

BRITANNIC FUND MANAGERS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2003

COMPANY REGISTRATION NUMBER 85610



**BRITANNIC FUND MANAGERS LIMITED
REPORT BY THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2003**

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.

The Company is regulated by the Financial Services Authority.

RESULTS FOR THE YEAR

The audited financial statements together with relevant notes and independent auditors report are shown on pages 4 to 13.

The profit for the year, after taxation, was £1,520,000 (2002 – profit £233,000) and the funds under management amounted to £2,530m at 31 December 2003 (31 December 2002 - £1,530m).

No interim dividends were paid during the year (2002 - £Nil). The Directors do not recommend the payment of a final dividend (2002 - nil). There is a surplus of £2,085,000 (2002 restated - surplus £565,000) carried forward in reserves.

DIRECTORS AND THEIR INTERESTS

Directors:	H Cottam	FCA - Chairman
	L McIntosh	MSI - Chief Executive Officer
	F Ghiloni	BSc FFA – Sales & Marketing Director
	P Reid	MA ASIPS - Chief Investment Officer
	G Stewart	BSc FFA – Chief Operating Officer (appointed 6 January 2003)
	D O'Neil	BSc FFA
	B Quinn	CBE
	A Dewar-Durie	CBE
	R Fortin	MA (Oxon)
	B Portman	FCCA FCIS MBA (resigned 13 August 2003)
	P Thompson	MA (Cantab) ACA (appointed 13 August 2003)

**BRITANNIC FUND MANAGERS LIMITED
REPORT BY THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2003 (CONT'D)**

DIRECTORS AND THEIR INTERESTS (CONT'D)

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

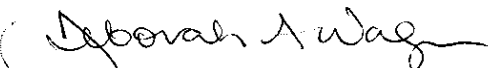
FUTURE DEVELOPMENTS

The Company is pursuing expansion through both development and acquisition and is actively seeking further funds to manage.

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

25 February 2004

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 2003**

We have audited the financial statements on pages 5 to 13. 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 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Registered Auditor
Chartered accountants

27 Feb 2004

24 Blythswood Square
Glasgow
G2 4QS

BRITANNIC FUND MANAGERS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

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	<u>Note</u>	<u>2003</u> £000	<u>2002</u> £000
Turnover		16,737	18,963
Administrative expenses		<u>(14,575)</u>	<u>(18,722)</u>
Operating profit	2	2,162	241
Interest receivable		<u>215</u>	<u>151</u>
Profit on ordinary activities before taxation		2,377	392
Taxation	5	<u>(857)</u>	<u>(159)</u>
Profit for the financial year after tax		1,520	233
Dividends:			
Final dividend proposed		<u>-</u>	<u>-</u>
Transfer to reserves	12	<u>1,520</u>	<u>233</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 7 to 13 are an integral part of these financial statements.

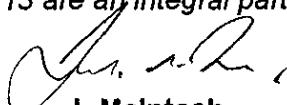
BRITANNIC FUND MANAGERS LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2003

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	<u>Note</u>	<u>2003</u> £000	<u>2002</u> £000
CURRENT ASSETS			
Stock of units		2,210	447
Debtors	6	7,952	9,257
Deferred tax	7	88	112
Cash at bank		<u>6,192</u>	<u>6,695</u>
		16,442	16,511
CREDITORS:			
Amounts falling due within one year	8	<u>(12,529)</u>	<u>(14,118)</u>
Net current assets		<u>3,913</u>	<u>2,393</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>3,913</u></u>	<u><u>2,393</u></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>2,085</u>	<u>565</u>
TOTAL SHAREHOLDERS' FUNDS - EQUITY	12	<u><u>3,913</u></u>	<u><u>2,393</u></u>

The financial statements were approved by the Directors on 25 February 2004.

The notes on pages 7 to 13 are an integral part of these financial statements.


L McIntosh

Director

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 Cash Flows

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published financial statements.

1.4 Pensions

The Company is part of the Group contributory defined benefit scheme providing benefits on a final pensionable salary basis. Assets of the scheme are held in an independent trustee administered fund (Britannic Group Pension Scheme). Contributions are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives. In accordance with SSAP24, 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 expected 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.

1.5 Stock of units

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

1.6 Deferred Taxation

The charge for taxation is based on profit for the year and takes into account taxation deferred due to timing differences in the treatment of certain items for taxation and accounting purposes.

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2003

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2. OPERATING PROFIT

Operating profit is stated after charging:

	<u>Note</u>	<u>2003</u> £000	<u>2002</u> £000
Auditors' Remuneration : audit		12	15
Depreciation		-	276
Staff Costs	3	<u>3,070</u>	<u>3,601</u>

The Company had recharged costs of £7,909,122 (2002 - £9,953,493) from Britannic Investment Managers Limited, a fellow group undertaking.

3. STAFF COSTS

	<u>2003</u> £000	<u>2002</u> £000
Wages and salaries	2,822	3,349
Pension costs	3	-
Social security costs	245	252
	<u>3,070</u>	<u>3,601</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 78 (2002 - 91)

4. DIRECTORS' REMUNERATION

H Cottam, B Quinn, D O'Neil, R Fortin and A Dewar-Durie are not members of the defined benefit pension scheme.

