

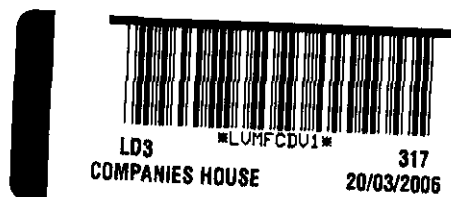
London Diversified Fund Management (UK) Limited

Report and Financial Statements

31 August 2005

 ERNST & YOUNG

447307



London Diversified Fund Management (UK) Limited

Registered No: 04470767

Directors

M B Corbett
D M Gorton
R C Standing

Secretary

Throgmorton Secretaries Limited

Auditors

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

Bankers

Barclays Bank plc
155 Bishopsgate
London
EC2M 3XA

Solicitors

Simmons & Simmons
CityPoint
1 Ropemaker Street
London
EC2Y 9SS

Registered Office

42 Portman Road
Reading
RG30 1EA

 **ERNST & YOUNG**

Directors' report

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

Principal activity

The principal activity of the company is the provision of support services to London Diversified Fund Management LLP, a limited liability partnership whose principal activity is the provision of investment management services. London Diversified Fund Management LLP is authorised and regulated by The Financial Services Authority.

Going concern

The directors intend to continue to provide financial support to the company for the foreseeable future. On this basis, the directors have a reasonable expectation that the company has adequate resources to meet its liabilities as they fall for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Results and dividends

The results for the year are shown in the profit and loss account on page 5. The directors do not propose payment of an ordinary dividend.

Directors

The directors of the company during the year were:

R C Standing
M B Corbett
D M Gorton

No director held any interest in the share capital of the company.

Charitable donations


During the year, the company made various charitable donations totalling £146,745.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

Director


6 March 2006

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report

to the members of London Diversified Fund Management (UK) Limited

We have audited the company's financial statements for the year ended 31 August 2005 which comprise Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, and the related notes 1 to 17. These financial statements have been prepared on the basis of 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 director's remuneration and transactions with the company is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 August 2005 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

6 March 2006

Profit and loss account

for the year ended 31 August 2005

	Notes	2005 £	2004 £
Turnover			
Profit share from London Diversified Fund Management LLP		23,452,290	29,583,021
Expenses reimbursement from London Diversified Management LLP		5,799,683	2,821,913
Other income		4,536	42,351
		<u>29,256,509</u>	<u>32,447,285</u>
Administrative expenses		(29,167,612)	(32,202,045)
Operating profit	3	<u>88,897</u>	<u>245,240</u>
Bank interest receivable		84,562	102,690
Profit on ordinary activities before taxation		<u>173,459</u>	<u>347,930</u>
Taxation on profit on ordinary activities	6	(9,526,498)	(137,165)
(Loss)/profit for the financial year	12	<u>(9,353,039)</u>	<u>210,765</u>

Total statement of total recognised gains and losses

There were no recognised gains or losses in the current or previous year other than those shown in the profit and loss account above.

All amounts are in respect of continuing activities.

Balance sheet

at 31 August 2005

	Notes	2005 £	2004 £
Fixed assets			
Tangible fixed assets	7	703,911	876,114
Investments	8	3,738,847	1,901,000
Employee Benefit Trust	15	52,428,997	51,500,000
		<u>56,871,755</u>	<u>54,277,114</u>
Current assets			
Debtors	9	1,060,013	12,297,789
Cash at bank and in hand		1,121,944	12,944,261
		<u>2,181,957</u>	<u>25,242,050</u>
Creditors: amounts falling due within one year	10	3,841,525	25,251,939
		<u>(1,659,568)</u>	<u>(9,889)</u>
Net current assets/(liabilities)			
		<u>(55,212,187)</u>	<u>54,267,225</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	10	77,583	–
Provisions for liabilities and charges			
Employee Benefit Trust	15	52,428,997	51,500,000
Provision for taxation	15	9,291,421	–
		<u>(6,585,814)</u>	<u>2,767,225</u>
Capital and reserves			
Called up share capital	11	1	1
Profit and loss account	12	(6,585,815)	2,767,224
		<u>(6,585,814)</u>	<u>2,767,225</u>
Total shareholders' funds	12	<u>(6,585,814)</u>	<u>2,767,225</u>

Signed on behalf of the Board



Director

March 6 2006

Statement of cash flows

for the year ended 31 August 2005

	Notes	2005 £	2004 £
<i>Net cash (outflow)/inflow from operating activities</i>	13 (a)	(9,687,910)	14,783,480
<i>Returns on investments and servicing of finance</i>	13 (b)	84,562	102,690
<i>Capital expenditure and investing activities</i>	13 (b)	(1,983,892)	(1,937,379)
<i>Taxation</i>		(235,077)	(1,836,264)
<i>(Decrease)/increase in cash</i>	13 (c)	(11,822,317)	11,112,527

Notes to the financial statements

at 31 August 2005

1. Accounting policies

Basis of accounting

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

Tangible fixed assets

All fixed assets are recorded at cost.

Depreciation of fixed assets is calculated to write off their cost or valuation less any residual value over their estimated useful lives as follows:

Computer and office equipment	-	3 years straight line
Motor vehicles	-	5 years straight line
Furniture and fittings	-	4 years straight line
Leasehold improvements	-	5 years straight line

Investments

Investments are held at cost less provision for any permanent diminution in value.

Foreign currencies

Assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at 31 August. All currency differences are taken to the profit and loss account.

Leases and hire purchase contracts

Rentals paid under operating leases are charged to the profit and loss account as incurred. The value of any rent free periods are amortised over the life of the lease.

Deferred tax

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided using the liability method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

2. Turnover

Turnover represents fees received and receivable as service provider to, and corporate member of London Diversified Fund Management LLP. All fees arise in the UK.

Notes to the financial statements

at 31 August 2005

3. Operating profit

	2005	2004
	£	£
Profit on ordinary activities is stated after charging:		
Depreciation of tangible fixed assets (note 7)	318,248	243,128
Auditors' remuneration - audit services	12,000	5,000
- non audit services	18,000	126,191
Operating lease rental - property	52,000	227,641
Foreign exchange losses	41,915	618,584
Contribution to employee bonus pool	11,000,000	25,000,000

4. Staff costs

	2005	2004
	£	£
Wages and salaries	4,517,642	3,197,456
Social security costs	238,505	400,192
Pensions	40,312	232,620
	4,796,459	3,830,268

The average monthly number of employees during the year was as follows:

	2005	2004
	No.	No.
Administration	32	19

5. Directors' emoluments

	2005	2004
	£	£
Emoluments	317,500	317,800

Notes to the financial statements

at 31 August 2005

5. Directors' emoluments (continued)

Employee bonus pool

As disclosed in note 15, the company has provided for a payment of £52,428,997 into an employee bonus pool. The directors are committed to utilising this pool in full. Until such time as an allocation is made, amounts payable to directors are uncertain, and have not been included within directors' emoluments above.

The amounts paid in respect of the highest paid director are as follows:

	2005	2004
	£	£
Emoluments	125,004	79,115

6. Taxation

(a) Tax on profit on ordinary activities:

	2005	2004
	£	£
The tax charge is made up as follows:		
UK corporation tax on profits of the year	210,004	132,415
Adjustments in respect of prior periods	9,316,494	4,750
Total current tax	9,526,498	137,165

(b) Factors affecting the tax charge for the year:

Profit on ordinary activities before taxation	173,459	347,930
Corporation tax at 30% (2004 – 30%)	52,038	104,379
Effect of:		
Disallowed expenses and non taxable income	159,225	35,810
Marginal relief	(1,259)	(7,774)
Adjustments to tax charge in respect of previous periods	9,316,494	4,750
	9,526,498	137,165

(c) Factors that may affect future tax charges:

There is no material unprovided deferred tax.

Notes to the financial statements

at 31 August 2005

7. Tangible fixed assets

	<i>Leasehold improvements</i> £	<i>Furniture and fittings</i> £	<i>Office equipment</i> £	<i>Computer and office equipment</i> £	<i>Motor vehicles</i> £	<i>Total</i> £
Cost:						
At 31 August 2004	371,929	233,928	205,086	297,262	61,340	1,169,545
Additions	–	29,628	29,114	87,303	–	146,045
At 31 August 2005	371,929	263,556	234,200	384,565	61,340	1,315,590
Depreciation:						
At 31 August 2004	65,481	34,367	49,510	120,001	24,072	293,431
Charge for the year	74,386	46,764	72,602	112,459	12,037	318,248
At 31 August 2004	139,867	81,131	122,112	232,460	36,109	611,679
Net book value:						
At 31 August 2005	232,062	182,425	112,088	152,105	25,231	703,911
At 31 August 2004	306,448	199,561	155,576	177,261	37,268	876,114

8. Fixed asset investments

	<i>Unlisted investments</i> £
Cost	
At 31 August 2004	1,901,000
Additions	1,837,847
At 31 August 2005	3,738,847

The investment represents the capital contributions made to London Diversified Fund Management LLP. The company is a member of London Diversified Fund Management LLP. The LLP is controlled by the designated members, which do not include the company, and hence the LLP is not consolidated into these financial statements.

9. Debtors: amounts falling due within one year

	2005 £	2004 £
Amounts due from London Diversified Fund Management LLP	–	11,206,807
Other debtors	283,325	363,764
VAT recoverable	75,052	55,554
Prepayments	233,145	178,100
Corporation tax debtor	468,491	493,564
	1,060,013	12,297,789

Included in other debtors is an amount of £262,554 relating to a rent deposit which is due after more than one year (2004 - £363,764).

Notes to the financial statements

at 31 August 2005

10. Creditors: amounts falling due within one year

	2005	2004
	£	£
Trade creditor	111,644	94,867
Intercompany payable to LLP	3,467,396	—
Accruals	15,240	25,005,000
Corporation tax creditor	210,004	—
Other creditors	37,241	152,072
	<u>3,841,525</u>	<u>25,251,939</u>

Creditors: amounts falling due greater than one year

Other creditors	77,583	—
	<u>77,583</u>	<u>—</u>

11. Called up share capital

	2005	Authorised	2005	Issued and fully paid
	No.	No.	£	2004
				£
Ordinary shares of £1 each	1,000,000	1,000,000	1	1

12. Reconciliation of Shareholders' funds and movements on reserves

	Share capital	Profit and loss account	Total shareholders' funds
	£	£	£
At 31 August 2004	1	2,767,224	2,767,225
Retained loss for the year	—	(9,353,039)	(9,353,039)
At 31 August 2005	<u>1</u>	<u>(6,585,815)</u>	<u>(6,585,814)</u>

13. Notes to statement of cash flows

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2005	2004
	£	£
Operating profit	88,897	245,240
Depreciation	318,248	243,128
Decrease/(increase) in debtors	11,237,776	(10,148,244)
(Decrease)/increase in creditors	(21,332,831)	24,443,356
	<u>(9,687,910)</u>	<u>14,783,480</u>

Notes to the financial statements

at 31 August 2005

13. Notes to statement of cash flows (continued)

(b) Analysis of cash flows for headings netted in the statement of cash flows

	2005 £	2004 £
Returns on investments and servicing of finance:		
Interest received	84,562	102,690
	<u> </u>	<u> </u>
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(146,045)	(937,379)
Payments to acquire fixed asset investments	(1,837,847)	(1,000,000)
	<u>(1,983,892)</u>	<u>(1,937,379)</u>

(c) Analysis of changes in cash

	At 31 August 2004 £	Cash flows £	At 31 August 2005 £
Cash at bank	12,944,261	(11,822,317)	1,121,944
	<u> </u>	<u> </u>	<u> </u>

14. Operating lease commitments

At 31 August 2005 the company was committed to making the following annual payments of operating leases:

	2005 £	2004 £
Leases which expire:		
Greater than five years	223,450	223,450
	<u>223,450</u>	<u>223,450</u>

All of the above commitments relate to land and buildings.

15. Provisions for liabilities and charges

	Employee Benefits Trust £	Corporation tax provision £	Total £
At 1 September 2004	51,500,000	–	51,500,000
Contributions in the year	928,997	–	928,997
Provision in the year	–	9,291,421	9,291,421
At 31 August 2005	<u>52,428,997</u>	<u>9,291,421</u>	<u>61,720,418</u>

Notes to the financial statements

at 31 August 2005

15. Provisions for liabilities and charges (continued)

The Company has established a Corporate Employee Trust for the principal benefit of existing and future employees.

In accordance with FRS 5 'Reporting the substance of the transaction', the company reflected both the rights, an asset of £52,428,997 and an equivalent obligation, in respect of the trust at the period end. The asset has been reflected within investments and the obligation as a provision for liabilities and charges.

The Corporation tax provision relates to corporation tax in respect of employee benefit schemes and associated interest on the overdue corporation tax from previous years.

16. Related party transactions

The company is a member of London Diversified Fund Management LLP, a limited liability partnership registered in England and Wales, whose registered office is 42 Portman Road, Reading, RG30 1EA.

Expense reimbursements and profit share income received from London Diversified Fund Management LLP are disclosed on the face of the profit and loss account. Amounts outstanding at the year end are disclosed in notes 9 and 10.

17. Ultimate parent undertaking and controlling party

The company is a wholly-owned subsidiary of London Diversified Fund Management International Limited, a company incorporated in the Cayman Islands. London Diversified Fund Management International Limited is therefore considered the ultimate parent undertaking and controlling party.