>

15. ANALYSIS OF THE BALANCES OF CASH

	<u>2001</u>	<u>2000</u>	<u>Movement</u>
	£000	£000	£000
Cash at bank	<u>1,924</u>	<u>5,584</u>	<u>(3,660)</u>

All cash deposits are held on call.

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2001

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16. PENSION COMMITMENTS

The employees of Britannic Investment Managers Limited, whose costs are recharged to Britannic Fund Managers Limited are members of the Britannic Group Pension Scheme. FRS17 on Retirement benefits will replace the current accounting standard SSAP24 in the financial statements for the year ending 31 December 2003. Under FRS17 the Company will account for contributions to the scheme as if it were a defined contribution scheme as it is unable to identify its share of the assets and liabilities on a consistent and reasonable basis. As at 31 December 2001 the scheme has a surplus of £297.4m which is currently being used to support a suspension of Group and employee contributions.

17. TRANSACTIONS WITH DIRECTORS AND THEIR RELATED PARTIES

The details in respect of H Cottam and R Fortin are disclosed in the accounts of Britannic plc.

	<u>1999</u> £000	<u>2000</u> £000
Investments and life products held by five (2000-six) Directors at 31 December	<u>362</u>	<u>197</u>
Contributions paid by five (2000-seven) Directors towards investments and life products during the year	<u>95</u>	<u>55</u>

All investments are made on an arms length basis.

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2001

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18. OTHER RELATED PARTY DISCLOSURES

The Company's income is solely derived from its activities as a manager for Britannic Unit Trusts and may on a strict interpretation be deemed to be a "related party" to these Unit Trusts within the definition of Financial Reporting Standard 8 - Related Party Disclosures. The aggregate total transactions with Clydesdale Bank PLC, Trustee of the Britannic Unit Trusts were £301,511,094 for unit creations and £113,938,376 for liquidations. The balance due at 31 December 2001 to the Clydesdale Bank PLC was £1,113,920. The remaining balances of trade debtors and trade creditors relate to unit sales and repurchases.

Under Financial Reporting Standard 8, companies which are wholly owned subsidiaries of a parent whose consolidated financial statements in which the subsidiaries' results are included are publicly available, are granted exemption from disclosing inter-group transactions. The company is such a subsidiary undertaking and accordingly has not disclosed such transactions.

During the year the Company paid commission for Unit Trust, PEP and ISA sales, in the ordinary course of business, from an other related party :

	Commission payable to related party		Amounts owed to related party
Related Party	£000		£000
Britannia Building Society	2001	6,608	730
	2000	5,744	113
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19. ULTIMATE PARENT UNDERTAKING

The Company's immediate parent undertaking is Britannic Asset Management Limited, which is a body incorporated in Scotland. The Company's ultimate parent undertaking is Britannic plc, which is a body registered in England. These financial statements have been included in the consolidated financial statements of Britannic plc.

A copy of the financial statements of Britannic plc is available from :-

1 Wythall Green Way
Wythall, Birmingham
B47 6WG