

**MORLEY FUND MANAGEMENT  
INTERNATIONAL LIMITED**

**Directors' report and financial statements**

**For the year ended 31 December 2006**

**Registered in England  
No: 2152949**

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# Morley Fund Management International Limited

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# Morley Fund Management International Limited

## Directors and Officers

### Directors

N D Alford *Executive*  
K L Garrett-Cox *Executive* (resigned 28 February 2007)  
K Jones *Chief Executive* (resigned 31 December 2006)  
C M Oglethorpe *Executive*  
P G Scott *Executive* (appointed 16 March 2007)  
J L Tanner *Executive*  
D K Watson *Executive*  
I B Womack *Executive*

### Company Secretary

Aviva Company Secretarial Services Limited  
St Helen's  
1 Undershaft  
London  
EC3P 3DQ

### Auditor

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

### Regulator

Financial Services Authority  
25 The North Colonnade  
Canary Wharf  
London  
E14 5HS

### Registered office

No 1 Poultry  
London  
EC2R 8EJ

# Morley Fund Management International Limited

## Directors' Report

The Directors present their annual report together with the audited financial statements of Morley Fund Management International Limited ('the Company') for the year ended 31 December 2006 and the auditor's report thereon

### Principal activity

The principal activity of the Company is to provide fund management services, which it does primarily through a branch in Boston, USA. The Directors consider that this will continue unchanged into the foreseeable future. The Company is registered with the Securities and Exchange Commission in the USA and the Financial Services Authority ('FSA') in the UK.

### Directors

The names of the present Directors of the Company, all of whom served throughout the year, unless otherwise stated, appear on page 2. K Jones and K L Garrett-Cox resigned as Directors on 31 December 2006 and 28 February 2007, respectively. P G Scott was appointed as a Director on 16 March 2007.

### Dividends

No interim dividend was paid during the financial year (2005 nil). The Directors do not recommend the payment of a final dividend (2005 nil).

### Operations and business review

The position of the Company at the year-end is shown in the Balance Sheet on page 8, with trading results shown in the Income Statement on page 7. The main factors affecting these primary statements in the year were:

- During the year, the Company obtained authorisation from the FSA in the UK to manage investments. Subsequently it became investment manager to the Morley G7 Fund. This resulted in an increase in fee income from 2005 to 2006, and a corresponding increase in expenses.
- Other operational costs also increased from 2005 to 2006, reflecting the Company's desire to reward and retain key staff.

### Post balance sheet events

There have been no material events between 31 December 2006 and the date of this report.

### Going Concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Directors' interests

The table below shows the interests held by each person who was a Director at the end of the financial year in the ordinary shares of 25 pence each in Aviva plc. Details of any options and awards held through Aviva plc's share schemes and incentive plans are shown below. All the disclosed interests are beneficial.

	At 1 January 2006	At 31 December 2006
	Number	Number
N D Alford	1,024	1,393
K L Garrett-Cox	864	1,429
K Jones	1,829	2,228
C M Oglethorpe	-	177
J L Tanner	95	660
D K Watson	1,092	1,467
I B Womack	5,391	6,058

# Morley Fund Management International Limited

## Incentive plans

The table below details those Directors who held office at the end of the financial year, and hold/held options to subscribe for ordinary shares of Aviva plc or hold/held awards over shares in Aviva plc, pursuant to Aviva plc's share based incentive plans

<u>Share options</u>	At 1 January 2006 Number	Options granted during the year Number	At 31 December 2006 Number
<b>N D Alford</b>			
<i>Savings related options<sup>(1)</sup></i>	1,904	-	1,904
<b>K L Garrett-Cox</b>			
<i>Savings related options<sup>(1)</sup></i>	2,213	-	2,213
<b>C M Oglethorpe</b>			
<i>Savings related options<sup>(1)</sup></i>	-	1,274	1,274
<b>J L Tanner</b>			
<i>Savings related options<sup>(1)</sup></i>	3,482	-	3,482
<b>I B Womack</b>			
<i>Savings related options<sup>(1)</sup></i>	4,096	-	4,096
<i>Executive options<sup>(2)</sup></i>	1,762	-	1,762

<sup>(1)</sup> *Savings related options* are options granted under the IIM Revenue and Customs-approved SAYE Share Option Scheme. Options are normally exercisable during the six-month period following either the third, fifth or seventh anniversary of the relevant savings contract.

<sup>(2)</sup> *Executive options* are those granted under the Aviva Executive Share Options Schemes, or predecessor schemes. Options which have been granted on various dates in 2001, are normally exercisable between the third and tenth anniversaries of their date of grant. Options granted after 1997 are only exercisable if certain performance conditions are met.

## Indemnity to the Directors

Aviva plc, the Company's ultimate parent, has granted an indemnity to the Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. This indemnity and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' report.

## Financial instruments

The Company's financial risk management objectives and policies are discussed in note 13 to the accounts.

## Employees

All staff of the Boston branch of the Company were employed by the Aviva Service Corporation. Disclosures relating to employee costs may be found in note 3 to these accounts.

## Creditor payment policy and practice

It is the Company's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions.

The Company did not have any trade creditors at 31 December 2006 (2005: nil).

## Resolutions

On 27 May 1999, the members of the Company passed resolutions to dispense with the holding of Annual General Meetings, the laying of Directors' reports, financial statements and auditors' reports before the members in general meeting.

## Auditors

The Company has elected by resolution under section 386 of the Companies Act 1985 to dispense with the obligation to appoint auditors annually.

# Morley Fund Management International Limited

## Statement of Directors' responsibilities in relation to the Company financial statements

The Directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ('IFRS') as adopted by the European Union

The Directors are required to prepare Company financial statements for each financial year which present fairly the financial position, financial performance and cash flows of the Company for that period. In preparing the Company financial statements the Directors are required to

- select suitable accounting policies in accordance with *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* and then applying them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the accounts

The Directors are responsible for keeping proper accounting records which can be disclosed with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities

## Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 2 of these financial statements. Each of these Directors confirms that

- to the best of each Director's knowledge and belief, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, which the Company's auditors are unaware, and
- having made enquiries of fellow Directors' and the Company's auditor, each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information

By order of the Board



Aviva Company Secretarial Services Limited  
Company Secretary  
24 April 2006

AUTHORISED SIGNATORY  
FOR AND ON BEHALF OF  
AVIVA COMPANY  
SECRETARIAL SERVICES LIMITED

# Morley Fund Management International Limited

## Independent auditors' report to the members of Morley Fund Management International Limited

We have audited the Company's financial statements for the year ended 31 December 2006, which comprise the income statement, balance sheet, cash flow statement, statement of recognised income and expenditure, the statement of changes in equity and the related notes 1 to 14. 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

The Directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

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 and whether the information given in the Directors' report is consistent with the financial statements.

We also report to you if, in our opinion, 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.

### Basis of audit opinion

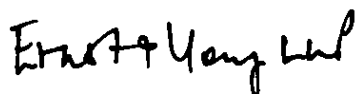
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2006 and of its result for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements.



Ernst & Young LLP  
Registered auditor  
London

24<sup>th</sup> April 2006

# Morley Fund Management International Limited

## Income statement

For the year ended 31 December 2006

	<u>Note</u>	<u>2006</u>	<u>2005</u>
		£'000	£'000
Fee income	1(D)	5,214	1,908
Expenses	2	(4,129)	(2,195)
Net investment income	6	31	153
<b>Profit/(loss) before tax</b>		<u>1,116</u>	<u>(134)</u>
Tax (expense)/credit	1(M), 7	(298)	35
<b>Profit/(loss) for the year from continuing operations</b>		<u>818</u>	<u>(99)</u>
Post tax gain from operations classified as discontinued in 2004		-	660
<b>Profit for the year</b>		<u>818</u>	<u>561</u>

The accounting policies on pages 11 to 14 and notes on pages 14 to 22 are an integral part of these financial statements



# Morley Fund Management International Limited

## Balance sheet

As at 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	1(F), 8	5	25
Tax assets	1(M), 9	-	45
		5	70
<b>Current assets</b>			
Receivables from holding company		12,421	12,614
Receivables from fellow subsidiaries		3,298	-
Other receivables		235	263
Cash and cash equivalents	1(E)	512	364
Current tax assets		80	664
<b>Total assets</b>		<b>16,551</b>	<b>13,975</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Tax liabilities	1(M), 9	(333)	-
		(333)	-
<b>Current liabilities</b>			
Other payables and financial liabilities		(1,307)	(672)
Payables to fellow subsidiaries		(520)	(1)
<b>Total liabilities</b>		<b>(2,160)</b>	<b>(673)</b>
<b>Net assets</b>		<b>14,391</b>	<b>13,302</b>
<b>Equity</b>			
Ordinary share capital	1(N), 11	23,500	23,500
Retained earnings		(9,109)	(10,198)
<b>Total equity</b>		<b>14,391</b>	<b>13,302</b>

