

REG NO: 1371973

**NEWTON INVESTMENT MANAGEMENT
LIMITED**

FINANCIAL STATEMENTS

31 DECEMBER 2002



NEWTON INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 2002.

By an Elective Resolution dated 6 July 1995, the company dispensed with the laying of report and accounts before the company in general meeting, in accordance with the provisions of section 252 of the Companies Act 1985 (as amended).

Pursuant to section 253 of that Act, **notice is hereby given** THAT any member or auditor of the company may by notice in writing deposited at the registered office of the company before 31 October 2003 require that a general meeting be held for the purpose of laying the accounts and reports before the company.

PRINCIPAL ACTIVITY

The principal activity of the company is investment management.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The company has continued to operate profitably and there have been no significant changes in the company's operations during the year.

On 26 April 2002, the company issued 6,000,000 new shares of £1 each at par and on 29 August 2002, the company issued 16,500,000 new shares of £1 each at par.

On 30 August 2002, the company purchased the private client asset management business of Henderson Global Investors Limited. Consideration of £9,442,945 was paid on 30 August 2002 and deferred consideration will be paid on 30 August 2003, the amount dependent on the proportion of assets under management retained.

The directors are confident that the company is favourably positioned for future growth in earnings.

EMPLOYEES

The company's practice is to consult and discuss with employees on matters that are likely to affect their interests. Information of general interest to employees is provided through the intranet, newsletters and notices and general dialogue between line managers and employees, all of which seeks to achieve a common awareness of the financial and economic factors which impact on the company's performance.

The company adopts a total rewards management and pay for performance philosophy. Any remuneration elements awarded in respect of bonus and long-term incentives are discretionary based on individual performance, and are determined in the context of the company's operating plans and results. All employees who did not participate in a Mellon Executive Incentive Stock Arrangement were granted options of 150 shares (pro-rata for part time employees) in the ultimate parent company, Mellon Financial Corporation, during the year to continue to encourage closer involvement of employees in the affairs of the company and its financial performance.

NEWTON INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT – continued

EMPLOYEES – continued

The group is committed to providing relevant training and development opportunities, to include achievement of professional qualifications, to enable each employee to successfully fulfil their job responsibilities, and in addition, meet regulatory requirements. The company adheres to the principles of Equal Employment Opportunity and is committed to facilitating employment opportunities for people with disabilities.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £5,677,000 (2001 - £9,317,000). During the year no dividends were paid to the ordinary shareholders. (2000 - nil).

DIRECTORS AND THEIR INTERESTS

The directors in office during the year and to the date of this report were as follows:

C D Campbell	(Chief Operating Officer)
H L Morrissey	(Chief Executive Officer)
R J Munroe	(Chief Investment Officer)
M G Rayward	

AUDITORS

By an elective resolution dated 6 July 1995, the company dispensed with the obligation to appoint auditors annually in accordance with the provisions of section 386 of the Companies Act 1985 (as amended). Accordingly, KPMG Audit Plc will continue to act as auditors of the company.

By Order of the Board



Colin D Campbell
Director
25 April 2003

71 Queen Victoria Street
LONDON
EC4V 4DR

NEWTON INVESTMENT MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for the year. In preparing these financial statements, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for 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 have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Colin D Campbell
Director
25 April 2003

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF NEWTON INVESTMENT MANAGEMENT LIMITED

We have audited the financial statements on pages 5 to 17.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants and Registered Auditor

8 Salisbury Square

LONDON

EC4Y 8BB

29 April 2003

NEWTON INVESTMENT MANAGEMENT LIMITED

ACCOUNTING POLICIES

ACCOUNTING CONVENTION

The financial statements have been prepared under the historical cost convention and comply with the applicable Accounting Standards.

REVENUE

Revenue comprises management fees, commissions receivable and other income.

Management fees are fees paid for the management of investment portfolios. These are charged, based on various formulae linked to the value of portfolios at invoicing dates and investment performance in current and previous periods. Credit for the element of management fees linked to performance, which is usually billed on a four year rolling basis, is taken when such fees in respect of each calendar year are due and receivable in accordance with management agreements.

DEPRECIATION

Depreciation is provided by the company to write off the cost of tangible fixed assets less estimated residual value by equal instalments over their estimated useful economic lives as follows:

The current policy is:

Motor vehicles	- 5 years
Computer hardware	- 3 years
Purchased computer software	- 5 years

OPERATING LEASES

Costs in respect of operating leases are charged in arriving at the operating profit over the term of the lease.

FINANCE LEASES

Assets held under finance leases are capitalised at their fair value on the inception of the leases and depreciated over the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease on a straight line basis and are charged to the profit and loss account.

DEFERRED TAXATION

In the current year, the company implemented Financial Reporting Standard (FRS) 19 'Deferred Tax'. There has been no impact on the taxation charge relating to the current or previous years.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed out by the balance sheet date, except as otherwise required by FRS 19.

NEWTON INVESTMENT MANAGEMENT LIMITED

ACCOUNTING POLICIES - continued

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the balance sheet date. Gains or losses on translation are included in the profit and loss account.

PENSION CONTRIBUTIONS

The company operates a non-contributory, money purchase scheme for eligible employees of the company and of other subsidiaries of Newton Management Limited. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

GOODWILL

Purchased goodwill is amortised on a straight line basis over its useful economic life.

RELATED PARTY DISCLOSURES

The company is exempt from the requirement of FRS8 'Related Party Disclosures' to disclose transactions with entities that are part of the same group because it is a wholly owned subsidiary of the ultimate UK parent company, Mellon Europe Limited, and the consolidated financial statements are publicly available.

NEWTON INVESTMENT MANAGEMENT LIMITED**PROFIT AND LOSS ACCOUNT**
FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>Notes</u>	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000	<u>Year to</u> <u>31 December</u> <u>2001</u> £'000
Revenue	1	71,772	79,818
Administrative expenses		(63,570)	(68,458)
Other operating income		2	24
Operating profit	2	8,204	11,384
Interest receivable	4	531	767
Interest payable	5	(19)	(55)
Profit on ordinary activities before taxation		8,716	12,096
Taxation	6	(3,039)	(2,779)
Retained earnings for the year	20	5,677	9,317
Retained earnings brought forward		28,001	18,684
Retained earnings carried forward		33,678	28,001

Revenue and operating profit relate solely to continuing operations. There have been no operations discontinued nor any additions to operations during the year.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company has not prepared a statement of total recognised gains and losses as all gains and losses are reflected in the profit and loss account.

NOTE OF HISTORICAL COST PROFITS AND LOSSES

There is no difference between the profit on ordinary activities before taxation and the retained earnings for the year stated above, and their historical cost equivalents.

NEWTON INVESTMENT MANAGEMENT LIMITED**BALANCE SHEET**
AT 31 DECEMBER 2002

		<u>31 December</u>	<u>31 December</u>
		<u>2002</u>	<u>2001</u>
	<u>Notes</u>	<u>£'000</u>	<u>£'000</u>
FIXED ASSETS			
Intangible assets	7	16,540	-
Tangible assets	8	626	1,289
Investments	9	2	3
		<u>17,168</u>	<u>1,292</u>
CURRENT ASSETS			
Debtors	10	63,648	65,270
Cash at bank and in hand		12,848	5,228
		<u>76,496</u>	<u>70,498</u>
CREDITORS: amounts falling due within one year	11	(26,433)	(32,409)
NET CURRENT ASSETS		<u>50,063</u>	<u>38,089</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>67,231</u>	<u>39,381</u>
CREDITORS: amounts falling due after more than one year	12	(11)	(38)
Provision for liabilities and charges	14	(42)	(342)
NET ASSETS		<u>67,178</u>	<u>39,001</u>
CAPITAL AND RESERVES			
Called-up share capital	15	33,500	11,000
Profit and loss account		33,678	28,001
EQUITY SHAREHOLDERS' FUNDS	20	<u>67,178</u>	<u>39,001</u>

The financial statements on pages 5 to 17 were approved by the board of directors on 25 April 2003 and were signed on its behalf by:



Colin D Campbell
Director

NEWTON INVESTMENT MANAGEMENT LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2002****1 REVENUE**

	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000	<u>Year to</u> <u>31 December</u> <u>2001</u> £'000
Management fees	63,867	69,506
Commission receivable and other income	8,859	11,024
Total turnover	<u>72,726</u>	<u>80,530</u>
Discount, commission, stamp duty and other costs	(954)	(712)
	<u>71,772</u>	<u>79,818</u>

2 OPERATING PROFIT

	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000	<u>Year to</u> <u>31 December</u> <u>2001</u> £'000
Operating profit is stated after (crediting)/charging:		
Amortisation of goodwill	570	-
Charges paid under operating leases	150	1,447
Charges paid under finance leases	3	32
Depreciation of owned tangible fixed assets (See note 8)	394	202
Depreciation of leased tangible fixed assets (See note 8)	117	79
(Profit)/Loss on disposal of fixed assets	(5)	96
Auditors' remuneration - Audit	94	124
- Non-audit services	73	15

3 STAFF COSTS

	<u>No:</u>	<u>No:</u>
Average number of employees (including directors) by activity:		
Investment management services	<u>311</u>	<u>450</u>

	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000	<u>Year to</u> <u>31 December</u> <u>2001</u> £'000
Wages and salaries	23,911	40,039
Social security costs	2,732	4,593
Pension costs (See note 18)	2,418	2,769
Other staff costs	1,516	2,075
	<u>30,577</u>	<u>49,476</u>

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2002 – continued

3 STAFF COSTS – continued

	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000	<u>Year to</u> <u>31 December</u> <u>2001</u> £'000
<u>Directors:</u>		
Aggregate emoluments	1,293	8,602
Company pension contributions to money purchase schemes	155	1,134
Compensation for loss of office	-	345

No directors exercised share options in a UK holding company, Newton Management Limited, during the year (2001: fifty-two). No directors exercised share options in the ultimate parent company, Mellon Financial Corporation, during the year (2001: nil).

Retirement benefits are accruing to all directors under a money purchase pension scheme.

In 2001, five directors who served during the year had no emoluments paid or payable in relation to their services as directors of Newton Investment Management Limited was nil.

<u>Highest paid director:</u>	£'000	£'000
Aggregate emoluments	485	503
Company pension contributions to money purchase scheme	38	36

The highest paid director did not exercise share options in a UK holding company, Newton Management Limited during the year. The highest paid director did not exercise any share options in the ultimate parent company Mellon Financial Corporation during the year.

4 INTEREST RECEIVABLE

	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000	<u>Year to</u> <u>31 December</u> <u>2001</u> £'000
Interest earned on short term deposits	487	696
Interest received on repayment of tax	44	71
	<u>531</u>	<u>767</u>

NEWTON INVESTMENT MANAGEMENT LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2002- continued****5 INTEREST PAYABLE**

	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000	<u>Year to</u> <u>31 December</u> <u>2001</u> £'000
On overdrafts and bank loans	11	20
On revised tax payment	3	3
On finance leases	3	32
Other	2	-
	<u>19</u>	<u>55</u>

6 TAXATION

	<u>Year to</u> <u>31 December</u> <u>2002</u> £'000	<u>Year to</u> <u>31 December</u> <u>2001</u> £'000
UK Corporation tax @ 30% (2001: 30%)	2,784	4,060
Under/(Over) provision in prior years	214	(147)
Current tax	2,998	3,913
Deferred tax (See note 17)	41	(1,134)
	<u>3,039</u>	<u>2,779</u>

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30%.
The differences are explained below:

Profit on ordinary activities before taxation	<u>8,716</u>	<u>12,096</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001 – 30%)	2,615	3,629
Effects of:		
Expenses not deductible for tax purposes	216	146
Depreciation for the year in excess of capital allowances	54	(44)
Other timing differences	(101)	1,197
Group relief	-	(868)
Adjustments to tax in respect of previous years	214	(147)
	<u>2,998</u>	<u>3,913</u>

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002– continued

7 INTANGIBLE FIXED ASSETS

	<u>Goodwill</u> £'000
<u>Cost</u>	
At 1 January 2002	249
Additions during the year	17,110
At 31 December 2002	<u>17,359</u>
<u>Amortisation</u>	
At 1 January 2002	249
Charge for the year	570
At 31 December 2002	<u>819</u>
<u>Net Book Value</u>	
At 31 December 2002	<u>16,540</u>
At 31 December 2001	<u>-</u>

8 TANGIBLE FIXED ASSETS

	<u>Motor Vehicles</u> £'000	<u>Computer Equipment</u> £'000	<u>Total</u> £'000
<u>Cost</u>			
At 1 January 2002	1,370	391	1,761
Additions during the year	169	-	169
Disposals during the year	(701)	(10)	(711)
At 31 December 2002	<u>838</u>	<u>381</u>	<u>1,219</u>
<u>Depreciation</u>			
At 1 January 2002	356	116	472
Charge for the year	394	117	511
Eliminated on disposals	(390)	-	(390)
At 31 December 2002	<u>360</u>	<u>233</u>	<u>593</u>
<u>Net Book Value</u>			
At 31 December 2002	<u>478</u>	<u>148</u>	<u>626</u>
At 31 December 2001	<u>1,014</u>	<u>275</u>	<u>1,289</u>

The net book value of computer equipment represents assets held under finance leases.

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2002- continued

9 FIXED ASSET INVESTMENTS

<u>Cost</u>	<u>Unlisted</u> <u>Investments</u> £'000
At 1 January 2002 and 31 December 2002	37
<u>Depreciation</u>	
At 1 January 2002	34
Charge for the year	1
At 31 December 2002	35
<u>Net Book Value</u>	
At 31 December 2002	2
At 31 December 2001	3

Unlisted investments are included at directors' valuation.

NEWTON INVESTMENT MANAGEMENT LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2002- continued****10 DEBTORS**

	<u>31 December</u> <u>2002</u> £'000	<u>31 December</u> <u>2001</u> £'000
Trade debtors	1,705	3,473
Prepayments and accrued income	20,046	29,445
Amounts due from group companies	37,398	27,571
Other debtors	4,499	4,781
	<u>63,648</u>	<u>65,270</u>

Included in other debtors is £3,295,000 (2001 - £3,336,000) deferred tax recoverable. (See note 17)

11 CREDITORS: amounts falling due within one year

	<u>31 December</u> <u>2002</u> £'000	<u>31 December</u> <u>2001</u> £'000
Trade creditors	399	534
Corporation tax	5,365	37
Other taxes and social security costs	1,543	1,618
Accruals and other creditors	15,198	15,442
Amounts due to group companies	3,884	14,670
Obligations under finance leases (see note 13)	44	108
	<u>26,433</u>	<u>32,409</u>

12 CREDITORS: amounts falling due after more than one year

	<u>31 December</u> <u>2002</u> £'000	<u>31 December</u> <u>2001</u> £'000
Obligations under finance leases (see note 13)	11	38

13 OBLIGATIONS UNDER FINANCE LEASES

	<u>31 December</u> <u>2002</u> £'000	<u>31 December</u> <u>2001</u> £'000
Within one year	44	108
Between one and five years	11	38
Obligations under finance leases	<u>55</u>	<u>146</u>

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002– continued

14 PROVISION FOR LIABILITIES AND CHARGES

	<u>31 December</u> <u>2002</u> £'000	<u>31 December</u> <u>2001</u> £'000
<u>Provision for future property costs</u>		
Brought forward	342	782
Additions in the year	7	73
Provision utilised	(247)	(513)
Transferred to UK parent company	(60)	-
Carried forward	<u>42</u>	<u>342</u>

15 CALLED UP SHARE CAPITAL

	<u>31 December</u> <u>2002</u> £'000	<u>31 December</u> <u>2001</u> £'000
Authorised, allotted, called up and fully paid:		
33,500,000 (2001: 11,000,000) Ordinary Shares of £1 each	<u>33,500</u>	<u>11,000</u>

16 FINANCIAL COMMITMENTS

	<u>31 December</u> <u>2002</u> £'000	<u>31 December</u> <u>2001</u> £'000
<u>Land & Buildings</u>		
At the end of the year the company had the following commitments for the coming year under non-cancellable operating leases:-		
Expiring in less than one year	679	2,586
Expiring in one to five years	2,009	92
Expiring in more than five years	730	645
	<u>3,418</u>	<u>3,323</u>

NEWTON INVESTMENT MANAGEMENT LIMITED**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2002- continued****17 DEFERRED TAXATION**

	<u>Potential Liability/(Asset)</u>	
	<u>31 December</u>	<u>31 December</u>
	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Tax effect of timing differences:-		
Excess of tax allowances over depreciation	(72)	20
Other	(3,223)	(3,356)
	<u>(3,295)</u>	<u>(3,336)</u>

The movements on the provision for deferred tax are as follows:-

	<u>31 December</u>	<u>31 December</u>
	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Balance brought forward	(3,336)	(2,202)
Transfer to profit and loss account	41	(1,134)
Balance carried forward	<u>(3,295)</u>	<u>(3,336)</u>

18 PENSION OBLIGATIONS

The company contributes to a money purchase scheme in the United Kingdom. The total pension cost for the company in respect of the year to 31 December 2002 was £2,417,959 (2001: £2,769,365) – (See note 3). At the year end, contributions of £214,184 were payable to the fund (2001: £184,482).

19 CASH FLOW STATEMENT

The company is exempt from the requirement of FRS1 (Revised 1996) 'Cash Flow Statements' to prepare a cash flow statement because it is a wholly owned subsidiary of a company which prepares consolidated financial statements which are publicly available.

20 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>31 December</u>	<u>31 December</u>
	<u>2002</u>	<u>2001</u>
	<u>£'000</u>	<u>£'000</u>
Shareholders' funds brought forward	39,001	29,684
New share capital issued	22,500	-
Retained earnings for the year	5,677	9,317
Shareholders' funds carried forward	<u>67,178</u>	<u>39,001</u>

NEWTON INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2002-- continued

20 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS – continued

During the year, 22,500,000 ordinary shares of £1 each were authorised, allotted, called up and fully paid up at par.

21 ULTIMATE CONTROLLING COMPANY

The largest group in which the results of the company are consolidated is that headed by Mellon Financial Corporation, a company incorporated in The United States of America. The consolidated accounts of the ultimate parent company may be obtained from:

The Secretary
Mellon Financial Corporation
One Mellon Center, Room 4826
Pittsburgh
PA 15258-0001
USA

The directors regard Mellon Europe Limited, a company incorporated in Great Britain and registered in England and Wales, as the ultimate UK parent company. Copies of the consolidated financial statements of the ultimate UK parent company may be obtained from:

The Secretary
Mellon Europe Limited
Princess House
1 Suffolk Lane
London
EC4R 0AN