



N O R T H  
GROWTH MANAGEMENT LTD.

*“Growth at a Reasonable Price”*

NORTH GROWTH US EQUITY FUND  
NORTH GROWTH CDN MONEY MARKET FUND

2002 ANNUAL REPORT

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*Dear Unitholder:*

Now is the time to buy common stocks! We have been quite outspoken on this view in our monthly reports since September 2002 because it is such an important point for any investor interested in maximizing their long-term results. We couldn't say this last year even though the majority of commentators were confidently declaring that the two back-to-back declines of the S&P 500 during 2000 and 2001 had set up 2002 to be a great year for equities.

One year ago, in January 2002, the reason for our concern was that the US market was still excessively overvalued. Sticking to our "growth at a reasonable price" philosophy resulted in us only finding enough attractive investments to be 63% invested. For proponents of the long-term superiority of equities over all other asset classes, this was an uncomfortable position to take. Fortunately, we were right and the Fund avoided the 22.10% decline that the S&P 500 suffered in 2002. By the end of 2002, the market was no longer overvalued and the confusion of three years of falling prices had created many truly exciting investment opportunities in growth companies.

From the peak of the bull market to the low registered on October 9, 2002, the US equity markets suffered the worst bear market since the end of the 1929-32 decline. Many investors don't appear to realize that July 1932 proved to be the greatest buying opportunity in the 20<sup>th</sup> century. The next three-year bear market which ended in 1942 was also another exceptional buying opportunity, although investors did not begin to feel comfortable with equities again until the 1950s. Every bear market provides an above average opportunity to buy equities and by the time a bear market has truly reached its lows the majority of investors have come to feel that they don't like equities and definitely don't want to buy more. Month after month of falling prices might make this seem to make sense emotionally but the historical record shows that it is simply the wrong thing to do.

By October 9, 2002, the S&P 500 Index had fallen 49% from its high on March 24, 2000. For the equity investors who experienced such losses, especially those who had bought in the two or three years leading up to the top, it was a shattering experience. Nevertheless, even after this decline, equities remain the best long-term asset class available to investors. Buying after a near 50% decline will seem like a golden opportunity in hindsight, and yet the mutual fund industry has been experiencing net redemptions in recent months. Since there is a history of mutual fund investors doing the wrong thing at important turning points in the market, the sophisticated investor should accept this as confirmation that now is the time to buy equities.

The Fund went up 4.8% during the period the S&P 500 Index fell almost 50%. Obviously, the S&P 500 will have to recover 100% to get back from its lows to the market peak of 2000. As a result of the Fund's performance, long-term unitholders will have a terrific advantage at the beginning of a new bull market.

*Dear Unitholder: cont...*

Despite the effectiveness of our “growth at a reasonable price” investment philosophy during the recent market decline, historically we have achieved our best investment results both relatively and absolutely in the initial years of a bull market. This is the time when stock selection, the crux of our investment style, really pays off. The Fund is now fully invested and we are focusing the portfolio on the stocks that appear to have the most appreciation potential based on our own fundamental analysis.

Every bit as significant as the Fund’s record of performance during North Growth Management’s first five years of operation (1998-2002) is the development of our young management team. Proof of this is the fact that the Fund’s performance record over the past three years is the result of the day-to-day implementation of our investment philosophy by Rory, Erica and Jordic. I’m definitely part of the process but my most important contribution is that of a mentor who has to let his team grow. The outlook for 2003 and beyond is exciting – I have found a way to assure that my money will continue to be managed the way I think it should well into the future.

*2002 Performance Review*

In 2002, the Fund’s value fell slightly with a negative 1.06% return in US dollars. This compares favourably to a drop in the S&P 500 of 22.10%. Due to modest appreciation of the Canadian dollar vis-à-vis the US dollar during the year, the Canadian return of the Fund was down 2.01% (for more information on Canadian/US currency issues please turn to page 10, Rory North’s *Currency Risk Commentary*).

By comparison to the performance of the Fund’s peers, this year’s performance was outstanding. We use the Canadian dollar return to measure the Fund’s performance against the average return of the Globe & Mail’s universe of US equity funds (“the peer group”). The Fund outperformed the peer group by just over 22% in 2002.

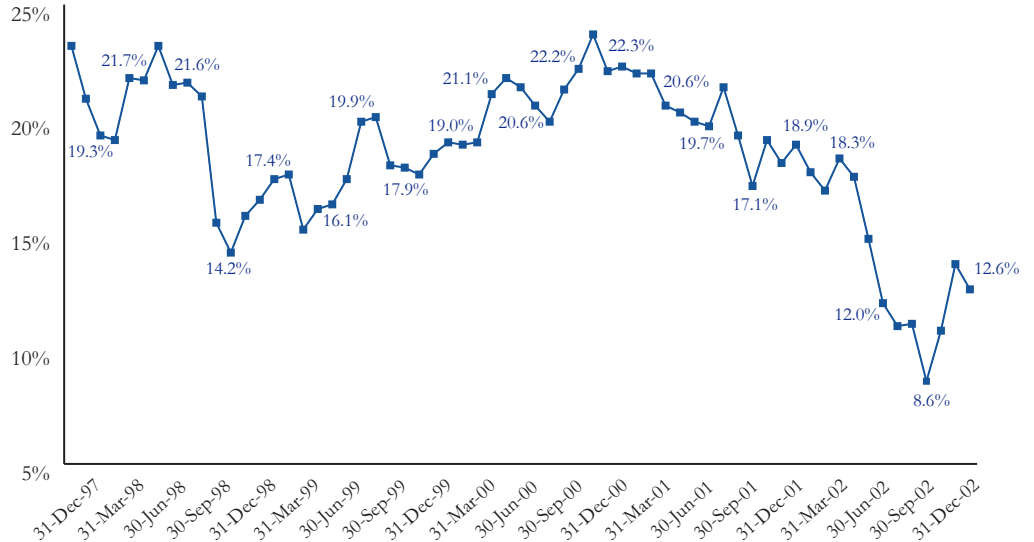
In October, the Fund completed its first 10 years. On page 12 of this report you will find tables laying out the annual results of the Fund and comparative indexes as well as the average annual compound rate of return for a 1-year holding period up through every holding period to 10 years. While all of these measures give useful perspectives of the Fund’s record of performance, the measure of performance that we feel gives the best indication of a Fund investor’s experience is the running 5-year average annual return.

*The Best Long-term Perspective of a Fund's Performance*

What is desired is a way of presenting long-term results which is neither overly influenced by long past periods of good performance nor overly influenced by current results (end date sensitivity). The running 5-year average returns chart effectively achieves this.

**RUNNING 5-YEAR AVERAGE ANNUAL RETURNS (CDN\$)**

*The complete record of every quarter-end 5-year holding period during the Fund's existence*



As we always stress that a **minimum** holding period of 5 years be anticipated by new clients, it is reasonable that a Fund investor should think of his/her investment's performance over 5-year time periods. By presenting a complete set of 5-year periods with different starting and ending points – the past range of 5-year average annual (compound or geometric) returns – we can demonstrate the effect that short-term market fluctuations have on the performance of a Fund investment over a reasonable holding period.

*2002 Stock Selection, by Erica Lau*

The investment success of the North Growth US Equity Fund in 2002 was, as in the prior year, due largely to successful stock selection. It is our stock selection process, based on fundamental research and analysis of various businesses and their growth prospects in relation to their valuations, that accounts for the changes in the Fund between December 31, 2001 and December 31, 2002.

*2002 Stock Selection, by Erica Lau*

At the end of 2002, the breakdown of the Fund's equity holdings by market capitalization was as follows: 23% large-caps, 31% mid-caps, and 46% small-caps. This compares to 14%, 54%, and 32% large-, mid-, and small-caps respectively at the end of 2001. We define large-capitalization stocks as those with market cap greater than \$10 billion, mid-caps between \$2 billion and \$10 billion, and small-caps less than \$2 billion. We have applied this definition constantly, and it is consistent with that used generally in the industry.

The percentage of large-capitalization holdings in the Fund continued to increase throughout 2002 as it did in 2001. While the portfolio has retained its mid- and small-cap bias, we have identified an increasing number of large-cap stocks that fulfill our "growth at a reasonable price" criteria. This is a result of the significant outperformance of mid- and small-caps relative to large-caps over the last three years, which has diminished the relative attractiveness of the valuations of smaller-cap equities that existed in the late '90s.

During 1998, the market assigned large-cap stocks excessive valuations of unprecedented levels both in absolute terms and, to a greater degree, in relation to mid- and small-cap stocks. Due to an overwhelming emphasis on liquidity following currency problems in Southeast Asia and Russia that year, the preference for large-cap stocks overrode all other considerations. This resulted in US stock performance being significantly influenced by capitalization size. The extreme small-cap/large-cap valuation differential has since corrected and it is therefore appropriate that the Fund has been moving away from being excessively small-cap biased.

In fact, the weighted average market capitalization of the North Growth US Equity Fund more than doubled from \$4.1 billion at the end of 2001 to \$8.9 billion at the end of 2002. The increased weighting of large-cap stocks in the Fund is even more significant when considered in light of the negative returns of the S&P 500 Index over the past three years and the erosion of \$4.8 trillion in market capitalization from its March 24, 2000 peak<sup>1</sup>. Large-cap stocks represent a smaller portion of the market today than in the late '90s.

Our stock selection process concentrates not on market cap attributes, but on the fundamental characteristics of individual stocks—specifically, the corresponding companies' operations, financial health, growth opportunities, and the valuations of their common equity. Applying our "growth at a reasonable price" philosophy on an individual stock-by-stock basis generated numerous ideas in 2002, and consequently, the Fund ended the year fully-invested with 3.70% cash in contrast to 36.84% on December 31, 2001.

<sup>1</sup> As of Dec. 31, 2002. Source: ISI, International Strategy & Investment Group Inc.

*2002 Stock Selection, by Erica Lau*

Although we used up essentially the entire cash buying reserve during the year, the list of equity names in the portfolio did not expand. Rather, the Fund became more concentrated, ending 2002 with virtually the same number of stocks as it held at the beginning of the year. The content of the portfolio did, however, change significantly, as less than 60% of the holdings at the end of 2002 had been owned at the end of 2001.

The most notable difference in the industry profile of the portfolio between year-end 2001 and year-end 2002 would be the significant increase in the weighting of technology stocks. The percentage of technology equities in the Fund nearly tripled from 10% to 28% over the year. The tech industry was where most of the cash was deployed during the summer months of last year when the markets sold off dramatically and tech stocks, in particular, fell even more.

In stark contrast to 2000 and 2001 when sentiment towards the sector had been highly optimistic, investors turned bearish on the stocks during the first half of 2002. Earnings estimates were cut dramatically and valuations compressed while, simultaneously, earnings were set to grow again. In this environment, we found many financially strong tech companies, such as Cisco Systems, which had significant cash reserves, were generating positive cash flows, were positioned well for long-term growth, and were trading at reasonable valuations.

As we enter 2003, we continue to discover new attractive investment opportunities and look forward to another year of active management where stock selection will, again, contribute greatly to the performance of the Fund.

*2002 Fundamental Analysis, by Jordie Jacobs*

Most readers of this report already know that the North Growth US Equity Fund is managed by strictly adhering to its core philosophy – “growth at a reasonable price”. Those readers who are clients or who have spoken directly with Rudy or our Team should be well aware that the Fund’s philosophy is much more than a moniker that is used to simply differentiate the Fund from other investment style “labels”. Individual investments in the Fund are selected based not on their summaritive characteristics but on the supporting details, and it is necessary that those details support *both* the growth and the reasonable price components of the Fund’s philosophy.

It is our belief that companies with the potential to deliver superior and responsible earnings growth over the long-term provide the best platform for long-term capital growth in the equity markets. Identifying companies with potential future earnings growth is the result of a research process that centers on company fundamentals.

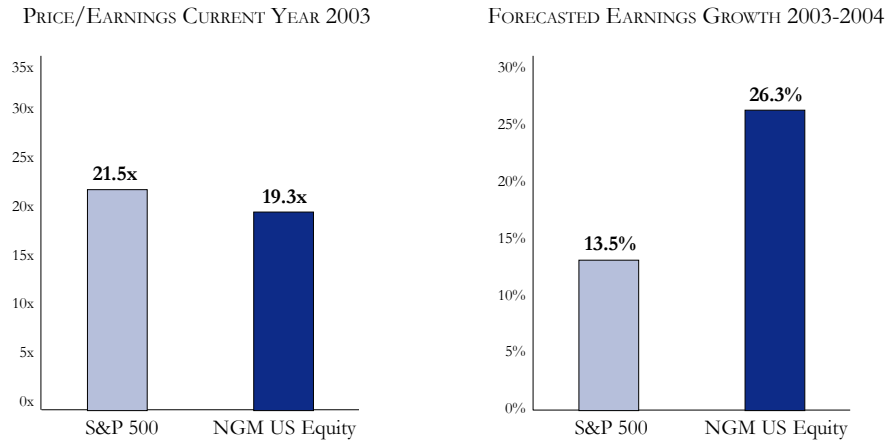
The criteria used in fundamental analysis can be wide-ranging and can differ somewhat by industry, but there are typically a number of “common threads” that remain consistent among potential candidates for the portfolio. A company’s ability to earn strong returns on capital over time, focus on its core competencies, and remain positioned with attractive end markets are important. Potential candidates must also demonstrate decent cash flow characteristics and solid balance sheet management. Perhaps of most importance, however, is the quality of a company’s management team. A management team with a proven track record of making the best of its opportunities as well as handling periods of general adversity is often what differentiates a company from its peers.

It is equally important that we remain focused at all times on what we are paying for growth, as growth can be easier to find when it is already recognized and reflected in a high price/earnings ratio. A company’s valuation is supposed to reflect the market’s consensus verdict on the company’s future earnings potential. Over the long-term, the market probably prices a company’s future earnings prospects in a relatively efficient manner.

In the short-term, however, share prices can move significantly, often with developments that haven’t changed the future earnings prospects of a company nearly as much as the share price move would imply and many times without any new developments at all. Such degrees of “excess” optimism and pessimism in the short-term are frequently perpetuated by a variety of market influences including the media, sell-side analysts, and the very adoption of consensus by investors that inevitably influences short-term “momentum” in share prices. This type of market behaviour can provide opportunities for active portfolio managers to capitalize on their understanding of a company’s fundamentals and its future earnings potential.

Fundamental analysis continues to drive the Fund’s bottom-up stock selection activity, which has resulted in a portfolio of companies that we believe offers superior long-term growth prospects at reasonable valuation levels. Provided below is a comparison of the valuations and estimated earnings growth of the North Growth US Equity Fund and the S&P 500 Index<sup>1</sup>.

<sup>1</sup> *The price/earnings ratio and growth rate for the NGM US Equity Fund are measured on a weighted average basis using portfolio weights while the S&P 500 Index figures are market-capitalization weighted and based on top-down estimates.*



As mentioned earlier in this report, one useful observation about this year's figures is that the extreme overvaluations of S&P 500 companies that we have seen in the past few years have now come down relative to the rest of the market. As of February 28<sup>th</sup>, 2003, the price/earnings ratio for the S&P 500 Index using Standard & Poor's current year earnings estimate was 21.5. Based on S&P's estimates for 2003 and 2004 earnings for its S&P 500 Index, the forecasted growth rate for the market was 13.5%, following a recovery in earnings in 2002 and an expected continued recovery in 2003.

In contrast, based on IBES consensus earnings estimates, the North Growth US Equity Fund was trading at 19.3 times estimated current year 2003 earnings as of February 28<sup>th</sup>, with an estimated one-year growth rate in earnings of 26.3%.

The Fund's numbers exclude portfolio holdings that are expected to have negative or zero earnings in their current fiscal year including Trinity Industries, Inc., 3Com Corporation and Sun Microsystems Inc. The Fund's ownership of strong companies that have negative or zero earnings is more likely to occur at the beginning of a recovery when we anticipate some of the most dynamic growth from operations.

We should also point out that the numbers include some portfolio holdings with apparently high price/earnings ratios that could use some further explanation. Apple Computer Inc., for example, carries a price/earnings ratio of 90 based on current year consensus estimates – high by any standard. But adjusting the February 28<sup>th</sup> share price of \$15.01 for the company's significant net cash and equivalents of \$11.54 per share produces an adjusted price/earnings multiple of 21. Notably, the company has continued to increase its net cash and equivalents position throughout recent quarters.

The above comparison does not form the basis for a "black box" quantitative approach to investing – quantitative models just don't seem to work over any reasonable time period. The factors affecting equity

*2002 Fundamental Analysis, by Jordie Jacobs*

prices are much too sophisticated for such crude measures to be useful for anything more than a simple check of a portfolio's estimated average growth rate versus its consensus average multiple. The bottom line is that, upon examination of the equity holdings of the Fund, the North Growth US Equity Fund trades at a lower multiple than the market, but is projected to grow at a higher rate. This, we believe, is evidence of our "growth at a reasonable price" philosophy.

*2002 Economic Review*

Despite the limitations of top down analysis and the poor record of economic forecasters, North Growth Management has benefited over the past few years from our efforts at reviewing the general economic situation and putting it into historic perspective. Most of the value of this exercise is that it has allowed us to avoid being caught up in the dangerously unrealistic consensus opinion of recent years.

A quick review of the momentous events of recent years and the economic commentary that they produced shows some useful patterns:

First, the consensus rationalized excessive multiples at the top of the bull market, then remained much too bullish as both the market and then the economy began to turn down.

By the end of 2000, after the stock markets had declined significantly, the economic commentary shifted to the realization that the economy was slowing. There was also great confidence that Greenspan would engineer a soft landing for the economy. The reluctance to recognize a downturn in its early stages is consistent with the typical historic pattern of investor behaviour – cycle after cycle.

In February 2001, the consensus line was "economic slowdown but not slipping into a recession". We believed that the stage had been set for a recession but that the real issue was market valuation. We wrote, "there is still a lot of money to be lost in the excessively overpriced market leaders of recent years".

Confidence in the market plunged during July and August 2001. The market was very fragile by the time the September 11 catastrophe hit, causing near panic and a selling climax. By October, the market was rallying strongly. Market strategists and the investment public turned bullish. After two years of falling prices, consensus at the end of 2001 was that 2002 would be a good year for equity investors.

*2002 Economic Review cont...*

Having lived through 10 previous bear markets in his career, Rudy was adamant that it was not typical for a new bull market to be greeted with the amount of investor confidence that developed in November 2001. Nevertheless, such subjective analysis is not sufficient to determine an investment policy. The reason we did not take our cash down further in the fall of 2001 was that the market was still overvalued. There were simply not enough reasonably priced stocks to build a fully invested portfolio with proper diversification. We ended 2001 with a 37% cash reserve.

At the end of 2002, our outlook has changed radically. The Fund is 96.3% invested because stocks are no longer selling at excessive multiples. The economy has been growing since the beginning of 2002. This is as should have been expected based on the Federal Reserve Board's aggressive rate cuts during 2001 and into 2002. Alan Greenspan has made it clear that he can and will keep the money supply growing to support the recovery. Every conceivable economic measure reached levels typical of the bottom of a recession during 2001 and 2002. Most have shown signs of forming a bottom or are in early stages of recovery. Inventories, one of the main swing factors in every economic cycle, are at extremely low levels. The market reaction to this familiar pattern of economic events has been the normal skepticism found at the beginning of a new cycle.

We are witnessing a classic economic turnaround. As always, there are some variations from the typical pattern of recovery. This cycle, the behaviour of the automobile and new housing industries has been different. Greenspan's policy on interest rates allowed both these industries to avoid a downturn in the recession. This has also contributed to the slow nature of their recovery since they did not experience their normal pick-up from depressed levels. Slight variations in general economic patterns often confuse investors making it easy for them to fall back on emotion.

The high level of capital goods spending at the end of the 1990s has contributed to strong productivity gains throughout the slowdown and into the recovery. There has also been a constant rationalization of industry taking place. These factors will result in strong margin improvements as the recovery advances. Not surprisingly, capital spending has remained depressed after the overspending of the past cycle, but even capital spending will pick up as the economy improves and earnings become available for investment.

*Conclusion*

The recent market decline was unusually severe. This doesn't change the fact that the economic and market outlook at this time is favourable. Typical to the normal patterns of investor behaviour, many

*Conclusion*

investors feel the lesson to be learned from their experience over the past 3 to 5 years is that they can't rely on equities to provide their best long-term investment alternative. The fact is that the recent market decline, like all of the significant bear markets in the past, has created an entry point for investing in equities that will prove to be better than any other time in the market cycle.

The beginning of 2003 is a once in a generation type of event. In the 20th century, there were only three times that investors were faced with a situation similar to what is being experienced now. During the Great Depression (1933) and World War II (1942), the market faced much greater problems than it is now, even considering an invasion of Iraq. The third time, the bear market of 1973-74, had the same issue as the recent bear market, record (to that time) overvaluation of large-cap growth stocks. After the 1973-74 experience, investors were very discouraged and tended to distrust equities from 1975 to 1982. In fact, it was a great period for stock picking based on our "growth at a reasonable price" investment philosophy. Rudy recalls results as good as those achieved during the best 5-year period of the 1990s market. Now that stocks can be bought at reasonable prices, the economy is growing and corporate earnings are recovering, we have to conclude that the case for being fully committed to equities should never be expected to be greater than it is now.

*Currency Risk, by Rory North*

During 2002 the Canadian dollar appreciated by approximately 1% versus the US dollar, and as a result, the performance of the North Growth US Equity Fund in Canadian dollars was -2.01% versus -1.06% in US dollars. 2002 marked only the third year in the 10 year history of the Fund that the Canadian dollar has appreciated, the others being 1999 and 1995.

Currency fluctuation is an additional risk that is always associated with an unhedged foreign investment. For the past 30 years the Canadian dollar has been in a long-term trend of depreciation versus the US dollar. The depreciation of the Canadian dollar over this time has significantly increased the rate of return on US investments when expressed in Canadian dollars. We view this as a windfall to Canadian investors who have had US investments over the long-term. In our 2001 annual report, we presented some economic arguments as to why we do not think Canadian investors should count on this trend to continue. We are not going to duplicate the analysis here, but refer interested readers to this publication.

It suffices to say that we continue to believe that the strength of the macroeconomic indicators in Canada versus the US suggests that the Canadian dollar could very well break its long-term downtrend

*Currency Risk, by Rory North*

and begin to appreciate versus the US dollar. Currency moves have proven to be devilishly difficult to forecast with any degree of accuracy. That being said, we do feel the fundamentals support a stronger Canadian dollar. A stronger Canadian dollar would decrease the returns from US investments for Canadian investors.

The North Growth US Equity Fund does not attempt to hedge away currency risk because it is not within the Fund's mandate. Canadian-based investors in the North Growth US Equity Fund must consider currency risk when assessing their investment in the Fund.

There are fairly simple ways for Canadian investors to directly hedge away the Canadian to US dollar currency risk themselves while maintaining US equity exposure. We are happy to discuss this issue with any interested client. Although North Growth Management does not currently offer a currency hedge product, we are exploring the issue and hope to make such a product available to at least our larger clients within the year.

*North Growth Canadian Money Market Fund*

The North Growth Canadian Money Market Fund remains focused on providing clients with liquidity while generating short-term income. The Fund's current yield increased to 2.52% at the end of 2002 from 1.97% at the beginning of the year.

The increase in the Fund's current yield is commensurate with the direction of Canadian short-term interest rates during 2002. After initially reducing the overnight target rate in January to 2.00% from 2.25%, the Bank of Canada proceeded to raise the overnight target rate to 2.75% by year-end. The Bank of Canada's actions were unique in relation to the US Federal Open Market Committee, which reduced the federal funds rate a further 50 basis points to 1.25% during the year. Due to the relatively short average maturity of securities within the Fund of approximately 30 days or less, the direction of the Fund's current yield should continue to correspond with the direction in Canadian short-term interest rates going forward.

The North Growth Canadian Money Market Fund continues to invest in a well diversified portfolio of Canadian money market securities, with an emphasis on higher credit ratings in an attempt to avoid undue credit risk. The Fund continues to be offered with a very competitive 0.25% all-in-one management fee, helping the Fund to outperform the average of the Globe & Mail's universe of Canadian Money Market Funds by over 0.7% in 2002. As a reminder the Fund is RRSP eligible for self-directed RRSPs.



*North Growth US Equity Fund Portfolio as of December 31, 2002*

**NEXTEL COMMUNICATIONS INC. (CL A)**... is a leading provider of fully-integrated, wireless service on the largest all-digital network in the US. With over 10 million domestic subscribers, Nextel Communications provides all-digital cellular service, Nextel Direct Connect®, Nextel Wireless Web, and text/numeric messaging capabilities.

**CHESAPEAKE ENERGY CORPORATION**... is one of the 10 largest independent natural gas producers in the US. The Company has been one of the industry's most active drillers of deep vertical and horizontal wells and among the leaders in the use of enhanced seismic interpretation, advanced drilling technologies, and sophisticated well completion techniques. The Company's reserves and current drilling activities are concentrated in its core operating area of the Mid-Continent region, which consists of Oklahoma, Kansas and the Texas Panhandle.

**CITRIX SYSTEMS INC.**... is a leading supplier of application delivery and management software and services that enable the effective and efficient enterprise-wide deployment and management of applications, including those designed for Microsoft Corporation ("Microsoft") Windows® operating systems and UNIX® operating systems. The Company's products permit organizations to deploy and manage applications without regard to location, network connection, or type of client hardware platform. These products utilize the Company's Independent Computing Architecture ("ICA®"), which allows an application's graphical user interface to be displayed on a client while its logic is executed on a server, thereby providing a manageable and bandwidth-efficient solution.

**CISCO SYSTEMS INC.**... is a leading provider of networking equipment, including routers, switches and access products. The Company has established a leadership position in a number of high growth markets including internet and wireless infrastructure.

**KING PHARMACEUTICALS INC.**... is a vertically integrated "specialty" pharmaceutical company that manufactures, markets and sells primarily branded prescription pharmaceutical products. The Company seeks to capitalize on opportunities in the pharmaceutical industry created by cost containment initiatives and consolidation among large global pharmaceutical companies. King's strategy is to acquire branded pharmaceutical products and to increase their sales through focused promotion and marketing as well as product life cycle management. The Company focuses on four therapeutic areas: cardiovascular, women's health/endocrinology, anti-infectives, and critical care.

**MANOR CARE INC.**... is the leading owner and operator of long-term care centres in the US. The Company provides care for residents and patients through a network of more than 500 long-term care centres, assisted living facilities, outpatient rehabilitation clinics and home health care offices. The Company operates primarily under the Manor Care, Heartland, and Arden Courts brand names.

**JACOBS ENGINEERING GROUP INC.**... is one of the largest professional technical services firms in the United States providing a broad range of project services including process, scientific and systems consulting services, operations and maintenance services, and construction services to industrial, commercial and governmental clients. Services are provided through offices and subsidiaries located in the United States, Europe, Asia, Mexico, Chile and Australia. The Company focuses its services on selected industry groups and markets including: chemicals and polymers; buildings (which includes projects in the fields of health care and education, as well as commercial, civic and governmental buildings); federal programs; pharmaceuticals and biotechnology; exploration, production and refining; infrastructure; technology and manufacturing; and pulp and paper, among others.

**OCULAR SCIENCES INC.**... is a growing manufacturer and marketer of a broad line of soft contact lenses. Ocular's strategy is to market exclusively to eye care practitioners high quality, competitively priced contact lenses that are brand-differentiated by private label and channel. Brands include Hydron, Edge, Ultraflex, SmartChoice, Echelon, Ultra T, and Versa-Scribe. The Company is expanding its offering of speciality contact lenses which include toric lenses (to correct astigmatism) and colour lenses.

**BORLAND SOFTWARE CORPORATION**... is a leading provider of software used to develop, deploy, integrate and manage software applications. Borland is focused on four main business areas: Java™, including the successful JBuilder® Java development environment; Rapid Application Development, including Delphi™ and Kylix™ for Windows® and Linux platforms, respectively; Enterprise; and, Services.

*North Growth US Equity Fund Portfolio as of December 31, 2002*

**SUNRISE ASSISTED LIVING INC.**... is one of the oldest and largest providers of assisted living for seniors who can no longer live on their own but do not need complex medical care. Based in Virginia, the Company has a resident capacity of greater than 16,000 in the more than 200 homes it operates. The Sunrise prototype facility is a Victorian-style mansion that offers a full range of personalized assisted living services in a homelike residential setting. Sunrise operates homes in 24 states in the US, as well as internationally in the UK and Canada.

**UNIVERSAL HEALTH SERVICES INC. (CL B)**... is a leading for-profit hospital management company in the US, operating approximately 100 acute care hospitals, behavioural health facilities, and ambulatory surgical and radiation therapy centres across the country and in Puerto Rico and France. The Company's strategy is to build or purchase health care properties in rapidly growing markets, and then create a strong franchise based on exceptional service and effective cost control.

**CLAYTON HOMES INC.**... is one of the largest producers of manufactured homes in the US. The Company sells its homes primarily in the Southwest through wholly owned retail centres and independent dealers. It also provides financing services through its insurance subsidiary.

**WELLPOINT HEALTH NETWORKS INC.**... is one of the largest publicly traded managed health care companies in the US. It serves the needs of more than 13 million medical members and 46 million speciality members nationwide through Blue Cross of California®, Blue Cross and Blue Shield of Georgia®, Blue Cross and Blue Shield of Missouri®, Healthlink and UNICARE.

**DSP GROUP INC.**... is a fabless semiconductor company that develops applications combining the Company's DSP (digital signal processing) Core expertise with advanced RF (radio frequency), communication technology, and speech-processing algorithms. The Company's Total Telephony Solutions™ delivers 900 MHz, 2.4 GHz, DECT and Bluetooth applications for residential and automotive markets. The Company also develops embedded, integrated silicon/software solutions for voice-over-packet applications.

**TRANSOCEAN INC.**... is the world's largest offshore drilling company, with 60 semisubmersibles and drillships, and 54 jackups. The Company provides rigs for all types of petroleum companies in offshore drilling markets that include the US, Gulf of Mexico and eastern Canada, Brazil, the UK and Norwegian sectors of the North Sea, West and South Africa, and Asia.

**LSI LOGIC CORPORATION**... designs, develops, manufactures and markets high-performance communications, consumer and storage semiconductors for applications that access, interconnect and store data, voice and video. LSI focuses on custom application specific integrated circuits (ASICs) and integrates system-level solutions on a single customized chip. In addition, the Company supplies storage network solutions for the enterprise.

**DIONEX CORPORATION**... develops, manufactures, markets and services a range of analytical systems to isolate, identify and quantify the components of complex chemical mixtures. The Company pioneered ion chromatography (IC), a technique used to separate inorganic molecules in water-based solutions, and is the market leader in this niche market with a 70% share. Dionex has been actively expanding its capabilities in HPLC, high performance liquid chromatography, a large \$2 billion market with very high growth potential due to HPLC's role in genomics and drug discovery. The Company sells to a broad base of customers in different industries that include environmental, chemical, life sciences, food and beverage, energy and electronics.

**APPLE COMPUTER INC.**... is a leading designer, manufacturer and marketer of personal computers and related products. Personal computer products offered include the iMac®, iBook®, Power Mac® G4, PowerBook®, and eMac™. Other hardware products include the recently introduced iPod™ MP3 player. The Company's personal computers operate on the proprietary Macintosh® operating system, which was recently revised after a complete makeover as Mac OS® X. Other software products developed in-house include iMovie™, iTunes®, iPhoto™, iDVD™ and Final Cut Pro®.

**BRISTOL-MYERS SQUIBB CO.**... is a global pharmaceutical and related health care products company. Its products include prescription drugs (such as Pravachol® for cholesterol, Glucophage® for diabetes, Plavix®, an antiplatelet drug, Taxol® for cancer, and Serzone®, an anti-depressant), nutritional products (such as Enfamil® infant formula and BOOST®), and ostomy and modern wound care products. Over the last couple of years, the Company has focused its efforts strictly on pharmaceuticals, divesting its Sea Breeze skin care brand, Matrix Essentials hair care products, and Clairol franchise, spinning off its Zimmer orthopedics business, and buying DuPont's pharmaceutical business.

*North Growth US Equity Fund Portfolio as of December 31, 2002*

**COLUMBIA SPORTSWEAR CO...** is a global leader in designing, sourcing, marketing and distributing active outdoor apparel and footwear. Originally founded in 1938 as a family-owned hat distributor, the Company now sells to over 10,000 retailers in over 30 countries. The Company's products are categorized in four key segments: outerwear, sportswear, rugged footwear, and accessories. End markets include skiing (largest seller of skiwear in the US), snowboarding, hiking, hunting, fishing, golf and casual wear. Products are generally offered at moderate price points, with a goal of delivering a high level of quality and functionality.

**CARDINAL HEALTH INC...** provides complementary products and services to health-care providers and manufacturers. The largest drug distributor in the US, Cardinal also packages pharmaceuticals, manufactures and distributes medical-surgical and laboratory supplies, manufactures automated dispensing systems, develops drug-delivery systems, franchises retail pharmacies, and offers consulting and other services to improve quality and efficiency in health care.

**TIMBERLAND COMPANY (CL A)...** designs, engineers, and markets premium-quality footwear, apparel and accessories for men, women and children. Its products are sold in leading department and athletic specialty stores as well as Timberland retail stores throughout North America, Europe, Asia, Latin America and the Middle East.

**AMERICAN POWER CONVERSION CORPORATION...** designs, manufactures and markets products that improve the reliability and productivity of computer systems by protecting hardware and data from the threat of power disturbances. Products include surge protectors, uninterruptible power supplies and various software products that help manage systems and networks when power fails. Disruption of power is one of the main causes of network downtime. With the growth of e-commerce and move to high availability networks the Company should be well positioned to grow revenue.

**AMERICAN GREETINGS CORPORATION (CL A)...** is one of the largest creators, manufacturers and distributors of social expression products including greeting cards, giftwrap and accessories, and other products (including candles, party favours and reading glasses). The Company's largest competitor is privately held Hallmark. The Company also offers an electronic greeting card service for which it charges an annual subscription fee for unlimited use.

**TEXAS INSTRUMENTS INC...** is a global semiconductor company and the world's leading designer and supplier of DSP (digital signal processing) and analog solutions, the engines driving the digitization of electronics. The Company continues to invest in the latest production technologies and is positioned to benefit from growth in its end markets as digital devices become more sophisticated and abundant. In addition to semiconductors, Texas Instruments' businesses also include Sensors & Controls, and Educational & Productivity Solutions.

**TRINITY INDUSTRIES, INC...** is one of the nation's leading diversified industrial companies providing a variety of high volume, repetitive products and services for the transportation, industrial and construction sectors. Trinity operates in five distinct business groups: Trinity Rail Group, which produces a full range of freight cars, tank cars and related parts; Trinity Railcar Leasing and Management Services Group, which provides a variety of leasing, financing and asset management options for railcar customers; Inland Barge Group, the largest provider of inland barges in the United States; Construction Products Group, the domestic leader in the production of highway safety products, as well as a leading provider of concrete and aggregates and weld pipe fittings; and, Industrial Products Group, a leading producer of tank containers and tank heads for pressure vessels. Trinity continues its legacy as one of the most respected manufacturers of pressure vessels and related components in the world.

**ST. JUDE MEDICAL INC...** is a leading designer, manufacturer and distributor of cardiovascular medical devices. The Company's product portfolio includes pacemakers, implantable cardioverter defibrillators (ICDs), catheters, heart valves, and anastomotic connectors. St. Jude Medical products are sold in more than 120 countries, and the Company has 15 operations and manufacturing facilities around the world.

**PLANTRONICS INC...** is the leading designer, manufacturer and marketer of lightweight communications headsets. The use of headsets by call center users has become an industry standard over the last decade. Business and home office users remain a market segment with long-term growth potential. Further end market growth is supported by continued new applications such as Mobile communications, voice recognition, PC conferencing, computer telephony integration and multimedia. Plantronics' products have been licensed by IBM and Microsoft (Xbox Communicator).

*North Growth US Equity Fund Portfolio as of December 31, 2002*

**GUIDANT CORPORATION...** provides innovative, minimally invasive and cost-effective products and services for the treatment of cardiovascular and vascular disease. The Company's products include: cardiac rhythm management products including pacemakers and implantable defibrillators; coronary stents and other vascular intervention (including angioplasty) products; products to perform leading edge cardiac surgery procedures (including beating heart surgery); and, products for use in less-invasive endovascular procedures, including the treatment of abdominal aortic aneurysms.

**MICHAELS STORES INC...** operates a chain of specialty stores featuring home décor and arts and crafts items. The Company's stores provide hobby, arts and crafts supplies, picture-framing materials and services, silk and dried flowers and related floral items, and seasonal and holiday merchandise. The Company operates 759 Michaels stores in 48 states and Canada, and 148 Aaron Brothers Stores primarily on the west coast of the US.

**PIER 1 IMPORTS INC...** is North America's largest specialty retailer of unique fashion-forward, decorative home furnishings, gifts and related items directly imported from over 40 countries around the world. The Company operates over 800 stores in the US, and has international operations in Canada, Mexico, Puerto Rico, the United Kingdom and Japan.

**SUN MICROSYSTEMS INC...** is the leading provider of UNIX-based servers used by enterprises to power their networks and web sites. The Company's computers, which largely employ Sun-designed UltraSPARC® chips and its Solaris™ operating system, range from desktop workstations to high-end servers. Sun also offers application server, office productivity and network management software, as well as data storage equipment.

**SAFeway INC...** is one of the largest North American food and drug retailers, with over 1700 stores throughout the US and in western Canada. Stores operate under the Safeway, Pak 'n Save, Dominick's, Vons, Pavilions, Randalls, Tom Thumb, Carrs, and Genuardi's names. Safeway also has an extensive network of distribution, manufacturing and food processing facilities.

**BIOMET INC...** and its subsidiaries design, manufacture and market orthopedic medical products used in surgical and non-surgical therapy. The majority of the Company's business consists of a comprehensive line of reconstructive devices and fixation devices. Biomet also produces arthroscopy products, electrical bone growth stimulators, spinal implants, orthopedic support devices, bone cements, bone substitute materials, craniomaxillofacial and dental reconstructive implants and general surgical instruments.

**JONES APPAREL GROUP INC...** is a leading designer and marketer of apparel, footwear and accessories. Its products include sportswear, jeanswear, suits, dresses, menswear, shoes, accessories and costume jewelry. Jones markets its products under well-known brand names such as Jones New York, Evan-Picone, Rena Rowan, Todd Oldham, Nine West, Norton McNaughton, Gloria Vanderbilt, Erika, Easy Spirit, Bandolino, Napier, Judith Jack, l.e.i. and Enzo Angiolini. Jones also produces for licensed brands that include Lauren by Ralph Lauren, Ralph by Ralph Lauren and Polo Jeans Company.

**HOME DEPOT INC...** is the world's largest home improvement retailer and the second largest retailer in the US. The Company operates over 1,470 retail outlets including 1,313 in the US, 87 in Canada and 10 in Mexico, as well as 52 EXPO Design Centers (interior design), 5 Supply stores, 3 Landscape stores and 1 Floor Store outlet. Within existing stores, the Company has been expanding its efforts to grow the PRO Program, now present in over 900 stores, which caters directly to the professional customer. Also being offered in existing stores is a significantly expanded tool rental program and the At-Home Services program, which offers installation for certain products that require a more specialized skill set.

**TECHNITROL INC...** is a worldwide manufacturer and supplier of electronic components, electrical contacts and assemblies and other precision-engineered parts and materials to manufacturers of network devices, telecommunications systems, computer equipment, electrical switching devices, automotive systems, and a variety of other products. The Company has two divisions: Pulse, designing and manufacturing passive magnetics-based electronic components and modules; and, AMI Doduco, producing a full range of electrical contacts, contact materials and contact assemblies.

**MAVERICK TUBE CORPORATION...** is a St. Louis, Missouri-based manufacturer of tubular products used in the energy industry in drilling, production and surface transportation applications, as well as industrial tubing products including hollow structural sections (HSS) and standard pipe. Maverick's market share in Oil Country Tubular Goods (OCTG) is approximately 18% in the US and 35% in Canada.

*North Growth US Equity Fund Portfolio as of December 31, 2002*

**3COM CORPORATION...** is a leader in network connectivity, with a focus on offering innovative, feature-rich products and solutions at a low cost of acquisition and ownership. The Company operates in three key business units: Enterprise Networking, which provides innovative and high-value network infrastructure products for enterprises and small businesses including switches, networked telephony systems, connectivity products, internet access gateways, and secure NICs (network interface cards); Connectivity, providing high-performance, reliable connectivity products, with a primary focus on NICs; and, CommWorks Corporation, providing IP-based multi-service networks for telecommunications service providers.

**MOHAWK INDUSTRIES, INC...** is the largest floorcovering manufacturer and distributor in the world. The Company has the second largest carpet mill in the US and the largest ceramic tile operation in the US. Mohawk Industries designs, manufactures and markets woven and tufted broadloom carpet, carpet tile, ceramic tile and natural stone products, laminate, wood and vinyl flooring, home textiles, bath mats, and area and accent rugs. The Company is fully integrated with substantial fiber extrusion facilities, filament and yarn processing capacity, dyeing facilities and a modern distribution system.

**VISHAY INTERTECHNOLOGY INC...** manufactures passive electronic components (resistors, capacitors, and inductors) and is a leading producer of discrete semiconductor components and selected integrated circuits (ICs). Through internal research and development and an aggressive acquisition strategy, Vishay has established a unique position as a global manufacturer of the broadest line of discrete electronic components available.

**METTLER-TOLEDO INTERNATIONAL INC...** is the world's largest manufacturer and marketer of weighing instruments for use in laboratory, industrial and food retailing applications. The Company also holds top-three market positions in several related analytical instruments and is a leading provider of automated chemistry systems used in drug and chemical compound discovery and development. In addition, Mettler-Toledo is the world's largest manufacturer and marketer of metal detection systems used in production and packaging.

**DIAMOND OFFSHORE DRILLING INC...** is involved primarily in the contract drilling of offshore oil and gas wells. It is a leader in deep water drilling with a fleet of multiple offshore rigs consisting of semisubmersibles, jackups and a drillship. Diamond Offshore operates in the waters off six continents.

**CHECKPOINT SYSTEMS INC...** manufactures and markets identification and protection systems for a diverse customer base across many industries worldwide. The Company provides radio frequency (RF) source tagging, barcode labeling systems, electronic article surveillance (EAS) systems and tags, security source tagging, retail merchandising systems, and handheld labeling systems for several applications within the automatic identification industry. EAS accounts for the majority of Checkpoint's sales and the Company holds a 42% share of the worldwide EAS market behind Sensormatic.

**TOYS "R" US INC...** is one of the world's leading retailers of toys, children's apparel and baby products, and is the largest toy retailer in the US. The Company sells through 1,608 stores worldwide including 686 toy stores in the US, 545 international toy stores (including licensed and franchised stores), 147 Kids "R" Us children's clothing stores, 183 Babies "R" Us stores, 43 Imaginarium stores, 4 Geoffrey stores and through the Company's internet sites.

**SCHNITZER STEEL INDUSTRIES, INC...** collects, processes and recycles steel scrap and manufactures finished steel products by operating one of the largest steel scrap recycling businesses in the United States and a technologically advanced steel mini-mill.

**BJ SERVICES COMPANY...** is a leading provider of pressure pumping and other oilfield services serving the petroleum industry worldwide. The Company's pressure pumping services consist of well stimulation, cementing, sand control, coiled tubing and downhole tools services used in the completion of new oil and natural gas wells and in remedial work on existing wells, both onshore and offshore. These services are provided through domestic and international locations to customers in most of the major oil and natural gas producing regions of the United States, Canada, Latin America, Europe, Asia, Africa and the Middle East.

*North Growth US Equity Fund***AUDITORS' REPORT**

To the Unitholders of  
North Growth U.S. Equity Fund:

We have audited the statement of investments of North Growth U.S. Equity Fund as at December 31, 2002, the statements of net assets, operations and changes in net assets as at or for the years ended December 31, 2002 and 2001, and the statement of financial highlights for each of the years in the five year period ended December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the investment portfolio of the Fund as at December 31, 2002, its financial position, the results of its operations and the changes in its net assets as at or for the years ended December 31, 2002 and 2001, and its financial highlights for each of the years in the five year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants

Vancouver, B.C.  
January 17, 2003

*North Growth US Equity Fund*

## STATEMENTS OF NET ASSETS

<i>As of December 31, 2002 and 2001 (in thousands of dollars except per unit amounts)</i>	2002	2001
<b>ASSETS</b>		
Investments - at market value	\$ 121,276	\$ 100,985
Cash	1,816	485
Due from subscribers for units	3,169	—
Accrued interest and dividends receivable	49	63
	<u>5,034</u>	<u>548</u>
	<u>126,310</u>	<u>101,533</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	379	283
Distributions payable to unitholders (Note 4)	—	12,029
	<u>379</u>	<u>12,312</u>
<b>NET ASSETS - REPRESENTING UNITHOLDERS' EQUITY</b> (Note 5)	<u>\$ 125,931</u>	<u>\$ 89,221</u>
<b>NUMBER OF UNITS OUTSTANDING</b> (000's) (Note 5)	<u>6,742</u>	<u>4,648</u>
<b>NET ASSET VALUE PER UNIT</b>	<u>\$ 18.68</u>	<u>\$ 19.20</u>

APPROVED ON BEHALF OF THE MANAGER,  
NORTH GROWTH MANAGEMENT LTD.

**(SIGNED), RUDY NORTH**

Rudy North, President

## North Growth US Equity Fund

## STATEMENTS OF OPERATIONS

For the years ended December 31, 2002 and 2001 (in thousands of dollars)

	2002	2001
<b>INVESTMENT INCOME</b>		
Dividends - net of withholding taxes	\$ 451	\$ 167
Interest	325	1,172
	<u>776</u>	<u>1,339</u>
<b>EXPENSES</b>		
Audit and accounting fees	-	10
Management fees (Note 6)	1,331	983
Trusteeship fees	-	41
Other	-	27
	<u>1,331</u>	<u>1,061</u>
<b>NET INVESTMENT (LOSS) INCOME</b> (Note 3)	<u>(555)</u>	<u>278</u>
<b>REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS</b>		
Proceeds from sale of investments	<u>321,621</u>	<u>382,080</u>
Investments at average cost, beginning of year	85,846	60,607
Cost of investments purchased <sup>(1)</sup>	342,333	394,745
	<u>428,179</u>	<u>455,352</u>
Investments at average cost, end of year	(108,940)	(85,846)
Cost of investments sold <sup>(2)</sup>	319,239	369,506
	<u>2,382</u>	<u>12,574</u>
Net realized gain on sale of investments	2,382	12,574
Change in unrealized appreciation of investments	(2,824)	(1,948)
	<u>(442)</u>	<u>10,626</u>
<b>NET (LOSS) GAIN ON INVESTMENTS</b> (Note 3)	<u>(442)</u>	<u>10,626</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<u>\$ (997)</u>	<u>\$ 10,904</u>

<sup>(1)</sup> Includes short-term note purchases of \$235,950 in 2002 and \$337,563 in 2001.<sup>(2)</sup> Includes short-term note maturities of \$272,092 in 2002 and \$328,401 in 2001.

*North Growth US Equity Fund*

## STATEMENTS OF CHANGES IN NET ASSETS

*For the years ended December 31, 2002 and 2001 (in thousands of dollars)*

	2002	2001
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ (997)</b>	<b>\$ 10,904</b>
<b>DISTRIBUTIONS TO INVESTORS</b>		
From net investment income	-	(272)
From net realized gain on investments	<b>(887)</b>	(11,757)
	<b>(887)</b>	(12,029)
<b>CAPITAL UNIT TRANSACTIONS</b>		
Sale of units	<b>30,114</b>	18,383
Unit issued on reinvestment of distributions	<b>12,840</b>	12,797
Units redeemed	<b>(4,360)</b>	(5,465)
	<b>38,594</b>	25,715
<b>CHANGE IN NET ASSETS</b>	<b>36,710</b>	24,590
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>89,221</b>	64,631
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 125,931</b>	<b>\$ 89,221</b>

*North Growth US Equity Fund*
**STATEMENT OF FINANCIAL HIGHLIGHTS**
*For each of the five years ended December 31*

	<b>2002</b>	2001	2000	1999	1998
<b>DATA PER UNIT</b> (Note 2)					
<b>NET ASSET VALUE, BEGINNING OF YEAR</b>	<b>\$ 19.20</b>	\$ 19.30	\$ 16.16	\$ 16.08	\$ 15.75
<b>INCOME FROM OPERATIONS</b>					
Net investment (loss) income	<b>(0.09)</b>	0.06	0.19	0.09	(0.05)
Net realized and unrealized (losses) gains on investments	<b>(0.29)</b>	2.42	6.81	1.07	1.04
	<b>(0.38)</b>	2.48	7.00	1.16	0.99
<b>DISTRIBUTIONS TO INVESTORS</b>					
From net investment income	-	(0.06)	(0.16)	(0.09)	-
From net realized gain on investments	<b>(0.14)</b>	(2.52)	(3.70)	(0.99)	(0.66)
	<b>(0.14)</b>	(2.58)	(3.86)	(1.08)	(0.66)
<b>NET ASSET VALUE, END OF YEAR</b>	<b>\$ 18.68</b>	\$ 19.20	\$ 19.30	\$ 16.16	\$ 16.08
<b>RATIOS / SUPPLEMENTAL DATA</b> (Note 2)					
Net assets - end of year (000's)	<b>\$125,931</b>	\$ 89,221	\$ 64,631	\$ 44,005	\$ 43,341
Average net assets (000's)	<b>\$109,298</b>	\$ 89,175	\$ 59,167	\$ 46,333	\$ 44,211
Management expense ratio	<b>1.22%</b>	1.19%	1.25%	1.12%	1.11%
Portfolio turnover rate	<b>54.71%</b>	95.01%	75.22%	70.53%	94.60%
Annual rate of return	<b>(2.01%)</b>	12.83%	43.32%	7.21%	6.29%

*North Growth US Equity Fund*
**STATEMENT OF INVESTMENTS**
*As of December 31, 2002 (in thousands of dollars)*

Number of Shares	Foreign Common Shares	Average Cost	Market Value	% of Net Assets
573,500	Nextel Communications Inc., Class A	\$ 5,020	\$ 10,450	8.30
626,300	Chesapeake Energy Corporation	6,533	7,648	6.07
289,000	Citrix Systems Inc.	5,685	5,617	4.46
228,600	Cisco Systems Inc.	3,479	4,724	3.75
166,300	King Pharmaceuticals Inc.	4,555	4,510	3.58
134,800	Manor Care Inc.	3,775	3,958	3.14
70,000	Jacobs Engineering Group Inc.	3,174	3,931	3.12
158,000	Ocular Sciences Inc.	5,602	3,868	3.07
197,500	Borland Software Corporation	2,702	3,832	3.04
97,500	Sunrise Assisted Living Inc.	4,025	3,828	3.04
49,200	Universal Health Services Inc., Class B	1,597	3,501	2.78
164,090	Clayton Homes Inc.	2,594	3,153	2.50
26,600	WellPoint Health Networks Inc., Class A	1,665	2,986	2.37
100,500	DSP Group Inc.	2,497	2,508	1.99
68,000	Transocean Inc.	2,321	2,489	1.98
270,500	LSI Logic Corporation	3,493	2,462	1.96
51,000	Dionex Corporation	2,019	2,387	1.90
105,000	Apple Computer Inc.	2,951	2,374	1.89
61,000	Bristol-Myers Squibb Company	2,530	2,228	1.77
30,600	Columbia Sportswear Company	1,459	2,144	1.70
22,700	Cardinal Health Inc.	1,715	2,120	1.68
37,600	Timberland Company, Class A	1,729	2,112	1.68
87,400	American Power Conversion Corporation	1,607	2,089	1.66
83,400	American Greetings Corporation, Class A	2,730	2,079	1.65
83,900	Texas Instruments Incorporated	2,421	1,987	1.58
65,500	Trinity Industries Inc.	2,000	1,959	1.56
31,000	St. Jude Medical Inc.	941	1,943	1.54
76,000	Plantronics Inc.	1,937	1,814	1.44
37,000	Guidant Corporation	1,758	1,801	1.43
36,000	Michaels Stores Inc.	2,172	1,778	1.41
59,300	Pier 1 Imports Inc.	1,561	1,771	1.41
356,000	Sun Microsystems Inc.	2,341	1,747	1.39
47,000	Safeway Inc.	1,647	1,732	1.38
36,825	Biomet Inc.	1,094	1,665	1.32
29,400	Jones Apparel Group Inc.	1,248	1,644	1.31
42,600	Home Depot Inc.	2,069	1,614	1.28
62,600	Technitrol Inc.	1,384	1,594	1.27
74,000	Maverick Tube Corporation	1,295	1,521	1.21
192,600	3Com Corporation	1,326	1,407	1.12
15,000	Mohawk Industries Inc.	1,014	1,348	1.07
72,000	Vishay Intertechnology Inc.	1,104	1,270	1.01
25,000	Mettler-Toledo International Inc.	1,401	1,264	1.00
36,600	Diamond Offshore Drilling Inc.	1,295	1,262	1.00
74,500	Checkpoint Systems Inc.	1,338	1,215	0.96
65,000	Toys "R" Us Inc.	1,451	1,025	0.81
26,600	Schnitzer Steel Industries Inc., Class A	646	840	0.67
1,510	BJ Services Company	40	77	0.06
	Total investments	<u>\$ 108,940</u>	<u>121,276</u>	96.30
	Other assets less liabilities		<u>4,655</u>	3.70
	Net assets		<u>\$ 125,931</u>	100.00

*North Growth US Equity Fund*

## NOTES TO THE FINANCIAL STATEMENTS

*December 31, 2002 and 2001*

## 1. THE FUND

The North Growth U.S. Equity Fund (the "Fund") is an open-ended mutual fund established under the laws of the Province of British Columbia. The fiscal year end of the fund is December 31.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in the investment fund industry in Canada, and reflect the following policies:

*Accounting estimates*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in these financial statements. Actual amounts may differ from those estimates.

*Basis of determining market value*

Each investment security is valued at the closing sales price thereof as reported by the principal securities exchange on which the security is traded. If no sale is reported, the average of the latest bid and ask price is used.

*Investment transactions and income*

Investment transactions are accounted for on the day that a buy or sell order is executed. Dividend income, including stock dividends, is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Realized gains and losses on investment transactions and the unrealized appreciation or depreciation of investments are computed on an average cost basis.

*Translation of foreign currencies*

Foreign currency assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing on the balance sheet date except for the historical costs of investments which are translated at the rate of exchange prevailing on the date of purchase. The proceeds from sale of investments and investment income in foreign currencies are translated into Canadian dollars at the approximate rate of exchange prevailing on the dates of such transactions. Gains and losses from transactions in and the translation of foreign currencies are considered to be investment transactions and accordingly, are included in the net realized gain or loss on sale of investments.

*Unrealized appreciation or depreciation of investments*

The unrealized appreciation or depreciation of investments represents the aggregate of the difference between their average cost and market value at the balance sheet date.

*North Growth US Equity Fund*Financial highlights

Information reported in the Statement of Financial Highlights is based on the following:

Data per unit

- (i) Net asset value per unit is based on the number of units outstanding at the end of the year.
- (ii) Net investment income per unit is based on the average number of units outstanding at the end of each month during the year.
- (iii) Net realized and unrealized gains on investments per unit is based on the average number of units outstanding at the end of each month during the year. This amount also includes adjustments to account for the fact that the opening and closing net asset values and distributions per unit are calculated using different amounts of outstanding units.
- (iv) Distributions per unit to unitholders are based on the number of units outstanding on the record dates for the distributions.

Average net assets

This is the average of the daily net asset values of the Fund for each valuation day during the year.

Management expense ratio

The management expense ratio represents the total expenses of the Fund for a one-year period as shown in its Statement of Operations expressed as a percentage of the Fund's average daily net asset values.

Differences between the management expense ratio and the management fee percentage (Note 6) arise from the management expense ratio being calculated using the average daily net asset values whereas the management fee is calculated as a percentage of the quarter-end net asset value of the Fund.

Portfolio turnover rate

This is the lesser of the cost of investments purchased or the proceeds from sale of investments, excluding investments that mature one year or less from the purchase date, divided by the average net assets for the year.

Annual rate of return

This represents the historical total rate of return for the year and includes the reinvestment of all distributions.

### 3. INCOME TAXES

The Fund is classified as a "Mutual Fund Trust" under the Income Tax Act. The Fund distributes to its unitholders all of its annual taxable income, including such portion of its taxable net realized capital gains, as will result in the Fund not being liable for any income taxes.

*North Growth US Equity Fund*

Income tax legislation currently allows a qualifying mutual fund trust to elect to have a taxation year end of December 15 instead of December 31. The Fund has made such an election effective December 15, 2002.

#### 4. DISTRIBUTIONS TO UNITHOLDERS

It is the policy of the Fund to make annual distributions to unitholders of its taxable net investment income and the net realized capital gains on sale of investments, which are subsequently reinvested in additional units of the Fund unless a unitholder elects to receive his or her proportionate share of any distributions in cash.

#### 5. UNITHOLDERS' EQUITY

Unitholders' equity includes the Fund units outstanding, retained net investment income and net realized gains or losses on sale of investments, and the unrealized appreciation or depreciation of investments.

There is one class of authorized units and the number of units that may be issued is unlimited. Fund units are sold, and are redeemable at the holder's option, in accordance with the provisions of the Trust Agreement at the prevailing net asset value per unit.

The registered unitholder may request redemption of Fund units at any time by submitting a written request to the Manager. A redemption request must include the name and account number, and the dollar amount of units to be redeemed. A redemption will be transacted on the same market day if such a request is received by the Manager prior to 1:00 p.m. Vancouver time. Otherwise, it will be transacted on the next market day. Payment will be made within three business days after the applicable market day. There is no charge on redemption of Fund units.

The number of units issued and redeemed during the year were as follows:

	<u>2002</u>	<u>2001</u>
Balance, beginning of the year	4,647,804.119	3,348,315.169
Issued during the year		
Sales	1,667,084.512	911,449.826
On reinvestment of distributions	669,047.002	662,983.070
	<u>2,336,131.514</u>	<u>1,574,432.896</u>
	6,983,935.633	4,922,748.065
Redeemed during the year	<u>241,772.898</u>	274,943.946
Balance, end of the year	<u>6,742,162.735</u>	<u>4,647,804.119</u>

*North Growth US Equity Fund***6. MANAGEMENT FEES AND OTHER EXPENSES**

North Growth Management Ltd. is the Manager of the Fund and provides research, accounting, sales and management services, and acts as investment advisor. Commencing in 2002, management fees are calculated and payable quarterly at the annual rate of 1.20% of the net asset value of the Fund and the manager absorbs all other expenses of the Fund. Prior to 2002, management fees were calculated and payable quarterly at the annual rate of 1.00% of the net asset value of the Fund and the Fund was responsible for paying its own expenses.

**7. FOREIGN CURRENCIES**

The net realized gain on sale of investments includes losses from foreign currencies of \$88,000 in 2002 and gains of \$62,000 in 2001.

**8. PORTFOLIO TRANSACTIONS**

Information (unaudited) as to portfolio transactions is available to unitholders without charge on request to the head office of the Fund, 830 - 505 Burrard Street, Vancouver, British Columbia, V7X 1M4.

Commissions paid or payable to investment dealers and brokers in connection with portfolio transactions aggregated \$465,000 in 2002 and \$312,000 in 2001.

**AUDITORS' REPORT**

To the Unitholders of  
North Growth Canadian Money Market Fund:

We have audited the statement of investments of North Growth Canadian Money Market Fund as at December 31, 2002, the statements of net assets, operations and changes in net assets as at or for the years ended December 31, 2002 and 2001, and the statement of financial highlights for each of the years in the three year period ended December 31, 2002, and for the period from October 26, 1999 to December 31, 1999. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the investment portfolio of the Fund as at December 31, 2002, its financial position, the results of its operations and the changes in its net assets as at or for the years ended December 31, 2002 and 2001, and its financial highlights for each of the years in the three year period ended December 31, 2002, and for the period from October 26, 1999 to December 31, 1999, in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants

Vancouver, B.C.  
January 17, 2003

*North Growth Canadian Money Market Fund*

## STATEMENTS OF NET ASSETS

<i>As of December 31, 2002 and 2001 (in thousands of dollars except per unit amounts)</i>	<b>2002</b>	2001
<b>ASSETS</b>		
Investments - at market value	<b>\$ 20,655</b>	\$ 31,095
Cash	<b>4</b>	5
Accrued interest receivable	<b>40</b>	48
	<b>44</b>	53
	<b>20,699</b>	31,148
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	<b>14</b>	23
<b>NET ASSETS - REPRESENTING UNITHOLDERS' EQUITY</b> (Note 5)	<b>\$ 20,685</b>	\$ 31,125
<b>NUMBER OF UNITS OUTSTANDING</b> (000's) (Note 5)	<b>2,068</b>	3,113
<b>NET ASSET VALUE PER UNIT</b>	<b>\$ 10.00</b>	\$ 10.00

APPROVED ON BEHALF OF THE MANAGER,  
 NORTH GROWTH MANAGEMENT LTD.  
(SIGNED), RUDY NORTH  
 Rudy North, President

*North Growth Canadian Money Market Fund*
**STATEMENTS OF OPERATIONS**
*For the years ended December 31, 2002 and 2001 (in thousands of dollars)*

	<b>2002</b>	2001
<b>INVESTMENT INCOME</b>		
Interest	\$ 578	\$ 880
<b>EXPENSES</b>		
Management fees (Note 6)	<u>63</u>	<u>58</u>
<b>NET INVESTMENT INCOME</b> (Note 3)	<u>515</u>	<u>822</u>
<b>REALIZED AND UNREALIZED GAINS ON INVESTMENTS</b>		
Proceeds from sale of investments	<u>240,003</u>	<u>204,418</u>
Investments at average cost, beginning of year	<b>31,095</b>	13,078
Cost of investments purchased	<u>229,563</u>	<u>222,435</u>
	<b>260,658</b>	235,513
Investments at average cost, end of year	<b>(20,655)</b>	(31,095)
Cost of investments sold	<u>240,003</u>	<u>204,418</u>
Net realized gain on sale of investments	–	–
Change in unrealized appreciation of investments	–	–
<b>NET GAIN ON INVESTMENTS</b>	<u>–</u>	<u>–</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<u>\$ 515</u>	<u>\$ 822</u>

*North Growth Canadian Money Market Fund*

## STATEMENTS OF CHANGES IN NET ASSETS

*For the years ended December 31, 2002 and 2001 (in thousands of dollars)*

	2002	2001
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>\$ 515</b>	<b>\$ 822</b>
<b>DISTRIBUTIONS TO INVESTORS</b>		
From net investment income	(515)	(822)
From net realized gain on investments	—	—
	<b>(515)</b>	<b>(822)</b>
<b>CAPITAL UNIT TRANSACTIONS</b>		
Sale of units	14,806	24,538
Unit issued on reinvestment of distributions	510	822
Units redeemed	(25,756)	(7,365)
	<b>(10,440)</b>	<b>17,995</b>
<b>CHANGE IN NET ASSETS</b>	<b>(10,440)</b>	<b>17,995</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>31,125</b>	<b>13,130</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 20,685</b>	<b>\$ 31,125</b>

*North Growth Canadian Money Market Fund*
**STATEMENT OF FINANCIAL HIGHLIGHTS**
*For each of the three years ended December 31*
*and the period from October 26, 1999 to December 31, 1999*

	<b>2002</b>	2001	2000	1999
<b>DATA PER UNIT</b> (Note 2)				
<b>NET ASSET VALUE, BEGINNING OF PERIOD</b>	<b>\$ 10.00</b>	\$ 10.00	\$ 10.00	\$ 10.00
<b>INCOME FROM OPERATIONS</b>				
Net investment income	<b>0.23</b>	0.40	0.54	0.06
Net realized and unrealized on investments	–	–	–	–
	<b>0.23</b>	0.40	0.54	0.06
<b>DISTRIBUTIONS TO INVESTORS</b>				
From net investment income	<b>(0.23)</b>	(0.40)	(0.54)	(0.06)
From net realized gain on investments	–	–	–	–
	<b>(0.23)</b>	(0.40)	(0.54)	(0.06)
<b>NET ASSET VALUE, END OF PERIOD</b>	<b>\$ 10.00</b>	\$ 10.00	\$ 10.00	\$ 10.00
<b>RATIOS / SUPPLEMENTAL DATA</b> (Note 2)				
Net assets - end of period (000's)	<b>\$ 20,685</b>	\$ 31,125	\$ 13,130	\$ 8,624
Average net assets (000's)	<b>\$ 23,463</b>	\$ 21,774	\$ 11,155	\$ 8,477
Management expense ratio	<b>0.27%</b>	0.27%	0.27%	0.20%
Annual rate of return	<b>2.25%</b>	4.11%	5.46%	N/A

*North Growth Canadian Money Market Fund*
**STATEMENT OF INVESTMENTS**
*As of December 31, 2002 (in thousands of dollars)*

Face Value	Short-Term Notes	Average Cost and Market Value	% of Net Assets
\$ 910	Goldman Sachs Canada Finance Co., 2.78%, January 2, 2003	\$ 908	4.39
870	Paccar Financial Services Inc., 2.80%, January 2, 2003	868	4.20
605	HSBC Bank of Canada, 2.75%, January 3, 2003	603	2.92
1,000	Merrill Lynch Canada Finance Co., 2.80%, January 3, 2003	997	4.82
820	Caisse Centrale Desjardins, 2.78%, January 6, 2003	817	3.95
1,000	Caterpillar Financial Services Inc., 2.79%, January 6, 2003	997	4.82
800	Credit Union Central of British Columbia, 2.78%, January 6, 2003	798	3.86
1,000	Procter & Gamble Company, 2.78%, January 6, 2003	997	4.82
1,060	Honda Canada Finance Inc., 2.78%, January 7, 2003	1,057	5.11
790	Canadian Imperial Bank of Commerce, 2.74%, January 8, 2003	788	3.81
1,000	Anglo American Luxembourg PLC, 2.79%, January 9, 2003	997	4.82
1,000	Rio Tinto Canada Inc., 2.78%, January 10, 2003	997	4.82
1,205	GE Capital Canada Funding Company, 2.80%, January 14, 2003	1,201	5.80
1,000	Honda Auto Receivable Trust, 2.80%, January 15, 2003	998	4.82
810	Royal Bank of Canada, 2.75%, January 15, 2003	808	3.91
1,000	Transamerica Commercial Financial Corp., 2.81%, January 16, 2003	997	4.82
1,000	Chevron Canada Capital Company, 2.79%, January 17, 2003	998	4.82
785	Corridor Pipeline Ltd., 2.80%, January 17, 2003	783	3.79
1,000	Associates Capital Corporation of Canada, 2.78%, January 21, 2003	997	4.82
507	John Deere Credit Inc., 2.82%, January 21, 2003	506	2.45
1,000	Storm King Funding Trust, 2.83%, January 21, 2003	997	4.82
550	Bank of Nova Scotia, 2.76%, January 24, 2003	549	2.65
1,000	Wells Fargo Financial Canada Corporation, 2.79%, January 30, 2003	997	4.82
	Total investments	<b>20,655</b>	99.86
	Other assets less liabilities	<b>30</b>	0.14
	Net assets	<b>\$ 20,685</b>	<b>100.00</b>

*North Growth Canadian Money Market Fund*

## NOTES TO THE FINANCIAL STATEMENTS

*December 31, 2002 and 2001*

## 1. THE FUND

The North Growth Canadian Money Market Fund is an open-ended mutual fund established on October 26, 1999 under the laws of the Province of British Columbia. The fiscal year end of the Fund is December 31.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in the investment fund industry in Canada, and reflect the following policies:

*Accounting estimates*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in these financial statements. Actual amounts may differ from those estimates.

*Basis of determining market value*

Short-term notes are valued at cost which, together with accrued interest, approximates market value.

*Investment transactions and income*

Investment transactions are accounted for on the day that a buy or sell order is executed. Interest income is recorded on the accrual basis.

*Financial highlights*

Information reported in the Statement of Financial Highlights is based on the following:

*Data per unit*

- (i) Net asset value per unit is based on the number of units outstanding at the end of the year.
- (ii) Net investment income per unit is based on the average number of units outstanding at the end of each month during the year.
- (iii) Net realized and unrealized gains on investments per unit is based on the average number of units outstanding at the end of each month during the year. This amount also includes adjustments to account for the fact that the opening and closing net asset values and distributions per unit are calculated using different amounts of outstanding units.

*North Growth Canadian Money Market Fund*

- (iv) Distributions per unit to unitholders are based on the number of units outstanding on the record dates for the distributions.

*Average net assets*

This is the average of the daily net asset values of the Fund for each valuation day during the year.

*Management expense ratio*

The management expense ratio represents the total expenses of the Fund for a one-year period (annualized, where applicable) as shown in its Statement of Operations expressed as a percentage of the Fund's average daily net asset values.

*Annual rate of return*

This represents the historical total rate of return for the year and includes the reinvestment of all distributions. The annual rate of return is not available for 1999 as the fund did not operate for a full year.

### 3. INCOME TAXES

The Fund is classified as a "Unit Trust" under the Income Tax Act. The Fund distributes to its unitholders all of its annual taxable income with the result that the Fund is not liable for any income taxes.

### 4. DISTRIBUTIONS TO UNITHOLDERS

It is the policy of the Fund to allocate and distribute the taxable net investment income to its unitholders on a daily and a monthly basis, respectively. These distributions are subsequently reinvested in additional units of the Fund unless a unitholder elects to receive his or her proportionate share of any distributions in cash.

### 5. UNITHOLDERS' EQUITY

Unitholders' equity is the Fund units outstanding. Fund units are sold, and are redeemable at the holder's option, in accordance with the provisions of the Trust Agreement at the prevailing net asset value per unit.

The registered unitholder may request redemption of Fund units at any time by submitting a written request to the Manager. A redemption request must include the name and account number, and the dollar amount of units to be redeemed. A redemption will be transacted on the same market day if such a request is received by the Manager prior to 1:00 p.m. Vancouver time. Otherwise, it will be transacted on the next market day. Payment will be made within three business days after the applicable market day. There is no charge on redemption of Fund units.

*North Growth Canadian Money Market Fund*

The number of units issued and redeemed during the year were as follows:

	<u>2002</u>	<u>2001</u>
Balance, beginning of the year	<u>3,112,550.509</u>	1,313,006.595
Issued during the year		
Sales	1,480,551.307	2,453,807.167
On reinvestment of distributions	<u>51,045.694</u>	82,231.047
	<u>1,531,597.001</u>	2,536,038.214
	4,644,147.510	3,849,044.809
Redeemed during the year	<u>2,575,673.250</u>	736,494.300
Balance, end of the year	<u>2,068,474.260</u>	3,112,550.509

#### 6. MANAGEMENT FEES AND OTHER EXPENSES

North Growth Management Ltd. is the Manager of the Fund and provides research, accounting, sales and management services, and acts as investment advisor. Management fees are calculated daily and payable quarterly at the annual rate of 0.25% of the net asset value of the Fund. Since inception, the Manager has absorbed all other expenses of the Fund.

#### 7. PORTFOLIO TRANSACTIONS

Information (unaudited) as to portfolio transactions is available to unitholders without charge on request to the head office of the Fund, 830 - 505 Burrard Street, Vancouver, British Columbia, V7X 1M4.

## NORTH GROWTH MANAGEMENT LTD.

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VANCOUVER, BC V7X 1M4

### PORTFOLIO MANAGEMENT TEAM

RUDY NORTH

RORY NORTH

ERICA LAU

JORDIE JACOBS

### ADMINISTRATION / CLIENT SERVICES

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