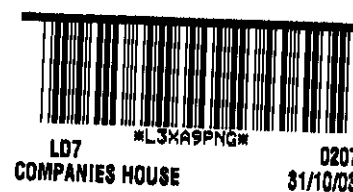


**MELLON EUROPE LIMITED**  
**DIRECTORS' REPORT AND ACCOUNTS**

**31 DECEMBER 2002**

Registered No. 3755033



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**DIRECTORS' REPORT**

The directors present their report and the accounts of the Group for the year ended 31 December 2002.

**Principal activities**

The Company acts as a holding company for the UK operations of the Mellon Group whose principal activity is the provision of a broad range of financial products and services. Note 13 to the accounts states the principal business activities of the main operating subsidiaries.

**Business review**

On 2 April 2002, Mellon Fund Administration Limited was liquidated and its business and assets transferred to Mellon Bank NA (London Branch), a London branch of a fellow subsidiary of Mellon Financial Corporation. This was done in order to achieve operating efficiencies.

On 1 May 2002 the Company acquired an additional interest in Newton Management Limited. The consideration for this additional interest was £41,976,151.

On 30 August 2002, the Group purchased the private client asset management business of Henderson Global Investors Limited and Henderson Global Investors (Jersey) Limited. Consideration of £11,466,371 was paid on 31 August 2002 and deferred consideration of £8,108,880 was paid in 2003.

On 27 September 2002, the group sold its investment in Sundaram Newton Asset Management Company (Private) Limited for consideration of \$2,158,229.

On 1 December 2002, the group completed on the sale of Royal Bank Of Scotland Unit Trust Management Limited and Royal Bank Of Scotland Portfolio Management Limited to Royal Bank Of Scotland plc. The deferred element of the sales consideration realised was £3,375,291 on completion.

**Results**

The results for the Group are set out on page 10. The directors do not propose the payment of a dividend (2001 Nil).

**Changes in fixed assets**

The movements in fixed assets are shown in notes 11, 12 and 13 to the accounts.

**Directors and directors' interests**

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

G Brisk  
M A Bryson  
J Klinck  
R Weaver

No director had any beneficial interest in the shares of the Company at any time during the year.

**DIRECTORS' REPORT** (continued)

**Employees**

The group'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 Mellon Intranet, newsletters, 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 group's performance.

The group 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 group'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 group and its financial performance.

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 group adheres to the principles of Equal Employment Opportunity and is committed to facilitating employment opportunities for people with disabilities.

**Charitable contributions**

During the year, Group companies made charitable contributions amounting to £34,587 (2001 - £27,543). No political contributions were made by any Group company.

**Registered office**

The registered office of the Company is Princess House, 1 Suffolk Lane, London EC4R 0AN

**DIRECTORS' REPORT** (continued)

**Auditors**

KPMG Audit plc have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By order of the Board



**J Klinck**  
Director

31 October 2003

**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 the group 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 the group 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 for the group and to prevent and detect fraud and other irregularities.

The directors are of the opinion that the above requirements and responsibilities have been fulfilled.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF**  
**MELLON EUROPE LIMITED**

We have audited the financial statements on pages 7 to 27.

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 5, 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 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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 affairs of the company and the group as at 31 December 2002 and of the loss of the group 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

*31 October 2003*

## **ACCOUNTING POLICIES**

### **Accounting convention**

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

### **Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results have been consolidated on the following basis:

- Merger accounting has been used to consolidate results of Mellon Fund Administration Limited
- Acquisition accounting has been used to consolidate the results of Newton Management Limited and its subsidiaries.

### **Associated undertakings**

The group's share of the net assets of associated undertakings is included in the consolidated balance sheet. The group's share of the results of associated companies is accounted for in the profit and loss account.

### **Goodwill**

Goodwill generated on the acquisition of Newton Management Limited has been capitalised and is being amortised over its expected useful life of 20 years. Goodwill generated on the acquisition of the Henderson business has been capitalised and is being amortised over its expected useful life of 10 years.

### **Revenue**

Revenue comprises management fees, administration fees, commissions receivable and other income, and the gross profit arising from sales of units after deducting discounts, commissions, stamp duty and other costs.

