

# **London Diversified Fund Management (UK) Limited**

## **Report and Financial Statements**

31 August 2006



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

## Directors' report

The directors present their report and the audited financial statements for the year ended 31 August 2006

### 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.

### Results and dividends

The results for the year are shown in the profit and loss account on page 6. 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 £561,750.

### Statement as to disclosure of information to auditors


So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. The directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information.

### 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

 25/5/7

## **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 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 19. 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we 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.

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

### **Basis of audit opinion**

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

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

### **Opinion**

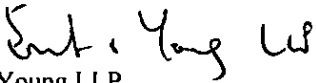
In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 August 2006 and of its profit for the year then ended,

## **Independent auditors' report**

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

- 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



## Profit and loss account

for the year ended 31 August 2006

	Notes	2006 £	2005 £
<b>Turnover</b>			
Profit share from London Diversified Fund Management LLP		17,250,000	23,452,290
Expenses reimbursement from London Diversified Management LLP		4,601,494	5,799,683
Other income		1,853,393	4,536
		<u>23,704,887</u>	<u>29,256,509</u>
Administrative expenses		(10,184,688)	(29,167,612)
<b>Operating profit</b>	3	<u>13,520,199</u>	<u>88,897</u>
Bank interest receivable		206,849	84,562
Interest payable	6	(85,522)	-
<b>Profit on ordinary activities before taxation</b>		<u>13,641,526</u>	<u>173,459</u>
Taxation on profit on ordinary activities	7	(4,331,324)	(9,526,498)
<b>Profit/(loss) for the financial year</b>	14	<u><u>9,310,202</u></u>	<u><u>(9,353,039)</u></u>

All amounts are in respect of continuing activities

### 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

## Balance sheet

at 31 August 2006

	Notes	2006 £	2005 £
<b>Fixed assets</b>			
Tangible fixed assets	8	3,716,905	703,911
Investments	9	18,350,698	3,738,847
Employee Benefit Trust	17	60,203,873	52,428,997
		<u>82,271,476</u>	<u>56,871,755</u>
<b>Current assets</b>			
Debtors	10	7,413,205	1,060,013
Cash at bank and in hand		3,303,458	1,121,944
		<u>10,716,663</u>	<u>2,181,957</u>
<b>Creditors</b> amounts falling due within one year	11	20,768,457	3,841,525
<b>Net current liabilities</b>		<u>(10,051,794)</u>	<u>(1,659,568)</u>
<b>Total assets less current liabilities</b>		<u>72,219,682</u>	<u>55,212,187</u>
<b>Creditors</b> amounts falling due after more than one year	11	-	77,583
<b>Provisions for liabilities and charges</b>			
Employee Benefit Trust	17	60,203,873	52,428,997
Provision for taxation	17	9,291,421	9,291,421
		<u>2,724,388</u>	<u>(6,585,814)</u>
<b>Capital and reserves</b>			
Called up share capital	13	1	1
Profit and loss account	14	2,724,387	(6,585,815)
<b>Total shareholders' funds</b>	14	<u>2,724,388</u>	<u>(6,585,814)</u>

Signed on behalf of the Board

 25/5/7

Director



## Statement of cash flows

for the year ended 31 August 2006

	Notes	2006 £	2005 £
<b>Net cash inflow/(outflow) from operating activities</b>	15 (a)	24,804,744	(9,687,910)
<b>Returns on investments and servicing of finance</b>	15 (b)	121,327	84,562
<b>Capital expenditure and investing activities</b>	15 (b)	(18,413,233)	(1,983,892)
<b>Taxation</b>		(4,331,324)	(235,077)
<b>Increase/(decrease) in cash</b>	15 (c)	2,181,514	(11,822,317)

## Notes to the financial statements

at 31 August 2006

### 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 2006

### 3. Operating profit

	2006	2005
	£	£
Profit on ordinary activities is stated after charging		
Depreciation of tangible fixed assets (note 8)	673,017	318,248
Loss on disposal on tangible fixed assets	96,815	-
Auditors' remuneration - audit services	14,000	12,000
- non audit services	-	18,000
Operating lease rental - property	896,140	52,000
Foreign exchange losses	119,395	41,915
Contribution to employee bonus pool	7,774,876	11,000,000

### 4. Staff costs

	2006	2005
	£	£
Wages and salaries	3,580,914	4,517,642
Social security costs	322,905	238,505
Pensions	100,320	40,312
	4,004,139	4,796,459

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

	2006	2005
	No	No
Administration	41	32

### 5. Directors' emoluments

	2006	2005
	£	£
Emoluments	317,500	317,500

#### Employee bonus pool

As disclosed in note 17, the company has provided for a payment of £60,203,873, 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

	2006	2005
	£	£
Emoluments	125,004	125,004

## Notes to the financial statements

at 31 August 2006

### 6. Interest payable

	2006	2005
Interest due on unpaid tax	85,522	-

### 7. Taxation

#### (a) Tax on profit on ordinary activities

	2006 £	2005 £
The tax charge is made up as follows		
UK corporation tax on profits of the year	9,065,234	210,004
Adjustments in respect of prior periods	(14,476)	9,316,494
Total current tax	9,050,758	9,526,498
Deferred tax		
Origination and reversal of timing differences	(4,719,434)	-
Tax on profits on ordinary activities	4,331,324	9,526,498

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

Profit on ordinary activities before taxation	13,641,526	173,459
Corporation tax at 30% (2005 – 30%)	4,092,458	52,038
Effect of		
Disallowed expenses and non taxable income	253,342	159,225
Marginal relief	-	(1,259)
Adjustments to tax charge in respect of previous periods	(14,476)	9,316,494
Other short term timing differences	4,719,434	-
	9,050,758	9,526,498

#### (c) Factors that may affect future tax charges

There is no material unprovided deferred tax

## Notes to the financial statements

at 31 August 2006

### 8. 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 2005	371,929	263,556	234,200	384,565	61,340	1,315,590
Additions	1,790,842	1,071,173	755,725	281,736	-	3,899,476
Disposals	(371,929)	-	-	-	-	(371,929)
At 31 August 2006	1,790,842	1,334,729	989,925	666,301	61,340	4,843,137
Depreciation						
At 31 August 2005	139,867	81,131	122,112	232,460	36,109	611,679
Charge for the year	158,008	115,538	247,417	140,016	12,038	673,017
Elimination on disposal	(158,464)	-	-	-	-	(158,464)
At 31 August 2006	139,411	196,669	369,529	372,476	48,147	1,126,232
Net book value						
At 31 August 2006	1,651,431	1,138,060	620,396	293,825	13,193	3,716,905
At 31 August 2005	232,062	182,425	112,088	152,105	25,231	703,911

### 9. Fixed asset investments

	<i>Unlisted investments</i>
	£
Cost	
31 August 2005	3,738,847
Additions	14,630,407
Revaluation for exchange rate variances	(18,556)
At 31 August 2006	18,350,698

Included within investments is the capital contributions made to London Diversified Fund Management LLP of £11,681,000. The company is a member of London Diversified Fund Management LLP. The LLP is controlled by the designated members, who do not include the company, and hence the LLP is not consolidated into these financial statements.

Also included within investments are investments totalling £6,331,407 in London Diversified Fund Limited and London Select Fund Limited, both funds managed by London Diversified Fund Management LLP. The company is a member of London Diversified Fund Management LLP. The LLP is controlled by the designated members, who do not include the company, and hence the LLP is not consolidated into these financial statements.

## Notes to the financial statements

at 31 August 2006

### 10. Debtors: amounts falling due within one year

	2006 £	2005 £
Other debtors	1,506,586	283,325
VAT recoverable	120,036	75,052
Prepayments	441,907	233,145
Deferred rental income	142,076	-
Corporation tax debtor	483,166	468,491
Deferred tax	4,719,434	-
	<u>7,413,205</u>	<u>1,060,013</u>

Included in other debtors is an amount of £1,015,755 relating to rent deposits which are due after more than one year (2005 - £262,554)

### 11. Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditor	430,457	111,644
Intercompany payable to LLP	10,199,530	3,467,396
Accruals	92,522	15,240
Corporation tax creditor	9,065,234	210,004
Other creditors	980,714	37,241
	<u>20,768,457</u>	<u>3,841,525</u>

### Creditors: amounts falling due greater than one year

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

### 12. Provision for deferred tax

	£
Provision at 31 August 2005	-
Deferred tax charge in profit and loss account (note 7(a))	(4,719,434)
Provision at 31 August 2006	<u>(4,719,434)</u>

### 13. Called up share capital

	2006 No	Authorised 2005 No	2006 £	Issued and fully paid 2005 £
Ordinary shares of £1 each	1,000,000	1,000,000	1	1
	<u>1,000,000</u>	<u>1,000,000</u>	<u>1</u>	<u>1</u>

## Notes to the financial statements

at 31 August 2006

### 14. Reconciliation of Shareholders' funds and movements on reserves

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	£	£	£
At 31 August 2005	1	(6,585,815)	(6,585,814)
Retained profit for the year	-	9,310,202	9,310,202
At 31 August 2006	1	2,724,387	2,724,388

### 15. Notes to statement of cash flows

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

	<i>2006</i>	<i>2005</i>
	£	£
Operating profit	13,520,199	88,897
Depreciation on tangible fixed assets	673,017	318,248
Loss on sale of tangible fixed assets	96,815	-
Unrealised foreign exchange loss on fixed asset investments	18,556	-
(Increase)/decrease in debtors	(6,353,192)	11,237,776
Increase/(decrease) in creditors	16,849,349	(21,332,831)
	24,804,744	(9,687,910)

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

	<i>2006</i>	<i>2005</i>
	£	£
<b>Returns on investments and servicing of finance.</b>		
Interest received	206,849	84,562
Interest paid	(85,522)	-
	121,327	84,562
<b>Capital expenditure and financial investment.</b>		
Payments to acquire tangible fixed assets	(3,899,476)	(146,045)
Sale of tangible fixed assets	116,650	-
Payments to acquire fixed asset investments	(14,630,407)	(1,837,847)
	(18,413,233)	(1,983,892)

#### (c) Analysis of changes in cash

	<i>At 31 August 2005</i>	<i>Cash flows</i>	<i>At 31 August 2006</i>
	£	£	£
Cash at bank	1,121,944	2,181,514	3,303,458

## Notes to the financial statements

at 31 August 2006

### 16. Operating lease commitments

At 31 August 2006 the company was committed to making the following annual payments of operating leases

	2006 £	2005 £
Leases which expire		
Greater than five years	1,000,450	223,450
	<u>1,000,450</u>	<u>223,450</u>

All of the above commitments relate to land and buildings

### 17. Provisions for liabilities and charges

	Employee Benefits Trust £	Corporation tax provision £	Total £
At 31 August 2005	52,428,997	9,291,421	61,720,418
Contributions in the year	7,774,876	-	7,774,876
Provision in the year	-	-	-
At 31 August 2006	<u>60,203,873</u>	<u>9,291,421</u>	<u>69,495,294</u>

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 £60,203,873 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.

### 18. 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 10 and 11.

### 19. 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.