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

	<u>2003</u> £000	<u>2002</u> £000
Emoluments and fees	<u>355</u>	<u>292</u>
	<u>2003</u> No.	<u>2002</u> No.
Members of defined benefit pension scheme	<u>5</u>	<u>5</u>

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2003

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4. DIRECTORS' REMUNERATION (CONT'D)

The amounts in respect of the highest paid director, who is F Ghiloni (2002 - F Ghiloni) are as follows :

	<u>2003</u> £000	<u>2002</u> £000
Emoluments	<u>114</u>	<u>120</u>
Accumulated total accrued pension at 31 December	<u>71</u>	<u>67</u>

5. TAXATION

a) Analysis of tax charge in the period

	<u>2003</u> £000	<u>2002</u> £000
Current Tax		
UK Corporation tax at 30% (2002 30%) on profits for the period	817	191
Payment for group relief	(3)	-
Adjustments in respect of prior periods	<u>19</u>	<u>13</u>
Total current tax (note 5b)	833	204
Deferred Tax		
Origination and reversal of timing difference	<u>24</u>	<u>(45)</u>
Taxation on ordinary profit	<u>857</u>	<u>159</u>

b) Factors affecting tax charge for the period

Profit on ordinary activities before taxation	<u>2,377</u>	<u>392</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 30%)	713	119
Effects of:		
Expenses not deductible for corporation tax	149	27
Depreciation in excess of capital allowances	(24)	45
Adjustment in respect of prior period	<u>19</u>	<u>13</u>
Current tax charge for period	<u>857</u>	<u>204</u>

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2003

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6. DEBTORS

	<u>2003</u>	<u>2002</u>
	£000	£000
Trade debtors	1,650	5,043
Cancellation debtors	5,675	3,639
Other debtors	627	575
	<u>7,952</u>	<u>9,257</u>

7. DEFERRED TAX

Capital Allowances
Timing difference
£000

At 1 January 2003	112
Movement during year	<u>(24)</u>
At 31 December 2003	<u>88</u>

Deferred tax is fully provided on timing differences at 30%.

8. CREDITORS

Amounts falling due within one year:

	<u>2003</u>	<u>2002</u>
	£000	£000
Trade creditors	9,826	10,230
Amount due to fellow group undertaking	1,306	1,633
Other creditors	675	2,229
Corporation tax payable	722	26
	<u>12,529</u>	<u>14,118</u>

9. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company at 31 December 2003 and 31 December 2002 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.

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2003

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10. PROFIT AND LOSS ACCOUNT

	<u>2003</u> £000	<u>2002</u> £000
Balance at 1 January	565	332
Profit for year	<u>1,520</u>	<u>233</u>
Balance at 31 December	<u><u>2,085</u></u>	<u><u>565</u></u>

11. SHARE PREMIUM

	<u>2003</u> £000	<u>2002</u> £000
Balance as at 31 December	<u><u>520</u></u>	<u><u>520</u></u>

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>2003</u> £000	<u>2002</u> £000
Shareholders' funds at 1 January as previously reported	2,393	2,093
Prior year adjustment (Note 1)	<u>-</u>	<u>67</u>
	2,393	2,160
Profit for the financial year	<u>1,520</u>	<u>233</u>
Shareholders' funds at 31 December	<u><u>3,913</u></u>	<u><u>2,393</u></u>

13. PENSION COMMITMENTS

The employees of Britannic Investment Managers Limited are members of the Britannic Group Pension Scheme (BGPS). The BGPS is of the defined benefit type with assets held in a trustee-administered fund. An independent qualified actuary carries out valuations of the BGPS at least every three years and the contributions to the scheme are paid in accordance with his recommendations.

Calculations for the BGPS were carried out as at 30 June 2001 using the projected unit method. The principal actuarial assumptions were that over the long term the return on the scheme's investments would be 5.2% pa, earnings growth would average 4.6% pa, and pensions in payment would increase by 2.8% pa. The market value of the scheme's assets at 30 June 2001 was £1,130.8m, which represented 134% of the value of the benefits accrued to the members allowing for expected future increases in pensionable earnings.

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2003

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13. PENSION COMMITMENTS (CONT'D)

The surpluses in the scheme arising from the valuations at 30 June 1998 and 30 June 2001 are being amortised using the straight-line method over the expected working lifetime of members.

The surplus is currently being used to support a suspension of group and employee contributions.

FRS17 on Retirement Benefits will replace the current account standard SSAP24 in the Financial Statements. 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. On this basis there has been no charge to the Profit and Loss account for 2003.

14. TRANSACTIONS WITH DIRECTORS AND THEIR RELATED PARTIES

The details in respect of H Cottam, R Fortin, P Thompson and B Portman (resigned 13 August 2003) are disclosed in the accounts of Britannic Group plc.

	<u>2003</u>	<u>2002</u>
	£000	£000
Investments and life products held by six (2002-five) Directors at 31 December	<u>464</u>	<u>319</u>
Contributions paid by six (2002-five) Directors towards investments and life products during the year	<u>90</u>	<u>40</u>

All investments are made on an arms length basis.

15. 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 Citicorp Trustees Company Limited (CTCL) as Trustee of the Britannic Unit Trusts were £998,111,431 for unit creations and £264,786,188 for liquidations. The balance due at 31 December 2003 from CTCL was £4,876,027.

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.

**BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2003**

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16. 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 Group plc, which is a body registered in England. These financial statements have been included in the consolidated financial statements of Britannic Group plc. A copy of the financial statements of Britannic Group plc is available from :-

1 Wythall Green Way
Wythall, Birmingham
B47 6WG