Management fees are fees paid for the management of investment portfolios. They 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.

### **Stocks**

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



**ACCOUNTING POLICIES (continued)**

**Current asset investments**

Seeding investments in funds are shown at their market values at the balance sheet date and the unrealised gains/(losses) are taken to the profit and loss account. This is not in accordance with Schedule 4 to the Companies Act 1985, which requires that such assets be stated at the lower of cost and net realisable value. The directors consider that these requirements would fail to give a true and fair view of the profit/(loss). All other investments are included in the accounts at the lower of cost and net realisable value.

**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.

**Depreciation**

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

Furniture, fittings and other office equipment	- 3 to 10 years
Motor vehicles	- 5 years
Leasehold improvements	- over life of lease unless there is a mutual break clause or a decision made to move premises
Projects in progress	- 5 years

**Investments in subsidiary undertakings**

Investments in subsidiary undertakings are included in the balance sheet of the company at cost less any provisions which the company has considered necessary to make.

**Foreign currency translation**

Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiaries are translated at the average rate of exchange for the year. Differences on exchange arising from the re-translation of the opening net investment in subsidiary undertakings, and from the translation of the results of those undertakings at average rate are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

**ACCOUNTING POLICIES (continued)**

**Pension cost**

The Group operates several pension schemes. For defined contribution schemes, contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. For final salary (defined benefit) schemes the cost of providing pensions is accounted for over the employees' working lives on a systematic basis as advised by qualified actuaries.

**Leases**

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

**Software developed for internal use**

Costs incurred in the application development stage of major internally developed computer software are capitalised. Costs incurred in the preliminary project stage and post implementation stage are expensed as incurred.

Costs being capitalised are as follows:

- external direct costs of materials and services
- *payroll and payroll-related costs for employees who are directly associated with and who devote time to the project, to the extent of the time spent directly on the project*
- interest costs, if any, incurred while developing internal use software.

**Cash flow statement**

The company is exempt from preparing a cash flow statement under Financial Reporting Standard 1 (Revised 1996) as it is a wholly owned subsidiary of a company which prepared consolidated financial statements which are publicly available.

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2002**

	Notes	2002 £'000	2001 £'000
Revenue	1	121,358	156,528
Administrative expenses		(136,018)	(157,194)
Other operating income		1,592	1,361
Operating (loss)/profit	2	(13,068)	695
Operating profit from associates		2,717	1,635
Profit on sale of investments	5	5,050	-
Investment income/(charges) – group	6	670	(1,314)
– associate		-	10
Interest receivable – group	7	2,994	4,899
– associate		62	119
Interest payable – group	8	(15,915)	(14,765)
– associate		(1)	(23)
(Loss) on ordinary activities before taxation		(17,491)	(8,744)
Taxation on (loss) on ordinary activities	9	(4,215)	223
(Loss) on ordinary activities after taxation		(21,706)	(8,521)
Minority interest		-	(1,855)
Retained (Loss) for the year		(21,706)	(10,376)

Revenue and operating (loss)/profit relate to continuing operations. There is no difference between the (loss) on ordinary activities before taxation and the (loss) for the financial year stated above, and their historical cost equivalents.

**STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR TO 31 DECEMBER 2002**

	2002 £'000	2001 £'000
(Loss) for the year	(21,706)	(10,376)
Currency translation differences on consolidation of foreign subsidiaries and foreign associate	(132)	165
Total (losses) recognised for the year	(21,838)	(10,211)

