

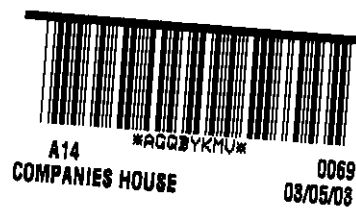
Merrill Lynch Fund Managers Limited

Report and Financial Statements

for the Year Ended 31 December 2002

Company Registration No.

1102517



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DIRECTORS AND ADVISORS

DIRECTORS

E.P. Corley (Chairman)
G.D. Bamping
N.C. Hall
M.H. Jones (Managing Director)
C.C. Prideaux
E.E. Tracey

SECRETARY

D.A. Searle

AUDITORS

Deloitte & Touche
Chartered Accountants and Registered Auditors
London

REGISTERED OFFICE

33 King William Street
London EC4R 9AS

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for Merrill Lynch Fund Managers Limited (the "Company") for the year ended 31 December 2002.

PRINCIPAL ACTIVITY

The Company acts as a manager of investment funds.

RESULTS AND DIVIDEND

The results of the Company are set out in the profit and loss account on page 6 of the financial statements.

The directors have declared an interim dividend amounting to £5,000,000 for the year ended 31 December 2002 (year ended 31 December 2001 £12,500,000). A final dividend has not been proposed (year ended 31 December 2001 £Nil).

The directors propose that the principal activity will continue in 2003.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and up to the date of signing this report were as follows:

E.P. Corley (Chairman)	- British	Appointed 10 July 2002
G.D. Bamping	- British	Appointed 4 March 2002
N.C. Hall	- British	
M.H. Jones (Managing Director)	- British	
C.C. Prideaux	- British	Appointed 10 July 2002
E.E. Tracey	- British	
R.P. Andrews	- British	Resigned 9 December 2002
P.T. Geikie-Cobb	- British	Resigned 12 June 2002
M.P. Morrissey	- British	Resigned 8 February 2002
F.D.S. Rosier (Chairman)	- British	Resigned 31 May 2002

The directors have no interest in the shares of the Company or any other United Kingdom group company.

The interests of the directors in the loan notes of a group company, ML Invest Holdings Limited, were as follows:

Beneficial Holdings

E.P. Corley* (appointed 10 July 2002)

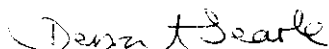
2002
25,347

* Floating Rate Guaranteed Unsecured Loan Notes 2003 - No.1 Series

AUDITORS

On 10 August 2000, an elective resolution was passed by the shareholders of the Company pursuant to Section 386 of the Companies Act 1985 to dispense with the obligation to appoint Auditors annually. Deloitte & Touche have indicated their willingness to continue in office.

By order of the Board



Company Secretary

25 April 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. In preparing those 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 material departures disclosed and explained in the financial statements; and
- 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 keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Company's system of internal control, 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 Merrill Lynch Fund Managers Limited**

We have audited the financial statements of Merrill Lynch Fund Managers Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 and any other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

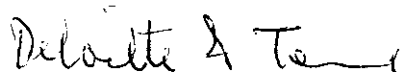
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 as 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.



Deloitte & Touche
Chartered Accountants and
Registered Auditors
London

25 April 2003

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

	Note	Year ended 31 December 2002 £	Year ended 31 December 2001 £
Turnover	3	9,170,187,810	10,149,432,728
Cost of sales		<u>-9,089,683,562</u>	<u>-10,042,308,132</u>
GROSS PROFIT		80,504,248	107,124,596
Operating expenses	4	-56,139,823	-93,941,983
Other operating income		<u>1,563,500</u>	<u>1,992,412</u>
OPERATING PROFIT		25,927,925	15,175,025
Interest receivable and similar income		841,636	2,135,071
Profit on sale of current asset investment		<u>-</u>	<u>219,566</u>
INVESTMENT INCOME		841,636	2,354,637
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>26,769,561</u>	<u>17,529,662</u>
Tax charge on profit on ordinary activities	6	-1,586,771	-7,129,898
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>25,182,790</u>	<u>10,399,764</u>
Dividends paid and proposed	7	-5,000,000	(12,500,000)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	13	<u>20,182,790</u>	<u>-2,100,236</u>

Turnover and profit on ordinary activities before taxation derive from continuing operations.

The Company had no gains or losses for the current year and prior year other than as stated in the profit and loss account.

The notes to the accounts on pages 8 to 11 form part of these financial statements.

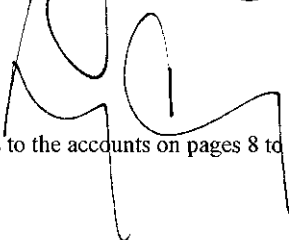
BALANCE SHEET
 as at 31 December 2002

	Note	31 December 2002 £	31 December 2001 £
CURRENT ASSETS			
Investments	8	2,737,475	1,750,741
Debtors	9	189,254,873	133,992,334
Cash at bank and in hand		11,071,639	17,827,395
		<u>203,063,987</u>	<u>153,570,470</u>
CREDITORS : amounts falling due within one year	11	<u>-141,872,789</u>	<u>-112,562,062</u>
NET ASSETS		<u>61,191,198</u>	<u>41,008,408</u>
CAPITAL AND RESERVES			
Called up share capital	12	13,100,000	13,100,000
Profit and loss account	13	48,091,198	27,908,408
EQUITY SHAREHOLDERS' FUNDS	13	<u>61,191,198</u>	<u>41,008,408</u>

The financial statements on pages 6 to 11 were approved by the Board of directors on 15 APRIL 2003 and signed on its behalf by



Director



Director

The notes to the accounts on pages 8 to 11 form part of these financial statements.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

1. ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards.

Accounting convention

The financial statements are prepared under the historical cost convention in accordance with the Companies Act 1985.

Cash flow

The company is exempt from the requirement to prepare a cash flow statement under Financial Reporting Standard 1 (Revised 1996) Cash Flow Statement, as a consolidated cash flow statement is included in the publicly available consolidated financial statements of the ultimate parent company, Merrill Lynch & Co., Inc.

Translation of foreign currencies

Revenues and expenses arising from transactions to be settled in foreign currencies are translated into Sterling at average monthly market rates of exchange. Monetary assets and liabilities are translated into Sterling at the market rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of foreign currencies are reflected in the profit and loss account.

Investments

Unlisted investments and investments in unit trusts are shown at the lower of cost and directors' valuation. Listed investments are shown at the lower of cost and market value.

Pension fund contributions

Employee costs and related pension benefits are paid by a fellow subsidiary company which recovers its costs through service charges to the company. Details of the pension benefits and contributions and the most recent actuarial valuation are given in the financial statements of the holding company, ML Invest Holdings Limited.

Deferred taxation

Deferred tax is recognised as a liability or an asset if, prior to the balance sheet date, the Company has entered into transactions or events have occurred that give rise to timing differences giving the Company an obligation to pay more tax in the future or a right to pay less tax in the future. Deferred tax assets are recognised to the extent that they are regarded as recoverable.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

2. PRINCIPAL ACTIVITY

The Company acts as a manager of investment funds.

3. TURNOVER

Turnover, all of which arises from continuing activities in the UK, comprises the following:

Managers' fees and proceeds on sale of units.

Year ended 31 December 2002 £	Year ended 31 December 2001 £
9,170,187,810	10,149,432,728

4. OPERATING EXPENSES

Operating profit is stated after charging the following operating expenses:

Service fees

Year ended 31 December 2002 £	Year ended 31 December 2001 £
55,969,942	93,561,926

Auditors' remuneration has been borne by another group company in the current and preceding year.

5. DIRECTORS AND EMPLOYEES

Directors

United Kingdom directors who served during the year ended 31 December 2002 were employed by another group undertaking which recovers its costs through service charges to group companies. These directors received total emoluments from the group of £2,602,648 (year ended 31 December 2001: £1,428,401). It is not practical to allocate the emoluments between the various companies within the group for whom they perform services. In addition, the directors are accruing benefits under a group pension scheme, in respect of their services to the group companies.

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

5. DIRECTORS AND EMPLOYEES cont.

The highest paid director received £473,165 (year ended 31 December 2001 - £331,272) of which £290,000 (year ended 31 December 2001 - £184,910) represents performance related emoluments. The accrued annual pension of the highest paid director at 31 December 2001 was £57,402 (year ended 31 December 2001 - £19,929).

Deferred shares in Merrill Lynch & Co. Inc. are payable to 10 directors under long-term incentive arrangements, including the highest paid director.

6. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2002 £	Year ended 31 December 2001 £
Current tax:		
UK Corporation tax on profits of the year	-	4,207,030
Adjustments in respect of previous years	(3,617,132)	4,720,990
Total current tax (credit)/charge	(3,617,132)	8,928,020
Deferred tax:		
Origination and reversal of timing differences in respect of the current year	1,530,202	1,051,868
Origination and reversal of timing differences in respect of previous year	3,673,701	(2,849,990)
Tax charge on profit on ordinary activities	1,586,771	7,129,898

The current tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

	Year ended 31 December 2002 £	Year ended 31 December 2001 £
Profit on ordinary activities before tax	26,769,561	17,529,662
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	8,030,868	5,258,898
Effects of:		
Tax losses claimed from group undertakings for no payment	(6,500,696)	-
Other permanent differences	30	-
Movements in timing differences	(1,530,202)	(1,051,868)
Adjustments to tax charge in respect of previous years	(3,617,132)	4,720,990
Current tax (credit)/charge for the year	(3,617,132)	8,928,020

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

7. DIVIDENDS PAID AND PROPOSED

	Year ended 31 December 2002 £	Year ended 31 December 2001 £
Interim dividend paid	5,000,000	12,500,000

8. INVESTMENTS

	31 December 2002 £	31 December 2001 £
Listed investments	2,553,000	1,481,000
Units held in unit trusts	184,475	269,741
	<u>2,737,475</u>	<u>1,750,741</u>

The market value of listed investments held by the Company at 31 December 2002 was £2,553,000 (2001: £1,481,000).

9. DEBTORS

	31 December 2002 £	31 December 2001 £
Trade debtors	145,587,672	109,198,810
Amounts owed by group undertakings	38,018,135	18,073,533
Corporation tax recoverable	4,132,978	-
Deferred tax (note 10)	1,516,088	6,719,991
	<u>189,254,873</u>	<u>133,992,334</u>

10. DEFERRED TAX ASSET

	31 December 2002 £	31 December 2001 £
Provisions for compensation and social security costs not reversing within 9 months	1,516,088	6,286,108
Other timing differences	-	433,883
Deferred tax asset	<u>1,516,088</u>	<u>6,719,991</u>
Deferred tax asset		
Provision at start of year	6,719,991	4,921,869
Origination and reversal of timing differences in respect of current period	(1,530,202)	(1,051,868)
Origination and reversal of timing differences in respect of prior period	(3,673,701)	2,849,990
Provision at end of year	<u>1,516,088</u>	<u>6,719,991</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

11. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2002 £	31 December 2001 £
Trade creditors	126,333,894	93,398,193
Amounts owed to group undertakings	15,161,446	13,439,141
Corporation tax payable	-	4,824,264
Other creditors	377,449	900,464
	<u>141,872,789</u>	<u>112,562,062</u>

12. CALLED UP SHARE CAPITAL

	31 December 2002 £	31 December 2001 £
Authorised:		
150,100,000 ordinary shares of £1 each	<u>150,100,000</u>	<u>150,100,000</u>
Allotted and fully paid:		
13,100,000 ordinary shares of £1 each	<u>13,100,000</u>	<u>13,100,000</u>

13. COMBINED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS IN RESERVES

	Share capital £	Profit and loss account £	Total 2002 £	Total 2001 £
At 1 January	13,100,000	27,908,408	41,008,408	43,108,644
Profit for the year	-	25,182,790	25,182,790	10,399,764
Dividends	-	(5,000,000)	(5,000,000)	(12,500,000)
At 31 December	<u>13,100,000</u>	<u>48,091,198</u>	<u>61,191,198</u>	<u>41,008,408</u>

15. RELATED PARTIES

The Company has taken advantage of the exemption from related party disclosures available in Paragraph 3(c) of Financial Reporting Standard No. 8 - Related Party Disclosures, as it is a wholly owned subsidiary and the consolidated financial statements of the ultimate parent company are publicly available as noted below.

There were no related party transactions other than those with group companies covered by the exemption noted above.

16. PARENT UNDERTAKING

The Company's ultimate parent company and controlling party is Merrill Lynch & Co., Inc., a company incorporated in the State of Delaware in the United States of America. The parent company of the largest group that includes the Company and for which group accounts are prepared is Merrill Lynch & Co., Inc. Copies of the group financial statements of Merrill Lynch & Co., Inc. are available from the Corporate Secretary, 222 Broadway, 17th Floor, New York, NY 10038, USA. The Parent undertaking of the smallest group, including the Company, which prepares group accounts is ML Invest Holdings Limited, a company incorporated in Great Britain. Copies of the ML Invest Holdings Limited group financial statements are available from the Company Secretary, ML Invest Holdings Limited, Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ.