

**Company No. 1998251**

**MELLON FUND MANAGERS LIMITED**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2005**



## **MELLON FUND MANAGERS LIMITED**

### **DIRECTORS' REPORT**

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2005.

### **PRINCIPAL ACTIVITY**

The principal activity of the Company continued to be the management and administration of unit trusts and open-ended investment companies (OEICs).

### **BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

The principal business activities of the Company have not changed during 2005, and this continues to be the management and administration of unit trusts and open-ended investment companies.

### **EMPLOYEES**

The Company is committed to a best practice approach to consult 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 and business unit performance together with other factors as determined from time to time in the context of the Company's operating plans and results. All employees have the opportunity to purchase stock through the Mellon Employee Stock Purchase Plan and eligible employees participate in stock incentive arrangements in the ultimate parent company, Mellon Financial Corporation, which encourages closer involvement of employees in the affairs of the Company and its financial performance.

The group is also 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 and loss account for the year is set out on page 5.

The profit on ordinary activities after taxation amounted to £332,000 (2004: £504,000). During the year no dividend was declared (2004: £5,000,000).

### **DIRECTORS AND DIRECTORS' INTERESTS**

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

M Allpress

J M Little

G A Brisk

A Mearns

M G Rayward

## MELLON FUND MANAGERS LIMITED

### DIRECTORS' REPORT - Continued

None of the directors who held office at the end of the financial period have any disclosable interest in the shares of the Company.

### CHARITABLE CONTRIBUTIONS

The Company made no charitable or political contributions during the year (2004: £0).

### REGISTERED OFFICE

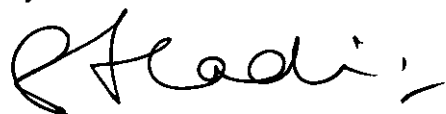
Mellon Financial Centre, 160 Queen Victoria Street, London, EC4V 4LA.

### AUDITORS

By resolutions dated 6 July 1997, the members of the Company adopted an elective regime in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the Company in general meetings and reappointing auditors annually.

The last resolution will lead to the continuing appointment of KPMG Audit Plc as auditors of the Company until further notice.

By order of the board



E Akadiri  
Secretary

28 April 2006

## **MELLON FUND MANAGERS LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have 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

## **MELLON FUND MANAGERS LIMITED**

### **REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT PLC, TO THE MEMBERS OF MELLON FUND MANAGERS LIMITED**

We have audited the financial statements of Mellon Fund Managers Limited for the year ended 31 December 2005, which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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 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**

As described in the *Statement of Directors' Responsibilities* on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read the *Directors' Report* and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 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  
Registered Auditor  
28 April 2006

8 Salisbury Square  
LONDON  
EC4Y 8BB

**MELLON FUND MANAGERS LIMITED**

**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

|   |              | <u>Year to</u><br><u>31 December</u><br><u>2005</u><br>£'000 | <u>Restated</u><br><u>Year to</u><br><u>31 December</u><br><u>2004</u><br>£'000 |
|---|--------------|--|---|
|   | <u>Notes</u> |  |   |
| Revenue                                       | 2            | 7,246  | 6,736   |
| Administrative expenses                       |              | (7,825)  | (7,030)   |
|   |              | <hr/>  | <hr/>   |
| Operating loss                                | 3            | (579)  | (294)   |
| Interest receivable                           | 5            | 1,068  | 1,042   |
| Interest payable                              | 6            | (21)   | (22)  |
|   |              | <hr/>  | <hr/>   |
| Profit on ordinary activities before taxation |              | 468  | 726   |
| Taxation                                      | 7            | (136)  | (222)   |
|   |              | <hr/>  | <hr/>   |
| Profit on ordinary activities after taxation  |              | 332  | 504   |
| Profit for the year                           |              | <hr/>  | <hr/>   |
|   |              | 332  | 504   |
|   |              | <hr/>  | <hr/>   |

Revenue and operating profit relate solely to continuing operations.

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.

The notes on pages 7 to 12 form part of these financial statements.

**MELLON FUND MANAGERS LIMITED**

**BALANCE SHEET**  
**AT 31 DECEMBER 2005**

|  |              | <u>31 December</u><br><u>2005</u><br>£'000 | <u>31 December</u><br><u>2004</u><br>£'000 |
|--|--------------|--|--|
|  | <u>Notes</u> |  |  |
| CURRENT ASSETS                                 |              |  |  |
| Stocks   |              | 928  | 676  |
| Debtors  | 8            | 63,466                                     | 48,315                                     |
| Cash at bank                                   |              | 10,658                                     | 11,159                                     |
|  |              | <u>75,052</u>                              | <u>60,150</u>                              |
| CREDITORS: amounts falling due within one year | 9            | (62,856)                                   | (48,286)                                   |
|  |              | <u></u>                                    | <u></u>                                    |
| NET ASSETS                                     |              | <u>12,196</u>                              | <u>11,864</u>                              |
|  |              |  |  |
| CAPITAL AND RESERVES                           |              |  |  |
| Called-up share capital                        | 10           | 1,625                                      | 1,625                                      |
| Share Premium account                          | 10           | 6,000                                      | 6,000                                      |
| Profit and loss account                        | 10           | <u>4,571</u>                               | <u>4,239</u>                               |
| SHAREHOLDERS' FUNDS                            | 11           | <u>12,196</u>                              | <u>11,864</u>                              |

The financial statements on pages 5 to 12 were approved by the board of directors on 28 April 2006 and were signed on its behalf by:



G A Brisk  
Director

The notes on pages 7 to 12 form part of these financial statements.

## **MELLON FUND MANAGERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **for the year ended 31 December 2005**

#### **1. ACCOUNTING POLICIES**

##### **BASIS OF PREPARATION**

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

##### **REVENUE**

Revenue comprises management fees and the gross profit arising from the sale of units and shares after deducting discounts, commissions, stamp duty and other costs. Revenue is accounted for on the accruals basis.

Management fees represent income earned from the provision of fund management and administration services where fees are dependent on the value of funds under management.

##### **STOCKS**

Stocks represent the stocks of units and shares held and are valued at the lower of cost or net realisable value.

##### **DEFERRED TAXATION**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

##### **RELATED PARTY DISCLOSURES**

The Company is exempt from the requirement of FRS 8 '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 International Limited, and the consolidated financial statements of this company are publicly available.

##### **FOREIGN CURRENCIES**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.



**MELLON FUND MANAGERS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2005**

**2 REVENUE**

Revenue arises from management fees charged for the management of unit trusts and open-ended investment companies (OEICS) and the creation and maintenance of a market for the purchase and sale of units and shares.

Management fees represent income earned from the provision of fund management and administration services where fees are dependent on the value of funds under management. A further source of revenue is the initial charge on the sale of unit trusts and OEICS which is calculated as a percentage of the value of new units and shares sold and varies with the value of units and shares sold. The Company meets requirements for the purchase or sale of units and shares by the creation and liquidation of units and shares and by dealing as principal.

|                                | <u>Year to</u><br><u>31 December</u><br><u>2005</u><br>£'000 | <u>Restated</u><br><u>Year to</u><br><u>31 December</u><br><u>2004</u><br>£'000 |
|--------------------------------|--|---|
| Management fees                | 115,725  | 89,564  |
| Gross sale of units and shares | 3,236,362  | 1,839,345   |
| Total turnover                 | <u>3,352,087</u>   | <u>1,928,909</u>  |
| Cost of units and shares       | 3,149,698  | 1,777,509   |
| Discounts                      | 81,726   | 56,577  |
| Commissions and other costs    | 113,417  | 88,097  |
| Total cost of sales            | <u>3,344,841</u>   | <u>1,922,183</u>  |
| Other income                   | -  | 10  |
| Revenue                        | <u>7,246</u>   | <u>6,736</u>  |

Commissions and other costs as at 31 December 2004 reported in Note 2 is different to those reported in the 2004 annual report and accounts. Commissions and other costs reported for the year to 31 December 2004 amounted to £67,522,000. The total difference between the 2004 reported income and those in Note 2 of £20,575,000, relates to commissions payable to Mellon Global Investments Limited that have been correctly reclassified to revenue from administrative expenses.

## **MELLON FUND MANAGERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **for the year ended 31 December 2005 – continued**

#### **3 OPERATING (LOSS)/PROFIT**

|   | <u>Year to</u><br><u>31 December</u><br><u>2005</u><br>£'000 | <u>Year to</u><br><u>31 December</u><br><u>2004</u><br>£'000 |
|---|--|--|
| Operating (loss)/profit is stated after charging: |  |  |
| Auditors' remuneration - Audit                    | -  | 26   |

Auditors' remuneration for 2005 was borne by a fellow group undertaking.

#### **4 STAFF COSTS**

The emoluments of the directors for their services as directors of Mellon Fund Managers Limited were borne by fellow group undertakings.

No directors exercised share options in the ultimate parent company, Mellon Financial Corporation, during the year (2004 – nil).

The company had no other employees in the period.

#### **5 INTEREST RECEIVABLE**

|  | <u>Year to</u><br><u>31 December</u><br><u>2005</u><br>£'000 | <u>Year to</u><br><u>31 December</u><br><u>2004</u><br>£'000 |
|--|--|--|
| Interest earned on short term deposits | 1,068  | 1,042  |
|  | <u>1,068</u>   | <u>1,042</u>   |

#### **6 INTEREST PAYABLE**

|                              | <u>Year to</u><br><u>31 December</u><br><u>2005</u><br>£'000 | <u>Year to</u><br><u>31 December</u><br><u>2004</u><br>£'000 |
|------------------------------|--|--|
| On bank loans and overdrafts | 21   | 22   |

**MELLON FUND MANAGERS LIMITED****NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2005 - continued****7 TAXATION**

|   | <u>Year to</u><br><u>31 December</u><br><u>2005</u><br>£'000 | <u>Year to</u><br><u>31 December</u><br><u>2004</u><br>£'000 |
|---|--|--|
| Provision for UK corporation tax at 30% | 140  | 222  |
| Over provision in prior years           | (4)  | -  |
|   | <u>136</u>   | <u>222</u>   |

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 30%. The differences are explained below:

|   |            |            |
|---|------------|------------|
| Profit on ordinary activities before taxation   | <u>468</u> | <u>726</u> |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% | 140        | 218        |
| Effects of:   |            |            |
| Expenses not deductible for tax purposes  |            | 4          |
| Adjustments to tax in respect of previous years   | (4)        | -          |
| Current corporation tax charge for the period   | <u>136</u> | <u>222</u> |

**8 DEBTORS**

|                                | <u>31 December</u><br><u>2005</u><br>£'000 | <u>31 December</u><br><u>2004</u><br>£'000 |
|--------------------------------|--|--|
| Trade debtors                  | 51,535                                     | 38,775                                     |
| Prepayments and accrued income | 11,931                                     | 9,180                                      |
| Other debtors                  | -  | 360  |
|                                | <u>63,466</u>                              | <u>48,315</u>                              |

**MELLON FUND MANAGERS LIMITED****NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2005 - continued****9 CREDITORS: Amounts falling due within one year**

|                                | <u>31 December</u><br><u>2005</u><br>£'000 | <u>31 December</u><br><u>2004</u><br>£'000 |
|--------------------------------|--|--|
| Bank overdrafts                | -  | 3,973                                      |
| Trade creditors                | 54,743                                     | 39,059                                     |
| Amounts due to group companies | 6,514                                      | 4,352                                      |
| Corporation tax                | 10   | 222  |
| Accruals                       | 1,134                                      | 43   |
| Other creditors                | 455  | 637  |
|                                | <u>62,856</u>                              | <u>48,286</u>                              |

**10 CALLED UP SHARE CAPITAL AND RESERVES**

|                                | <u>Share</u><br><u>Capital</u><br>£'000 | <u>Share</u><br><u>Premium</u><br>£'000 | <u>Profit</u><br><u>&amp; Loss</u><br>£'000 |
|--------------------------------|---|---|---|
| At 1 January 2005              | 1,625                                   | 6,000                                   | 4,239                                       |
| Retained earnings for the year | -                                       | -                                       | 332   |
| At 31 December 2005            | <u>1,625</u>                            | <u>6,000</u>                            | <u>4,571</u>                                |

The Company has authorised share capital of 1,625,000 ordinary shares of £1 each (2004 - 1,625,000), all of which are allotted and fully paid.

**11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

|                                     | <u>31 December</u><br><u>2005</u><br>£'000 | <u>31 December</u><br><u>2004</u><br>£'000 |
|-------------------------------------|--|--|
| Shareholders' funds brought forward | 11,864                                     | 16,360                                     |
| Profit for the financial year       | 332  | 504  |
| Ordinary dividends                  | -  | (5,000)                                    |
| Shareholders' funds carried forward | <u>12,196</u>                              | <u>11,864</u>                              |

## **MELLON FUND MANAGERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **for the year ended 31 December 2005 - continued**

#### **12 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.

#### **13 ULTIMATE CONTROLLING COMPANY**

The ultimate holding company as at 31 December 2005 was 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 Corporate Secretary  
Mellon Financial Corporation  
One Mellon Center, Room 4826  
Pittsburgh  
PA 15258-0001  
USA

The largest group in which the Company's results are consolidated in the UK are those for Mellon International Limited, a company registered in England and Wales. Copies of accounts for Mellon International Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.