**CONSOLIDATED BALANCE SHEET**  
**AT 31 DECEMBER 2002**

	Notes	2002 £'000	2001 £'000
<b>Fixed assets</b>			
Intangible fixed assets	11	240,718	232,572
Tangible fixed assets	12	18,771	22,653
Investments	13	2	3
Share of net assets of associated undertakings	13	9,019	6,963
		<u>268,510</u>	<u>262,191</u>
<b>Current assets</b>			
Debtors	14	68,525	98,709
Investments	15	73,511	73,197
Stock of units held in unit trusts		338	934
Cash at bank and in hand		65,529	107,376
		<u>207,903</u>	<u>280,216</u>
Creditors: Amounts falling due within one year	16	(411,043)	(500,721)
<b>Net current (liabilities)</b>		<u>(203,140)</u>	<u>(220,505)</u>
<b>Total assets less current liabilities</b>		<u>65,370</u>	<u>41,686</u>
Creditors: Amounts falling due after more than one year	17	(2,214)	(79)
Provision for liabilities and charges	19	(99)	(342)
<b>Net assets</b>		<u><u>63,057</u></u>	<u><u>41,265</u></u>
<b>Capital and reserves</b>			
Share capital	22	73,630	30,000
Share premium	23	20,587	20,587
Other reserve	23	(2,662)	11,630
Profit and loss account	23	(28,498)	(20,952)
<b>Equity shareholders' funds</b>	24	<u><u>63,057</u></u>	<u><u>41,265</u></u>

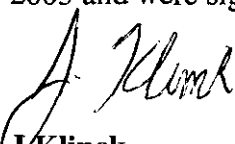
The financial statements on pages 7 to 27 were approved by the board of directors on 31 October 2003 and were signed on its behalf by:

  
**J. Klinck**  
 Director

**PARENT COMPANY BALANCE SHEET**  
**AT 31 DECEMBER 2002**

	Notes	2002 £'000	2001 £'000
<b>Fixed assets</b>			
Investments	13	344,202	357,943
		<u>344,202</u>	<u>357,943</u>
<b>Current assets</b>			
Debtors	14	7,339	7,155
Investments	15	69,584	62,615
Cash at bank and in hand		11,809	33,751
		<u>88,732</u>	<u>103,521</u>
Creditors: amounts falling due within one year	16	(356,435)	(415,301)
<b>Net current liabilities</b>		<u>(267,703)</u>	<u>(311,780)</u>
<b>Total assets less current liabilities</b>		<b>76,499</b>	<b>46,163</b>
Provision for liabilities and charges	19	(57)	-
		<u>76,442</u>	<u>46,163</u>
<b>Net assets</b>		<b>76,442</b>	<b>46,163</b>
<b>Capital and reserves</b>			
Share capital	22	73,630	30,000
Share premium	23	20,587	20,587
Profit and loss account	23	(17,775)	(4,424)
<b>Equity shareholders' funds</b>	24	<u>76,442</u>	<u>46,163</u>

The financial statements on pages 7 to 27 were approved by the board of directors on 31 October 2003 and were signed on its behalf by:

  
**J. Klinck**  
Director

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002**

<b>1 Revenue</b>	<b>2002 £'000</b>	<b>2001 £'000</b>
Management and administration fees	133,654	163,224
Commission receivable and other income	5,004	7,561
Gross sale of units	2,087,006	3,183,001
Total turnover	<u>2,225,664</u>	<u>3,353,786</u>
 Cost of units	 2,025,953	 3,089,708
Discounts, commissions, stamp duty and other costs	78,353	107,550
Total cost of sales	<u>2,104,306</u>	<u>3,197,258</u>
Revenue	<u>121,358</u>	<u>156,528</u>
 <b>2 Operating (loss)/profit</b>	 <b>2002 £'000</b>	 <b>2001 £'000</b>
Operating (loss)/profit is stated after charging/(crediting):		
Charges under operating leases – premises	3,757	4,034
Depreciation of tangible fixed assets		
Owned assets	7,765	5,234
Leased assets	117	79
Loss on disposal of fixed assets	41	95
Amortisation of fixed asset investments	1	4
Amortisation of goodwill	12,850	8,251
Rental income	(75)	(309)
Auditors' remuneration		
- Audit (company £47,000; 2001 - £21,000)	389	299
-Non-audit services (company £96,000; 2001 - £Nil)	<u>154</u>	<u>96</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**3 Staff costs**

The average number of employees in the year was 862 (2001 – 985). All staff were employed within the group's principal activity of investment management and administration.

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Employee costs (including directors):		
Wages and salaries – including bonuses	<b>57,693</b>	77,853
Social security costs	<b>5,966</b>	7,689
Pension costs	<b>5,230</b>	6,414
Other staff costs	<b>5,020</b>	4,103
	<b><u>73,909</u></b>	<u>96,059</u>

**4 Directors' emoluments**

	<b>2002</b>	2001
	<b>£'000</b>	£'000
<u>Directors:</u>		
Aggregate Emoluments	<b>909</b>	1,276
Company pension contributions to defined benefit scheme	<b><u>34</u></b>	<u>30</u>

Retirement benefits are accruing to two directors under defined benefit schemes.

One of the company's directors who served during the year had no emoluments paid or payable in relation to their services as directors of Mellon Europe Limited (2001 – Two).

	<b>2002</b>	2001
	<b>£'000</b>	£'000
<u>Highest paid director:</u>		
Aggregate Emoluments	<b><u>650</u></b>	<u>1,079</u>

**5 Profit on sale of investments**

On 2 April 2002, Mellon Fund Administration Limited was liquidated and its business and assets transferred to Mellon Bank NA (London Branch), a London branch of a fellow subsidiary of Mellon Financial Corporation, for consideration of £26,692,684, resulting in a profit of £4,360,750.

On 27 September 2002, the group sold its investment in Sundaram Newton Asset Management Company (Private) Limited for consideration of \$2,158,229, resulting in a profit of £689,055.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**6 Investment income/(charges)**

	2002 £'000	2001 £'000
Unrealised (loss) on current asset investments	(1,691)	(2,002)
Other investment income	232	450
Net exchange gains	2,129	238
	<u>670</u>	<u>(1,314)</u>

**7 Interest receivable**

	2002 £'000	2001 £'000
Interest from loan to associated undertaking	101	204
Interest on short term deposits	1,952	3,104
Interest earned on floating rate notes	182	-
Interest earned on offshore investment funds	-	637
Interest on swap	680	798
Interest on repayment of tax	51	76
Other interest received	28	80
	<u>2,994</u>	<u>4,899</u>

**8 Interest payable**

	2002 £'000	2001 £'000
On loans from group undertakings	15,163	14,011
On bank loans and overdrafts	394	449
On tax payment	33	3
On finance leases	3	32
Other interest paid	322	270
	<u>15,915</u>	<u>14,765</u>

**9 Taxation**

	2002 £'000	2001 £'000
UK corporation tax at 30% (2001 – 30%)	4,232	2,993
Overseas tax - current	19	(379)
Under/(Over) provision in prior years	935	(1,723)
Associated company	3	-
Current tax	<u>5,189</u>	<u>891</u>
Deferred tax	<u>(974)</u>	<u>(1,114)</u>
	<u>4,215</u>	<u>(223)</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**9 Taxation (continued)**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
The tax assessed is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:-		
(Loss) on ordinary activities before taxation	<u>(17,491)</u>	<u>(8,744)</u>
(Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001 – 30%)	<b>(5,248)</b>	<b>(2,623)</b>
Effects of:		
Expenses not deductible for tax purposes	<b>7,064</b>	3,560
Depreciation for the year in excess of capital allowances	<b>344</b>	(227)
Other timing differences	<b>(86)</b>	1,467
Investment (charges) not taxable	<b>3,216</b>	-
Profit on disposal of subsidiaries not taxable	<b>(1,515)</b>	-
Group relief	<b>75</b>	198
Lower tax rate on overseas earnings	<b>96</b>	195
Overseas losses not utilised	<b>308</b>	44
Adjustments to tax in respect of previous years	<u><b>935</b></u>	<u><b>(1,723)</b></u>
	<u><b>5,189</b></u>	<u><b>891</b></u>

**10 Profit attributable to members of the parent company**

The company has taken advantage of the provisions of section 230 of the Companies Act 1985 not to present a separate profit and loss account.

The loss for the year after taxation dealt with in the financial statements of the parent company amounted to **£(10,601,061)** (2001 –£(9,218,000)).

**11 Intangible fixed assets**

	<b>Purchased Goodwill £'000</b>
<b>Group</b>	
<b>Cost</b>	
At 1 January 2002	<b>242,623</b>
Arising on acquisition of Newton Management Limited	<b>180</b>
Arising on acquisition of Henderson business	<u><b>20,816</b></u>
At 31 December 2002	<u><b>263,619</b></u>
<b>Amortisation</b>	
At 1 January 2002	<b>10,051</b>
Charge for the year	<u><b>12,850</b></u>
At 31 December 2002	<u><b>22,901</b></u>
<b>Net Book Value</b>	
At 31 December 2002	<u><b>240,718</b></u>
At 31 December 2001	<u><b>232,572</b></u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 – continued**

**12 Tangible fixed assets**

<b>Group</b>	<b>Short Leasehold Property £'000</b>	<b>Office equipment £'000</b>	<b>Projects in progress £'000</b>	<b>Motor Vehicles £'000</b>	<b>Total £'000</b>
<b>Cost</b>					
At 1 January 2002	6,900	30,428	4,202	1,566	43,096
Additions	844	8,720	242	169	9,975
Disposals	(1,103)	(2,396)	(4,444)	(853)	(8,796)
At 31 December 2002	<u>6,641</u>	<u>36,752</u>	<u>-</u>	<u>882</u>	<u>44,275</u>
<b>Depreciation</b>					
At 1 January 2002	4,058	15,749	215	421	20,443
Charge for the year	1,081	6,299	100	402	7,882
Disposals in the year	(478)	(1,586)	(315)	(442)	(2,821)
At 31 December 2002	<u>4,661</u>	<u>20,462</u>	<u>-</u>	<u>381</u>	<u>25,504</u>
<b>Net Book Value</b>					
At 31 December 2002	<u>1,980</u>	<u>16,290</u>	<u>-</u>	<u>501</u>	<u>18,771</u>
At 31 December 2001	<u>2,842</u>	<u>14,679</u>	<u>3,987</u>	<u>1,145</u>	<u>22,653</u>

The net book value of computers, furniture & fittings and equipment includes £148,060 (2001 - £274,752) in respect of assets held under finance leases.

**13 Fixed asset investments****a) Group**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**13 Fixed asset investments - continued**

<b>b) Company</b>	<b>Interests in subsidiary undertakings £'000</b>
<b>Cost and net book value</b>	
At 1 January 2002	<b>357,943</b>
Additions in the year	
Newton Management Limited	<b>180</b>
Mellon Global Alternative Investments Limited	<b>1,000</b>
Disposals in the year	
Mellon Fund Administration Limited	<b>(23,587)</b>
At 31 December 2002	<b>335,536</b>

The principal subsidiary undertakings of the Company are as follows:

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held directly by:	
			Group %	Company %
Newton Management Ltd	England & Wales	Ordinary £1	100	100
Newton Investment Management Ltd	England & Wales	Ordinary £1	100	-
Mellon Global Investments Ltd	England & Wales	Ordinary £1	100	100
Mellon Global Alternative Investments Limited	England & Wales	Ordinary £1	100	100
Newton Fund Managers Ltd	England & Wales	Ordinary £1	100	-
Newton Capital Management Ltd	England & Wales	Ordinary £1	100	-
Newton Investment Management (Guernsey) Ltd	Guernsey	Ordinary US\$1	100	-
Newton International Investment Management Ltd	Jersey	Ordinary £1	100	-
Newton Fund Managers (CI) Ltd	Jersey	Ordinary £1	100	-
Newton Investment Management (IOM) Ltd	Isle of Man	Ordinary £1	100	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**13 Fixed asset investments - continued**

The principal business activities of the main operating subsidiary undertakings are:

- i) Newton Investment Management Limited, Newton International Investment Management Limited and Newton Investment Management (IOM) Limited - Investment management of pension and private client portfolios.
- ii) Newton Fund Managers Limited and Newton Fund Managers (CI) Limited - Management and administration of unit trusts/OEICs.

**Associated companies****(a) Group**

The Group holds a 30% interest in Pareto Partners (an English partnership) and a 30% interest in Visionloyal Limited. Pareto Partners is engaged in the business of providing global investment advisory and discretionary management services. Visionloyal Limited is the holding company for Pareto Partners Australia Pty. Limited which acts as the sales and marketing representative in Australia for Pareto Partners.

The Group's share of associates' operating profit down to 'profit on ordinary activities after tax' for the year to 31 December 2002 are recognised in the Group's profit and loss account.

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Share of net assets		
Pareto Partners	<b>5,191</b>	3,910
Visionloyal Limited	<b>51</b>	40
Sundaram Newton Asset Management Company (Private) Limited	<b>-</b>	700
Loan to partnership	<b>3,777</b>	2,313
	<b><u>9,019</u></b>	<b><u>6,963</u></b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**13 Fixed asset investments - continued****Associated companies****(b) Company**

The Company acquired a 30% investment in Pareto Partners (an English partnership) together with loans to the partnership and related assets and liabilities from Mellon Fund Administration Limited on 2 April 2002.

During the year Pareto Partners paid a dividend to Mellon Europe Limited.

As at 31 December 2002, the cost of investment in Pareto Partners is as follows:-

	2002 £'000	2001 £'000
Equity investment at cost	4,889	-
Loan to partnership	3,777	-
	<u>8,666</u>	<u>-</u>

**14 Debtors**

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	21,154	-	42,676	-
Amount owed by group companies	607	1,703	733	1,320
Other debtors	16,236	4,003	12,353	5,222
Prepayments and accrued income	30,528	1,633	42,947	613
	<u>68,525</u>	<u>7,339</u>	<u>98,709</u>	<u>7,155</u>

Included within Group other debtors is a deferred tax asset of **£4,900,500** (2001 £3,927,000).

**15 Current asset investments****Quoted investments**

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Mellon Global Funds	23,526	23,526	34,642	34,642
Mellon Hedge Funds	21,138	21,138	27,973	27,973
Floating Rate Notes	24,920	24,920	-	-
Other listed investments	3,927	-	10,582	-
	<u>73,511</u>	<u>69,584</u>	<u>73,197</u>	<u>62,615</u>

All current asset quoted investments are carried at market value. Valuation movements on these investments are recognised through the profit and loss account.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**16 Creditors: amounts falling due within one year**

	<b>2002</b>		<b>2001</b>	
	<b>Group £'000</b>	<b>Company £'000</b>	<b>Group £'000</b>	<b>Company £'000</b>
Bank overdraft	<b>1,720</b>	-	15,320	-
Trade creditors	<b>20,087</b>	-	47,857	-
Loans from group undertakings	<b>348,548</b>	<b>348,548</b>	329,560	329,560
Interest on group loans	<b>1,060</b>	<b>1,060</b>	16,499	16,499
Amounts due to group companies	<b>3,690</b>	<b>2,112</b>	5,166	24,094
Corporation tax	<b>6,329</b>	-	1,849	-
Accruals and deferred income	<b>16,052</b>	<b>3,159</b>	33,210	1,197
Obligations under finance leases (see note 18)	<b>44</b>	-	108	-
Other creditors including taxation and social security	<b>4,253</b>	<b>1,556</b>	9,356	2,155
Deferred consideration	<b>9,260</b>	-	41,796	41,796
	<b>411,043</b>	<b>356,435</b>	500,721	415,301

**17 Creditors: amounts falling due after more than one year**

	<b>2002</b>		<b>2001</b>	
	<b>Group £'000</b>	<b>Company £'000</b>	<b>Group £'000</b>	<b>Company £'000</b>
Corporation tax	<b>19</b>	-	41	-
Obligations under finance leases (see note 18)	<b>11</b>	-	38	-
Accruals	<b>2,184</b>	-	-	-
	<b>2,214</b>	-	79	-

**18 Obligations under finance leases**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**19 Provision for liabilities and charges**

	<b>2002</b>		<b>2001</b>	
	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Provision for future property costs</b>				
Brought forward	342	-	782	-
Additions in the year	7	60	73	-
Utilised in the year	(250)	(3)	(513)	-
Carried forward	<u>99</u>	<u>57</u>	<u>342</u>	<u>-</u>

This provision relates to deferred rent which is spread over the lease.

**20 Financial commitments**

	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
At 31 December the group had the following commitments for the coming year under non-cancellable operating leases:-		
Expiring in less than one year	679	2,606
Expiring in one to five years	2,009	92
Expiring in more than five years	932	820
	<u>3,620</u>	<u>3,518</u>

**21 Deferred tax**

	<b>Provision and potential (asset)</b>	
	<b>2002</b>	<b>2001</b>
	<b>£'000</b>	<b>£'000</b>
<b>Group</b>		
<b>Tax effect of timing differences</b>		
Excess of tax allowances over depreciation	(1,384)	(408)
Other	(3,517)	(3,519)
	<u>(4,901)</u>	<u>(3,927)</u>
<b>Company</b>		
<b>Tax effect of timing differences</b>		
Excess of tax allowances over depreciation	-	-
Other	-	-
	<u>-</u>	<u>-</u>

No account is taken of deferred tax on profits retained overseas.

The deferred tax asset is disclosed as part of the other debtors balance (see note 14).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**21 Deferred tax - continued**

	Year to 31 December 2002 £'000	Year to 31 December 2001 £'000
<b>Group</b>		
The movement on the deferred tax is as follows:-		
Balance brought forward	(3,927)	(2,813)
Transfer to profit and loss account	(974)	(1,114)
Balance carried forward	<u>(4,901)</u>	<u>(3,927)</u>

**22 Share capital**

	2002 £'000	2001 £'000
<b>Authorised</b>		
73,630,100 ordinary shares of £1.00 each (2001: 50,000,000)	73,630	50,000
	<u>73,630</u>	<u>50,000</u>
<b>Allotted, called up and fully paid</b>		
73,630,100 ordinary shares of £1.00 each (2001: 30,000,100)	73,630	30,000
	<u>73,630</u>	<u>30,000</u>

On 4 November 2002, the company issued 15,000,000 ordinary shares of £1.00 each at par. On 27 December 2002, the company increased its authorised share capital from £50,000,000 to £73,630,100 by the creation of an additional 23,630,100 ordinary shares of £1.00 each. On the same day, the company issued 28,630,000 ordinary shares of £1.00 each at par.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 – continued**

**23 Reserves**

<b>Group</b>	<b>Share premium account £'000</b>	<b>Other reserve £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
At 1 January 2002	20,587	11,630	(20,952)	11,265
Transfer of reserve due to liquidation of subsidiary	-	(14,579)	14,579	-
Exchange movement	-	287	(419)	(132)
Retained (deficit) for year	-	-	(21,706)	(21,706)
At 31 December 2002	20,587	(2,662)	(28,498)	(10,573)

<b>Company</b>	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
At 1 January 2002	20,587	(4,424)	16,163
Retained (deficit) for the year	-	(13,351)	(13,351)
At 31 December 2002	20,587	(17,775)	2,812

**24 Reconciliation of movement in shareholders' funds**

	<u><b>31 December 2002</b></u>		<u><b>31 December 2001</b></u>
	<u><b>Group</b></u>	<u><b>Company</b></u>	<u><b>Group</b></u>
	£'000	£'000	£'000
(Loss) for the year	(21,706)	(13,351)	(10,376)
Exchange (loss)/profit on translation	(132)	-	165
Issue of shares	43,630	43,630	30,000
Net addition to shareholders' funds	21,792	30,279	19,789
Opening shareholders' funds	41,265	46,163	21,476
Closing shareholders' funds	63,057	76,442	41,265

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**25 Goodwill**

The cumulative amount of goodwill resulting from acquisitions which has been written off is set out below:

	2002 £'000	2001 £'000
Brought forward	10,051	1,800
Written off in the year	<u>12,850</u>	<u>8,251</u>
Carried forward	<u><u>22,901</u></u>	<u><u>10,051</u></u>

**26 Related party transactions**

The Newton 1991 Pension Fund invests in unit trusts managed by a Group company. During the year to 31 December 2002 the Newton 1991 Pension Fund bought £6,350,083 and sold £2,734,338 of unit trusts managed by that Group company. At 31 December 2002 the value of the units held by the Newton 1991 Pension Fund was **£32,477,404** (2001 - £34,163,720).

**27 Pension obligations**

In the UK the Group operates both a funded defined benefit scheme and a money purchase scheme. Jersey group companies contribute to a defined benefit scheme in Jersey. The group also contributes to Personal Pension Plans held by staff members.

For both the UK and Jersey defined benefit schemes, contributions are determined by a qualified actuary on the basis of triennial valuations, the UK scheme using the projected unit method. For the UK scheme, the actuary is an employee of the group. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

The most recent valuation of the UK defined benefit scheme was at 1 January 2001. The valuation assumed:

- rate of increase in salaries 5.00% pa
- rate of increases to pensions in payment 3.00% pa
- rate of future inflation 2.75% pa
- discount rate for pension liabilities 5.75% pa

Following this valuation the UK defined benefit scheme was shown to have a deficit of £1,576,000. Prepayments required to cover the shortfall in the scheme's assets were made by another group company.

Current assets equivalent is 94.3% of the value of members' full past service benefits. Contributions to the fund were at the rate of 18.5% of pensionable salaries.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**27 Pension obligations - continued**

The total pension contributions to the defined benefit scheme for the year ending 31 December 2003 was £972,248 (2001: £2,073,884) and this was paid over to Mellon Bank NA during 2002.

For the purpose of FRS 17 disclosure requirements for the financial year under review, the valuation was updated to 31 December 2002 by a qualified independent actuary. The assumptions used are:

	At 31/12/02	At 31/12/01
• rate of increase in salaries	5.00% pa	5.00%
• rate of increases to pensions in payment	3.00% pa	3.00%
• rate of future inflation	2.50% pa	2.75%
• discount rate for pension liabilities	5.50% pa	5.75%

The updated valuation is as follows:

	Value as at 31/12/02 £m	Expected Long Term Rate of Returns	Value as at 31/12/01 £m	Expected Long Term Rate of Returns
Equity	17.8	8.00%	21.1	8.50%
Bonds/Gilts	6.1	7.50%	3.7	5.25%
Property	0.3	5.00%	0.2	7.50%
Cash	1.4	3.75%	0.4	4.50%
Total market value of assets	25.6	7.10%	25.4	8.00%
Present value of scheme liabilities	(43.2)		(35.7)	
(Deficit)	(17.6)		(10.3)	
Related deferred tax	5.3			
Net pension liability	(12.3)			

Amounts included within operating profit

	31/12/02 £m
Current service cost	4.8
Past service cost	0.0
Total included within operating profit	4.8

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2002 - continued**

**27 Pension obligations - continued**

Amounts included as other finance income

	31/12/02 £m
Expected return on scheme assets	2.2
Interest cost on scheme liabilities	(2.3)
Net finance (charge)	<u>(0.1)</u>

Amounts included in the statement of total recognised gains and losses (STRGL)

	31/12/02 £m
Difference between actual and expected return on scheme assets	(6.0)
Experience gains arising on scheme liabilities	0.7
Effects of changes in assumptions underlying the present value of scheme liabilities	(2.2)
Actuarial loss recognised in the STRGL	<u>(7.5)</u>

Analysis of the movement in the scheme surplus during the year

	31/12/02 £m
Opening deficit in the scheme	(10.3)
Current service cost	(4.8)
Contributions	5.1
Other finance charge	(0.1)
Actuarial (loss)	(7.5)
Deficit in scheme at year end	<u>(17.6)</u>

The total contributions to the defined contribution scheme for the group for the year ended 31 December 2002 was £4,233,518 (2001 - £4,340,000). At the year end, contributions of £371,088 were payable to the fund (2001: £345,529.11).

**28 Parent company**

As at the 31 December 2002 the immediate parent company was Neptune LLC of 1013 Center Road, Wilmington, Newcastle County, Delaware, 19805, USA. The ultimate parent company is Mellon Financial Corporation, a company incorporated and registered in the United States of America. Copies of the consolidated financial statements of the ultimate parent company can be obtained from The Secretary of the Corporation, One Mellon Center, Room 4826, Pittsburgh, PA 15258-0001, USA