

BRITANNIC FUND MANAGERS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

COMPANY REGISTRATION NUMBER 85610



**BRITANNIC FUND MANAGERS LIMITED
REPORT BY THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2002**

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 £233,000 (2001 restated – loss £1,024,000) and the funds under management amounted to £1,530m at 31 December 2002 (31 December 2001 - £1,918m).

No interim dividends were paid during the year (2001 - £Nil). The Directors do not recommend the payment of a final dividend (2001 - nil). There is a surplus of £565,000 (2001 restated - surplus £332,000) 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 (Appointed 12 November 2002)

**BRITANNIC FUND MANAGERS LIMITED
REPORT BY THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2002 (CONT'D)**

DIRECTORS AND THEIR INTERESTS (CONT'D)

H Cottam, R Fortin and B Portman 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.

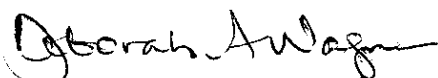
FUTURE DEVELOPMENTS

The Company 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

27 February 2003

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 2002**

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

4 March 2003

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 2002

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	<u>Note</u>	<u>2002</u> £000	<u>2001</u> £000 restated
Turnover		18,963	22,705
Administrative expenses		<u>(18,722)</u>	<u>(24,155)</u>
Operating profit/(loss)	2	241	(1,450)
Interest receivable		<u>151</u>	<u>195</u>
Profit/(loss) on ordinary activities before taxation		392	(1,255)
Taxation	5	<u>(159)</u>	<u>231</u>
Profit/(loss) for the financial year after tax		233	(1,024)
Dividends:			
Final dividend proposed		<u>-</u>	<u>-</u>
Transfer to/(from) reserves	11	<u>233</u>	<u>(1,024)</u>
Statement of total recognised gains and losses			
Total recognised gains and losses relating to the year		233	<u>(1,024)</u>
Prior year adjustment		67	
Total recognised gains and losses since last annual report		<u>300</u>	

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 2002

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	<u>Note</u>	<u>2002</u> £000	<u>2001</u> £000 restated
FIXED ASSETS			
Tangible Assets	6	<u>-</u>	<u>276</u>
CURRENT ASSETS			
Stock of units		447	510
Debtors	7	9,257	3,925
Deferred tax	8	112	67
Cash at bank		<u>6,695</u>	<u>1,924</u>
		16,511	6,426
CREDITORS:			
Amounts falling due within one year	9	<u>(14,118)</u>	<u>(4,542)</u>
Net current assets		<u>2,393</u>	<u>1,884</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,393</u>	<u>2,160</u>
CAPITAL AND RESERVES:			
Called up share capital	10	1,308	1,308
Share premium account	12	520	520
Profit and loss account	11	<u>565</u>	<u>332</u>
TOTAL SHAREHOLDERS' FUNDS - EQUITY	13	<u>2,393</u>	<u>2,160</u>

The financial statements were approved by the Directors on 27 February 2003.

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. During the year the company adopted FRS19 on deferred tax (see below).

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. 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 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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1.7 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.

In accordance with FRS 19 on Deferred tax, a deferred taxation asset has been recognised in the balance sheet. This is a change in the accounting policy in order to comply with Financial Reporting Standard 19: Deferred Tax. Prior year comparatives have been restated to reflect this change. As a result of this change, profit after tax for the year end 31 December 2002 has increased by £45,000 (2001: increased by £58,000)

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2002

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2. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging:

	<u>Note</u>	<u>2002</u> £000	<u>2001</u> £000
Auditors' Remuneration : audit		15	15
Depreciation		276	359
Staff Costs	3	<u>3,601</u>	<u>4,099</u>

The Company had recharged costs of £9,953,493 (2001 - £10,191,328) from Britannic Investment Managers Limited, a fellow group undertaking.

3. STAFF COSTS

	<u>2002</u> £000	<u>2001</u> £000
Wages and salaries	3,349	3,402
Pension costs	-	410
Social security costs	<u>252</u>	<u>287</u>
	<u>3,601</u>	<u>4,099</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 91 (2001 - 86)

4. DIRECTORS' REMUNERATION

H Cottam, B Quinn, 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>2002</u> £000	<u>2001</u> £000
Emoluments and fees	<u>292</u>	<u>250</u>

	<u>2002</u> No.	<u>2001</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 2002

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4. DIRECTORS' REMUNERATION (CONT'D)

The amounts in respect of the highest paid director, who is F Ghiloni (2001 - D O'Neil) are as follows :

	<u>2002</u> £000	<u>2001</u> £000
Emoluments	<u>120</u>	<u>92</u>
Accumulated total accrued pension at 31 December	<u>67</u>	<u>106</u>

5. TAXATION

Analysis of tax charge / (credit) in the year

	<u>2002</u> £000	<u>2001</u> £000 Restated
Corporation tax	191	-
Payment for group relief	-	(243)
Prior year adjustment	<u>13</u>	<u>70</u>
Total current tax charge / (credit)	204	(173)
Deferred tax movement	<u>(45)</u>	<u>(58)</u>
Total tax charge / (credit) per profit & loss	<u>159</u>	<u>(231)</u>

Factors affecting current tax charge / (credit) for the year

Profit / (loss) before tax	<u>392</u>	<u>(1,255)</u>
Corporation tax @ the standard rate of 30%	119	(377)

Effects of:

Expenses not deductible for corporation tax	27	71
Depreciation in excess of capital allowances	45	58
Prior year adjustment	13	70
Other	<u>-</u>	<u>5</u>
Actual current tax charge / (credit)	<u>204</u>	<u>(173)</u>

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2002

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6. TANGIBLE FIXED ASSETS

	<u>2002</u> Computer software £000	<u>2001</u> Computer software £000
Cost :		
At 1 January 2002	914	430
Additions	-	484
Transfers Out	(430)	-
At 31 December 2002	<u>484</u>	<u>914</u>
Depreciation :		
At 1 January 2001	638	279
Charge for the year	276	359
Transfers Out	(430)	-
At 31 December 2001	<u>484</u>	<u>638</u>
Net Book Value :		
At 31 December 2002	<u>-</u>	<u>276</u>
At 1 January 2002	<u>276</u>	<u>151</u>

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

7. DEBTORS

	<u>2002</u> £000	<u>2001</u> £000
Trade debtors	5,043	2,781
Cancellation debtors	3,639	260
Other debtors	575	812
Corporation tax recoverable	-	72
	<u>9,257</u>	<u>3,925</u>

8. DEFERRED TAX

	Capital Allowances Timing difference £000 Restated
At 1 January 2002	67
Movement during year	45
At 31 December 2002	<u>112</u>

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

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2002

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9. CREDITORS

Amounts falling due within one year:

	<u>2002</u>	<u>2001</u>
	£000	£000
Trade creditors	10,230	950
Amount due to fellow group undertaking	1,633	715
Other creditors	2,229	2,877
Corporation tax payable	26	-
	<u>14,118</u>	<u>4,542</u>

10. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company at 31 December 2002 and 31 December 2001 consists of :-

	<u>Authorised</u>	<u>Issued and fully paid</u>	
	Number	Number	£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.

11. PROFIT AND LOSS ACCOUNT

	<u>2002</u>	<u>2001</u>
	£000	£000
		Restated
Balance at 1 January as previously reported	265	1,347
Prior year adjustment (Note 1)	67	9
Balance at 1 January as restated	332	1,356
Profit/(loss) for year	233	(1,024)
Balance at 31 December	<u>565</u>	<u>332</u>

12. SHARE PREMIUM

	<u>2002</u>	<u>2001</u>
	£000	£000
Balance as at 31 December	<u>520</u>	<u>520</u>

13. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>2002</u>	<u>2001</u>
	£000	£000
		Restated
Shareholders' funds at 1 January as previously reported	2,093	3,175
Prior year adjustment (Note 1)	67	9
	2,160	3,184
Profit / (loss) for the financial year	233	(1,024)
Shareholders' funds at 31 December	<u>2,393</u>	<u>2,160</u>

BRITANNIC FUND MANAGERS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2002

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14. 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.

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 2002.

15. TRANSACTIONS WITH DIRECTORS AND THEIR RELATED PARTIES

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

	<u>2002</u> £000	<u>2001</u> £000
Investments and life products held by five (2001-five) Directors at 31 December	<u>319</u>	<u>362</u>
Contributions paid by five (2001-five) Directors towards investments and life products during the year	<u>40</u>	<u>95</u>

All investments are made on an arms length basis.

16. 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, former Trustee of the Britannic Unit Trusts were £182,062,308 for unit creations and £81,585,665 for liquidations. The aggregate total transactions with Citicorp Trustees Company Limited (CTCL) as Trustee of the Britannic Unit Trusts were £25,554,649 for unit creations and £17,163,622 for liquidations. The balance due at 31 December 2002 to CTCL was £3,073,157. 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.

17. 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