

BlueBay Asset Management Limited

Report and accounts
For the year ended 30th June 2004

Registered number: 03262598



Directors' report

The directors present their report, together with the financial statements and auditors' report, for the year ended 30th June 2004.

Share capital

The authorised capital of the company consists of 600,000 A shares of 1p each, 600,000 B shares of 1p each and 800,000 C shares of 1p each. All of the A and B shares are issued and fully paid.

Principal activities and business review

The principal activities of the company and its subsidiary comprise the provision of investment management and administration services.

Results and dividends

The audited financial statements for the year ended 30th June 2004 are set out on pages 7 to 21. The retained group profit for the year after taxation was £2,163,995.

The directors do not propose the payment of a dividend (previous period: nil).

Directors

The directors who served during the year were as follows:

Jun Daikuhara
Roger Jenkins
Mark Poole
Hans Joerg Rudloff
Hugh Willis

Directors' interests in the share capital of the company at both 1st July 2003 and 30th June 2004 were as follows:

	Number of B shares of 1p each
Mark Poole	300,000
Hugh Willis	300,000

Directors' report (continued)

Auditors

The directors will place a resolution before the annual general meeting to reappoint PricewaterhouseCoopers LLP as auditors.

By order of the Board



Hugh Willis
Director

Times Place
45 Pall Mall
London
SW1Y 5JG

24th September 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group at the end of the financial year and of the profit or loss and cash flows of the group for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company or group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgments and estimates have been made in preparing the financial statements for the year ended 30th June 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of BlueBay Asset Management Limited

We have audited the financial statements which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group Balance Sheet, the Company Balance Sheet, the Group Cash Flow Statement and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 or the group 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

Basis of audit 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

**Independent auditors' report to the members of BlueBay Asset Management Limited
(continued)**

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 affairs of the company and the group at 30th June 2004 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

24th September 2004

Group profit and loss account

		Year ended 30 th June	18 months ended 30 th June
		2004	2003
	Notes	£	£
Turnover	1	13,748,003	6,518,260
Administrative expenses		(12,441,592)	(9,218,522)
Operating profit/(loss)		1,306,411	(2,700,262)
Interest receivable and similar income	2	238,691	298,157
Profit/(loss) on ordinary activities before taxation	3	1,545,102	(2,402,105)
Tax on profit/(loss) on ordinary activities	6	618,893	(13,746)
Retained profit/(loss) for the year	15	2,163,995	(2,415,851)

Group statement of total recognised gains and losses

	Year ended 30 th June	18 months ended 30 th June
	2004	2003
	£	£
Retained profit/(loss) for the year	2,163,995	(2,415,851)
Unrealised exchange (loss)/gain	(2,812)	6,902
Total recognised gains and losses relating to the year	2,161,183	(2,408,949)

All results are derived from continuing operations.
Historical cost profits and losses are as shown above.

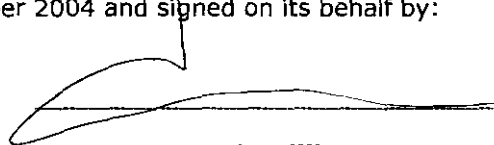
The accompanying notes on pages 11 to 21 are an integral part of these financial statements

Group balance sheet

		30 th June 2004	30 th June 2003
	Notes	£	£
Fixed assets			
Intangible assets – licences and development costs	7	880,486	1,147,500
Tangible assets	8	1,252,365	798,301
Investments	9	20	13
		<u>2,132,871</u>	<u>1,945,814</u>
Current assets			
Debtors:			
Amounts falling due within one year	10	4,677,781	2,176,000
Amounts falling due after more than one year	10	1,123,830	303,298
Cash at bank and in hand		<u>8,399,192</u>	<u>4,257,466</u>
		14,200,803	6,736,764
Creditors: Amounts falling due within one year	11	<u>(2,727,659)</u>	<u>(919,878)</u>
Net current assets		11,473,144	5,816,886
Net assets		<u>13,606,015</u>	<u>7,762,700</u>
Capital and reserves			
Called-up share capital	13	12,000	12,000
Share premium account	15	15,587,103	11,904,971
Profit and loss account	15	<u>(1,993,088)</u>	<u>(4,154,271)</u>
Shareholders' funds (all equity)		<u>13,606,015</u>	<u>7,762,700</u>

The financial statements on pages 7 to 21 were approved by the board of directors on 24th September 2004 and signed on its behalf by:

Director:



Hugh Willis

Director:



Mark Poole


The accompanying notes on pages 11 to 21 are an integral part of this balance sheet

Company balance sheet

		30 th June 2004	30 th June 2003
	Notes	£	£
Fixed assets			
Intangible assets – licences and development costs	7	880,486	1,147,500
Tangible assets	8	1,252,365	798,301
Investments	9	<u>79,773</u>	<u>79,766</u>
		2,212,624	2,025,567
Current assets			
Debtors:			
Amounts falling due within one year	10	4,677,781	2,176,000
Amounts falling due after more than one year	10	1,123,830	303,298
Cash at bank and in hand		<u>8,323,737</u>	<u>4,169,522</u>
		14,125,348	6,648,820
Creditors: Amounts falling due within one year	11	<u>(2,736,047)</u>	<u>(918,589)</u>
Net current assets		<u>11,389,301</u>	<u>5,730,231</u>
Net assets		<u>13,601,925</u>	<u>7,755,798</u>
Capital and reserves			
Called-up share capital	13	12,000	12,000
Share premium account	15	15,587,103	11,904,971
Profit and loss account	15	<u>(1,997,178)</u>	<u>(4,161,173)</u>
Shareholders' funds (all equity)		13,601,925	7,755,798

The financial statements on pages 7 to 21 were approved by the board of directors on 24th September 2004 and signed on its behalf by:

Director:


Hugh Willis

Director:


Mark Poole

The accompanying notes on pages 11 to 21 are an integral part of this balance sheet

Group cash flow statement

		Year ended 30 th June	18 months ended 30 th June
	Notes	2004 £	2003 £
Net cash inflow/(outflow) from operating activities	17i)	1,536,954	(4,097,536)
Returns on investments and servicing of finance	17ii)	238,691	298,157
Taxation		(1,567)	(13,746)
Capital expenditure and financial investment	17iii)	(1,311,672)	(1,265,358)
Financing	13	3,682,132	3,670,174
Increase/(decrease) in cash in the year		4,144,538	(1,408,309)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the year		4,144,538	(1,408,309)
Exchange (loss)/gain		(2,812)	6,902
		4,141,726	(1,401,407)
Net funds at beginning of year		4,257,466	5,658,873
Net funds at end of year	17iv)	8,399,192	4,257,466

The accompanying notes on pages 11 to 21 are an integral part of this cash flow statement

Notes to financial statements

Accounting policies

The principal accounting policies are summarised below.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Consolidation

The group financial statements incorporate the accounts of the company and its subsidiary undertaking made up to 30th June 2004. As permitted by s230 of the Companies Act 1985, a separate profit and loss account of the company is not presented.

Leases

All group leases are operating leases and the rental charges are included in the profit and loss account on a straight line basis over the life of the lease.

Intangible assets – technology licences and development costs

Technology licences and development costs are included at cost and amortised in equal annual instalments over the licence period which is their estimated useful economic life. Provision is made for any impairment on the basis of annual reviews.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements	Straight-line basis over the initial lease period
Furniture, fixtures and fittings	3 years (straight-line basis)
Other equipment	3-5 years (straight-line basis)

Anticipated lives and residual values of tangible fixed assets are reassessed annually.

Investments

Fixed asset investments are stated at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

Notes to financial statements (continued)

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax

Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. A deferred tax asset is only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future. Deferred tax assets and liabilities are not discounted.

Turnover

Turnover represents amounts receivable for services provided in the normal course of business net of rebates, VAT and other sales related taxes. Services are charged in the form of management fees, which are included in the financial statements on an accrual basis and performance-related fees, which are accounted for when they become due.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the relevant contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All resulting exchange differences are included in the profit and loss account.

The results of the subsidiary undertaking are translated at closing rates of exchange. Unrealised exchange gains and losses on opening net assets of the subsidiary undertaking are taken direct to reserves.

Derivative financial instruments

The company uses derivative financial instruments to reduce exposure to foreign exchange risk. The company does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the company's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the accounts.

Notes to financial statements (continued)

1 Turnover

	Year ended 30 th June 2004 £	18 months ended 30 th June 2003 £
Amounts receivable for services provided, net of rebates	13,748,003	6,518,260

2 Interest receivable and similar income

	Year ended 30 th June 2004 £	18 months ended 30 th June 2003 £
Bank interest	216,593	298,157
Rent deposit interest	22,098	-
	<u>238,691</u>	<u>298,157</u>

3 Profit/(loss) on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging the following items:

	Year ended 30 th June 2004 £	18 months ended 30 th June 2003 £
Depreciation and amortisation	730,022	685,411
Auditors' remuneration - audit services	28,168	42,466
- other services	-	38,996
Operating lease payments	578,730	606,597

4 Staff costs

Particulars of employees (including executive directors) are shown below:

	Year ended 30 th June 2004 £	18 months ended 30 th June 2003 £
Wages and salaries	7,905,175	4,976,697
Social security costs	991,966	577,343
	<u>8,897,141</u>	<u>5,554,040</u>

The average number of staff employed in the year was 42 (previous period: 22).

Notes to financial statements (continued)

5 Directors' remuneration and transactions

The remuneration of the directors was as follows

	Year ended 30 th June	18 months ended 30 th June
	2004	2003
	£	£
Total emoluments	1,520,000	1,307,774
of which:		
Remuneration of highest paid director	760,000	653,887

No directors were members of company pension schemes.

6 Tax on profit/(loss) on ordinary activities

The tax charge is based on the taxable result for the year and an adjustment of £1,567 in respect of the previous period. Both the group and the company made a profit in the year and, though no corporation tax is payable, a deferred tax asset is recognised for the first time. Factors affecting the tax charge were:

	Year ended 30 th June	18 months ended 30 th June
	2004	2003
	£	£
Profit/(loss) on ordinary activities before tax	1,545,102	(2,402,105)
Profit/(loss) on ordinary activities multiplied by relevant UK corporation tax rate of 30% (previous period: 19%)	463,531	(456,400)
Effects of:		
Initial recognition of deferred tax asset	(1,180,296)	-
Expenses not deductible for tax purposes	51,368	16,276
Tax losses unutilised	-	430,774
Adjustment in respect of previous period	1,567	13,746
Depreciation in excess of capital allowances	44,937	9,350
Current tax charge for year	(618,893)	13,746

At 30th June 2003 the potential deferred tax asset amounted to approximately £748,000, at the then prevailing rate of 19%.

Notes to financial statements (continued)

7 Intangible fixed assets

Group and Company:

	Licences and development costs
	£
Cost	
At 1 st July 2003	1,396,440
Additions	13,378
At 30 th June 2004	1,409,818
Accumulated Depreciation	
At 1 st July 2003	248,940
Charge for the year	280,392
At 30 th June 2004	529,332
Net book value	
At 30 th June 2004	880,486
At 30 th June 2003	1,147,500

8 Tangible fixed assets

Group and Company:

	Leasehold Improvements	Furniture Fixtures & Fittings	Information & Communication Technology Equipment	Total
	£	£	£	£
Cost				
At 1 st July 2003	304,318	182,185	814,944	1,301,447
Additions	667,409	101,363	134,922	903,694
Disposals	(328,207)	-	(94,769)	(422,976)
At 30 th June 2004	643,520	283,548	855,097	1,782,165
Accumulated Depreciation				
At 1 st July 2003	93,240	54,995	354,911	503,146
Charge for the year	239,611	79,614	130,405	449,630
Disposals	(328,207)	-	(94,769)	(422,976)
At 30 th June 2004	4,644	134,609	390,547	529,800
Net book value				
At 30 th June 2004	638,876	148,939	464,550	1,252,365
At 30 th June 2003	211,078	127,190	460,033	798,301

Notes to financial statements (continued)

9 Investments

Group:

	30 th June 2004 £	30 th June 2003 £
BlueBay Emerging Market Total Return Fund Limited	6	6
BlueBay Global Credit Fund Limited	7	7
BlueBay High Yield Total Return Fund Limited	7	-
	<hr/> 20	<hr/> 13

Company:

	30 th June 2004 £	30 th June 2003 £
BlueBay Funds Management Company S.A.	79,753	79,753
BlueBay Emerging Market Total Return Fund Limited	6	6
BlueBay Global Credit Fund Limited	7	7
BlueBay High Yield Total Return Fund Limited	7	-
	<hr/> 79,773	<hr/> 79,766

The company is the beneficial owner of 125 shares of 1,000 euros each in its subsidiary company, BlueBay Funds Management Company S.A., (incorporated in Luxembourg on 1st August 2002). The shares, which were issued at par for cash, represent 100% of the issued share capital of, and voting rights in, the subsidiary company, which acts as the administrator of mutual investment funds organized under the laws of the Grand Duchy of Luxembourg.

The company is the beneficial owner of 10 Founder Shares of US \$1 each in each of BlueBay Global Credit Fund Limited and BlueBay Emerging Market Total Return Fund Limited and 10 Founder Shares of 1 euro each in BlueBay High Yield Total Return Fund Limited (all incorporated in the Cayman Islands and operating as open-ended investment companies) representing 100% of that class of shares in each case. The Founder Shares carry no dividend rights and on a winding up rank only for the return of the capital paid up thereon.

Notes to financial statements (continued)

10 Debtors

Group and Company:

	30 th June 2004 £	30 th June 2003 £
Amounts falling due within one year:		
VAT	118,153	43,307
Prepayments and accrued income	4,487,736	2,103,369
Other debtors	71,892	29,324
	<hr/> 4,677,781	<hr/> 2,176,000
Amounts falling due after more than one year:		
Deferred taxation	620,460	-
Rent deposit	503,370	303,298
	<hr/> 1,123,830	<hr/> 303,298

11 Creditors: Amounts falling due within one year

Group:

	30 th June 2004 £	30 th June 2003 £
Trade creditors	235,677	425,462
Bonus provision	1,677,884	87,500
Other taxation and social security	153,261	111,371
Other creditors	660,837	295,545
	<hr/> 2,727,659	<hr/> 919,878

Company:

	30 th June 2004 £	30 th June 2003 £
Trade creditors	236,128	425,462
Bonus provision	1,677,884	87,500
Other taxation and social security	153,261	111,371
Other creditors	668,774	294,256
	<hr/> 2,736,047	<hr/> 918,589

Notes to financial statements (continued)

12 Commitments

Operating leases

The Group and Company have commitments for payments in the next year under operating leases which expire as follows:

	30 th June 2004	30 th June 2003
	£	£
Within one year	-	-
Between two and five years	428,400	404,398
After five years	-	-
	<hr/> 428,400	<hr/> 404,398

13 Called-up share capital

	30 th June 2004	30 th June 2003
	£	£
<i>Authorised</i> 2,000,000 shares of 1p each	<hr/> 20,000	<hr/> 20,000
<i>Allotted, called-up and fully paid</i> 1,200,000 shares of 1p each	<hr/> 12,000	<hr/> 12,000

The authorised capital of the company consists of 600,000 A shares of 1p each, 600,000 B shares of 1p each and 800,000 C shares of 1p each. All of the A and B shares are in issue. On a return of capital on a winding up of the company its assets would be applied first in paying to A shareholders the subscription price for their shares, second in paying to B shareholders the subscription price for their shares and thereafter rateably between A, B and C shareholders.

In accordance with a shareholders' agreement dated 3rd July 2001 the holders of the A shares were required to pay additional consideration by way of further premium payments for the shares issued to them, on the achievement by the company of certain business objectives. During the year the company achieved the final relevant objective, which triggered the final premium payment from shareholders of £3,682,132. In the previous period a premium payment of £3,670,174 was received on achievement of an earlier objective.

The shareholders' agreement and the company's Articles of Association together confer equal dividend rights on the A, B and C shares in issue, though no dividend is currently proposed for payment.

Notes to financial statements (continued)

13 Called-up share capital (continued)

The A and B shares in issue have broadly equal voting rights and their holders are entitled to attend and vote at annual general meetings of the company. The holders of C shares are not entitled to attend or vote at annual general meetings and their consent is not required for their other rights to be varied by holders of the A and B shares.

14 Reconciliation of movements in shareholders' funds

Group:

	30 th June 2004 £	30 th June 2003 £
Opening shareholders' funds	7,762,700	6,501,475
Retained profit for the year	2,163,995	(2,415,851)
Additional premium received	3,682,132	3,670,174
Exchange loss	(2,812)	6,902
	<hr/>	<hr/>
Closing shareholders' funds	13,606,015	7,762,700

Company:

	30 th June 2004 £	30 th June 2003 £
Opening shareholders' funds	7,755,798	6,501,475
Retained profit for the year	2,163,995	(2,415,851)
Additional premium received	3,682,132	3,670,174
	<hr/>	<hr/>
Closing shareholders' funds	13,601,925	7,755,798

Notes to financial statements (continued)

15 Reserves

	Share premium account £	Profit and loss account £	Total £
Group:			
At 1 st July 2003	11,904,971	(4,154,271)	7,750,700
Additional premium received	3,682,132	-	3,682,132
Retained profit for the year	-	2,163,995	2,163,995
Exchange loss	-	(2,812)	(2,812)
			<hr/>
At 30 th June 2004	15,587,103	(1,993,088)	13,594,015
			<hr/>
Company:			
At 1 st July 2003	11,904,971	(4,161,173)	7,743,798
Additional premium received	3,682,132	-	3,682,132
Retained profit for the year	-	2,163,995	2,163,995
			<hr/>
At 30 th June 2004	15,587,103	(1,997,178)	13,589,925
			<hr/>

16 Related party transactions

Throughout the year companies in the Barclays Bank plc group, which owns 300,000 A shares of 1p each in the company, provided it with a range of banking services on normal third party terms. At 30th June 2004 the balances on accounts with Barclays Bank plc totalled £8,323,724 (30th June 2003: £4,169,381). Interest received in the year on accounts with Barclays Bank plc and on money funds managed by the Barclays group amounted to £215,799 (previous period: £298,157).

During the year the company provided investment management and administration services to the groupings of funds listed below. The fees earned in the year and amounts accrued but unpaid at the end of the year were as follows:

	Total fees £	Accrued fees £
BlueBay Global Credit Fund group	6,942,440	862,924
BlueBay Emerging Market Total Return Fund group	3,381,851	1,301,566
BlueBay High Yield Total Return Fund group	2,568,651	1,719,218
BlueBay Funds group (Luxembourg investment funds)	564,831	140,067
Shinsei Opportunity Trust	290,230	186,408
	<hr/>	<hr/>
Total	13,748,003	4,210,183
	<hr/>	<hr/>

Notes to financial statements (continued)

17 Notes to the cash flow statement

- i) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	Year ended 30 th June	18 months ended 30 th June
	2004	2003
	£	£
Operating profit/(loss)	1,306,411	(2,700,262)
Depreciation charges	730,022	685,411
Increase in debtors	(2,701,853)	(2,022,105)
Increase in creditors	2,202,374	(60,580)
Net cash inflow/(outflow) from operating activities	1,536,954	(4,097,536)

- ii) Returns on investment and servicing of finance

	Year ended 30 th June	18 months ended 30 th June
	2004	2003
	£	£
Interest received	238,691	298,157

- iii) Capital expenditure

	Year ended 30 th June	18 months ended 30 th June
	2004	2003
	£	£
Purchase of intangible fixed assets	407,971	1,001,847
Purchase of tangible fixed assets	903,694	263,498
Purchase of investments	7	13
	1,311,672	1,265,358

- iv) Analysis of net funds

	At 1 st July 2003	Cashflow	At 30 th June 2004
Cash at bank and in hand	4,257,466	4,141,726	8,399,192