The accounting policies on pages 11 to 14 and notes on pages 14 to 22 are an integral part of these financial statements

Approved by the Board on 24 April 2006



D K Watson  
Director

# Morley Fund Management International Limited

## Statement of recognised income and expenditure

For the year ended 31 December 2006

	2006	2005
	£'000	£'000
Currency gains/(losses) taken directly to reserves	271	(145)
Profit for the year	818	561
Total recognised income/(expense) for the year	1,089	416

## Statement of changes in equity

	For the years ended 31 December 2005 and 2006		
	Ordinary share capital	Retained earnings	Total equity
	£'000	£'000	£'000
Balance at 1 January 2005	23,500	(10,614)	12,886
Total recognised income and expense for the year	-	416	416
Balance at 31 December 2005	23,500	(10,198)	13,302
Total recognised income and expense for the year	-	1,089	1,089
Balance at 31 December 2006	23,500	(9,109)	14 391

The accounting policies on pages 11 to 14 and notes on pages 14 to 22 are an integral part of these financial statements

# Morley Fund Management International Limited

## Cash flow Statement

For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Cash flows from/(used in) operating activities</b>			
Cash generated from operations	12a	(547)	(397)
Tax recovered		664	134
<i>Net cash used in operating activities</i>		117	(263)
<b>Cash flows from investing activities</b>			
Dividend income		-	61
Interest received		31	22
Purchases of property and equipment		-	(4)
Proceeds on sale of investments		-	70
<i>Net cash used in investing activities</i>		31	149
 Net increase/(decrease) in cash and cash equivalents		148	(114)
 Cash and cash equivalents at 1 January		364	478
<b>Cash and cash equivalents at 31 December</b>	12b	512	364

The accounting policies on pages 11 to 14 and notes on pages 14 to 22 are an integral part of these financial statements

# Morley Fund Management International Limited

## Notes to the Financial Statements for the year ended 31 December 2006

### 1. Accounting policies

The principal accounting policies adopted in the preparation of the Company's financial statements are set out below

#### (A) Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and endorsed by the European Union and applicable at 31 December 2006

The amendment to *IAS 39 Amendments – Financial Instruments Recognition and Measurement* restricts the use of the option previously in place to designate any financial asset or financial liability to be measured at fair value through the income statement and does not have an impact on the Company

During the course of the year, the IASB and the International Financial Reporting Interpretations Committee ('IFRIC') have issued a number of new accounting standards, amendments to existing standards and interpretations. The Directors do not anticipate that the adoption of these standards will materially impact the Company's financial statements. They will, however, give rise to additional disclosures

Both *IFRS 7 Financial Instruments Disclosures* and *IAS 1 Presentation of Financial Statements* are effective for periods beginning on or after 1 January 2007. IFRS 7 requires disclosure that enables users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The Company has decided to adopt IFRS 7 early and reflect its impact in these financial statements. IAS 1 will require the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. The amendments have not been early adopted, but would only affect the capital disclosures within the financial statements, with no corresponding impact on financial results

*IFRS 8 Operating Segments* is effective for periods commencing on or after 1 January 2009 and requires disclosures to reflect the information which management uses internally for evaluating the performance of operating segments and allocating resources to those segment. Adoption of this amendment would only affect segment disclosures within the financial statements with no corresponding impact on financial results

Items included in the financial statements are measured in the currency of the primary economic environment in which the Company operates ('the functional currency'). The Company has operations in the UK and USA and the functional currency for its US operations is US dollars. The Company's presentational currency is pounds sterling. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling ('£'000')

#### (B) Use of estimates

The preparation of financial statements requires the Company to make estimates and assumptions that affect items reported in the balance sheet and income statement and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current facts, circumstances and, to some extent, future events and actions, actual results ultimately may differ materially from those estimates

#### (C) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions or at average rates if they are a suitable proxy. Assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the balance sheet date. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Differences arising from translating from functional to presentational currency are recognised directly in equity

# Morley Fund Management International Limited

## Notes to the Financial Statements for the year ended 31 December 2006

### (D) Fee income

Income, for fund management services, is recognised on an accruals basis as it is earned

### (E) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and on hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition. For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the balance sheet

### (F) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value

#### *Depreciation*

Depreciation is calculated using the straight line method, which writes the cost of computer equipment and other assets down to their residual values, over their estimated useful lives as follows

- |                      |                     |
|----------------------|---------------------|
| - Computer equipment | Two to five years   |
| - Other assets       | Three to five years |

Assets are depreciated from the date of acquisition

### (G) Financial investments

The Company held certain investments during the prior year, which were designated as 'other than trading'. They were classified as financial assets at fair value through the profit and loss

The disposal of the investments was recognised on the trade date, the date the Company committed to sell the assets, at their fair values less transaction costs. The realised gain or loss on disposal of the investment represented the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate

### (H) Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where

- the rights to receive cash flows from the asset have expired,
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

# Morley Fund Management International Limited

## Notes to the Financial Statements for the year ended 31 December 2006

### (I) Impairment of non-financial assets

Property and equipment and other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash flows.

### (J) Leases

#### *Operating leases*

Leases, where substantially all of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Assets held for use in such leases are included in property and equipment, and are depreciated to their residual values over their estimated useful lives. Rentals from such leases are credited to the income statement on a straight-line basis over the period of the relevant leases. Payments made as lessees under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

### (K) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is more probable than not.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Contingent liabilities are disclosed if the future obligation is possible and the amount cannot be reasonably estimated, or if they are possible but not probable.

### (L) Employee benefits

Employee benefits are recognised when they accrue to employees.

### (M) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from depreciation of property and equipment and tax losses carried forward. The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the difference will not reverse in the foreseeable future.

# Morley Fund Management International Limited

## Notes to the Financial Statements for the year ended 31 December 2006

### (N) Share capital

#### *Equity instruments*

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Accordingly, a financial instrument is treated as equity if

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and
- (ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments

#### *Dividends*

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised in equity in the period in which they are approved.

### (O) Fiduciary activities

Assets and income arising from fiduciary activities are excluded from these financial statements where the Company has no contractual rights to the assets and acts in a fiduciary capacity as investment manager.

## 2. Expenses

	<u>Note</u>	<u>2006</u>	<u>2005</u>
		<u>£'000</u>	<u>£'000</u>
<b>Operating expenses</b>			
Staff costs and other employee-related expenditure	3	2,486	1,506
Depreciation	8	19	35
Property lease rentals		91	76
Other expenses		1,533	578
		<u>4,129</u>	<u>2,195</u>

Auditors' remuneration is charged in the financial statements of Morley Fund Management Limited, a fellow subsidiary company. Auditors' remuneration in relation to MFMI for 2006 was £21,124 (2005: £13,454). Fees paid to the Company's auditors for services other than the statutory audit are disclosed on a consolidated basis in the accounts of Morley Fund Management Group Limited.

## 3. Employee information

During the year employees of the Boston branch were remunerated by the Aviva Service Corporation with these amounts then being recharged to the Company. The total employment cost for the year ended 31 December 2006 was £2,485,738 (2005: £1,506,040).

The average number of people employed by the Company was as follows:

	<u>2006</u>	<u>2005</u>
Boston	<u>12</u>	<u>11</u>

# Morley Fund Management International Limited

## Notes to the Financial Statements for the year ended 31 December 2006

### 4. Directors

All Directors who discharge their duties in the United Kingdom were remunerated by MFM Employment Services Limited in respect of their services to the Group as a whole. MFM Employment Services Limited made no charge to the Company (2005: nil) for the services of these Directors.

The emoluments of the Directors of the Company who are also Directors of Morley Fund Management Group Limited are disclosed in the financial statements of that Company, since it is not possible to calculate accurately the amount attributable to the Company.

### 5. Segment information

The tables below present revenue, profit and balance sheet information regarding the Company's business segments for the year ended 31 December 2006. The information has been reported by geographical area only as the Directors deem that there is only one business segment, being fund management services. In 2005, the Directors considered the only geographical segment to be the USA.

Year ended				
31 December 2006	UK	USA	Eliminations	Total
	£'000	£'000	£'000	£'000
<b>Revenue</b>				
Fee income	3,236	1,978	-	5,214
<b>Results</b>				
Profit/(loss) after tax	1,551	(733)	-	818
<b>Other Information</b>				
Segment assets	16,702	1,361	(1,592)	16,471
Segment liabilities	(267)	(3,405)	1,592	(2,080)
Depreciation	-	19	-	19



# Morley Fund Management International Limited

## Notes to the Financial Statements for the year ended 31 December 2006

### 6. Net investment income

	2006	2005
	£'000	£'000
<b>Fund management business</b>		
Interest and similar income	31	22
Dividend income	-	61
Gain on the sale of investments	-	70
Net investment income	31	153

The gain on the sale of investments in 2005, related to a return on capital of 7.99p per share to ordinary shareholders, as a result of the dissolution of the Morley Absolute Growth Investment Company

### 7. Tax

#### (a) Tax charged/(credited) to the income statement

The total tax charged/(credited) comprised

	2006	2005
	£'000	£'000
<b>Current tax</b>		
For the year	333	(45)
Prior year adjustments	(35)	10
Total tax charged/(credited) to the income statement (note 7b)	298	(35)

#### (b) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows

	2006	2005
	£'000	£'000
Profit/(loss) before tax	1,116	(134)
Post tax gain from operations classified as discontinued in 2004	-	660
	1,116	526
Tax calculated at standard UK corporation tax rate of 30% (2005 30%)	335	158
Adjustment to tax charge in respect of prior years	(35)	10
Other disallowable expenses	1	-
Deferred tax assets not recognised	(2)	(1)
Other non taxable income	-	(203)
Other items	(1)	1
Total tax charged/(credited) to the income statement (note 7a)	298	(35)

# Morley Fund Management International Limited

Notes to the Financial Statements for the year ended 31 December 2006

## 8. Property and equipment

	Computer equipment	Other assets	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 1 January 2005	63	154	217
Additions	-	4	4
Foreign exchange differences	-	3	3
At 31 December 2005	63	161	224
Foreign exchange differences	-	(1)	(1)
At 31 December 2006	63	160	223
<b>Depreciation</b>			
At 1 January 2005	57	108	165
Charge for the year	5	30	35
Foreign exchange differences	-	(1)	(1)
At 31 December 2005	62	137	199
Charge for the year	1	18	19
At 31 December 2006	63	155	218
<b>Carrying amount</b>			
At 1 January 2005	6	46	52
At 31 December 2005	1	24	25
At 31 December 2006	-	5	5

## 9. Tax assets and liabilities

### (a) General

Tax assets receivable in more than one year are nil (2005 £45,105) Tax liabilities are payable in more than one year (2005 nil)

### (b) Deferred taxes

The Company has unrecognised deductible temporary differences of £74,562 (2005 £80,785) to carry forward against future taxable income

# Morley Fund Management International Limited

## Notes to the Financial Statements for the year ended 31 December 2006

### 10. Contingent liabilities and commitments

#### (a) Contingent liabilities

There were no contingent liabilities at the balance sheet date (2005 nil)

#### (b) Operating lease commitments

Future aggregate minimum lease payments under non-cancellable operating leases are as follows

	<u>2006</u>	<u>2005</u>
	£'000	£'000
Within 1 year	69	78
Later than 1 year and not later than 5 years	211	312
Later than 5 years	-	6
	<u>280</u>	<u>396</u>

### 11. Ordinary share capital

	<u>2006</u>	<u>2005</u>
	£'000	£'000
The authorised share capital of the Company at 31 December 2006 was 40,000,000 (2005 40,000,000) ordinary shares of £1 each	<u>40,000</u>	<u>40,000</u>
The allotted, called up and fully paid share capital of the Company at 31 December 2006 was 23,500,000 (2005 23,500,000) ordinary shares of £1 each	<u>23,500</u>	<u>23,500</u>

All ordinary shares rank equally with regard to voting rights and dividend entitlements declared, made or paid by the Company

# Morley Fund Management International Limited

## Notes to the Financial Statements for the year ended 31 December 2006

### 12. Additional cash flow information

(a) The reconciliation of profit/(loss) before tax to the net cash inflow from operating activities is:

	<u>2006</u>	<u>2005</u>
	<u>£'000</u>	<u>£'000</u>
Profit/(loss) before tax	1,116	(134)
Profit from operations classified as discontinued in 2004	-	660
Adjustments for:		
Profit on sale of investments	-	(70)
Dividend income	-	(61)
Interest receivable	(31)	(22)
Depreciation of fixed assets	19	35
Foreign exchange	1	(5)
Currency gains	271	-
Changes in working capital.		
(Increase)/decrease in receivables and other financial assets	(3,106)	850
Decrease in other receivables	28	-
Increase/(decrease) in payables and other financial liabilities	1,155	(1,650)
Cash generated from operations	<u>(547)</u>	<u>(397)</u>

(b) Cash and cash equivalents in the cash flow statement at 31 December comprised:

Cash at bank and on hand	<u>512</u>	<u>364</u>
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# Morley Fund Management International Limited

## Notes to the Financial Statements for the year ended 31 December 2006

### 13. Risk management

#### (a) The Morley Group's approach to risk and capital management

Details of the Morley Group's governance framework are contained in the financial statements of Morley Fund Management Limited

#### (b) Management of financial and non-financial risks

The Company's exposure to different types of risk is limited by the nature of its business and the fact that it does not trade on its own account

##### *(i) Market risk and sensitivities*

Market risk is the risk of adverse impact due to changes in fair values of financial instruments from fluctuations in foreign currency exchange rates, interest rates and equity prices. Morley uses sensitivity test-based analysis, including ICA, to understand the impact of volatile markets on expected earnings for decision-making and planning purposes. The Directors consider that a 10% fall in markets or interest rates at the year-end would not have a material impact on the financial position of Morley.

##### *(ii) Foreign currency exchange risk*

Foreign currency exchange risk is the risk of adverse impact due to changes in fair values of financial instruments from fluctuations in foreign currency exchange rates. The Company's operations are predominantly in the USA and income and expenditure is in local currency in order to minimise the exposure to foreign currency exchange risk.

##### *(iii) Operational risk*

Operational risk would arise as a result of inadequate or failed internal processes, people or systems, or from external events. Details of the Morley Group's approach to operational risk are set out in the financial statements of Morley Fund Management Limited, which administers the funds managed by the Company.

As with other risk categories, line management of business areas have primary responsibility for the effective identification, management, monitoring and reporting of risks to the Morley Executive, in accordance with Aviva Group policies. The Company's risk management function provides support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans.

# Morley Fund Management International Limited

## Notes to the Financial Statements for the year ended 31 December 2006

### 14. Related party transactions

The Company provides investment management services to fellow subsidiaries in the Aviva Group. It receives investment management and administration services from a fellow subsidiary in the Morley Group. In addition, certain costs are incurred on behalf of the Company by fellow subsidiaries in the Aviva Group and recharged to it. Sales to and purchases from related parties are at normal market prices.

(a) Services provided to related parties	2006		2005	
	Income earned	Receivable at year end	Income earned	Receivable at year end
	£'000	£'000	£'000	£'000
Investment management				
Fellow subsidiaries	3,193	1,277	1,908	214

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms.

(b) Services provided by related parties	2006		2005	
	Expense incurred	Payable at year end	Expense incurred	Payable at year end
	£'000	£'000	£'000	£'000
Fellow subsidiaries	2,952	-	32	-
Costs incurred by fellow subsidiaries and recharged	2,422	520	2,128	(1)
	4,838	520	2,160	(1)

The related parties' payables are not secured and no guarantees were received in respect thereof. The payables will be settled in accordance with normal credit terms.

### (c) Key management compensation

The members of the Board of Directors are listed on page 2 of these accounts. There are no accounts receivable from or payments due to members of the Board of Directors. The Directors' are considered to be the Company's key management. Details of remuneration arrangements of the Directors' are included in note 4. In addition, the Company made the following payments to other management:

	2006	2005
	£'000	£'000
Salary and other short-term benefits	257	250
Post-employment benefits	9	8
Long-term incentive plans	50	27
Total	316	285

### (d) Parent company

The immediate holding company is Morley Fund Management Group Limited.

### (e) Ultimate holding company

The ultimate holding company is Aviva plc, incorporated in England. Aviva plc's Group accounts are available on application to: The Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ.