

VANGUARD ASSET SERVICES, LIMITED
DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2010

THURSDAY



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Company Number: 7242969

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VANGUARD ASSET SERVICES, LIMITED

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VANGUARD ASSET SERVICES, LIMITED

Directors	Richard D Carpenter – Appointed 4 May 2010 Richard C Lohrey– Appointed 4 May 2010, resigned 17 May 2010 Jeffery S Molitor – Appointed 1 July 2010 James M Norris – Appointed 4 May 2010 Thomas M Rampulla – Appointed 4 May 2010 Heidi Stam – Appointed 4 May 2010, resigned 23 November 2010 Richard A Wane – Appointed 4 May 2010
Registered office	Vanguard Asset Services, Ltd 50 Cannon Street London EC4N 6JJ
Registered number	7242969
Auditors	PricewaterhouseCoopers LLP 1 Hay's Lane Hay's Galleria London SE1 2RD
Bankers	HSBC Bank plc Level 37 8 Canada Square London E14 5HQ

VANGUARD ASSET SERVICES, LIMITED

Report of the Directors in respect of the period ended 31 December 2010

The Directors present, herewith, their annual report and the audited financial statements of the individual entity for the period ended 31 December 2010

Principal Activities

The Company was domiciled and incorporated on 4 May 2011 in the United Kingdom to act as a holding Company

Review of operations

The results of the Company for the period ended 31 December 2010, are set out in detail on page 8

Dividends

The directors of the Company recommended that no dividend be paid for the period ended 31 December 2010

Significant changes in the state of affairs

During the period ended 31 December 2010, the Company issued 2 Ordinary Shares to Zealous, Inc Refer to Note 12 for details of the parent entity

During the period ended 31 December 2010, the Company invested £5,000,000 in it's newly created subsidiary Vanguard Asset Management, Ltd (VAM)

In the opinion of the directors there were no other significant changes in the state of the affairs of the Company that occurred during the financial year

Likely developments

The Company will continue to act as a holding Company for the European group

Risk Management Policies

The Company's operations expose it to a number of financial risks which are detailed in note 3 on page 14

The Company maintains a transfer pricing arrangement with The Vanguard Group Inc , ("VGI") for activities which the Company engages in on behalf of VGI, under a Global Service Agreement

This arrangement allows the Company to pass many of the financial risks associated with operations of the business through to its ultimate parent

Indemnities and insurance premiums for officers or auditors

Indemnification

Under the Company's constitution, the directors and officers are indemnified out of the Company's assets for any loss, damage or expense or other liability incurred by him or her in properly performing or excising any of his or her powers, duties or rights in relation to the Company

The Company has not indemnified any auditor of the Company

Insurance premiums

During the financial period, and again since the end of the financial period, the subsidiary Company Vanguard Investments UK, Limited (VIUK) paid its premium for an insurance policy for the benefit of the directors and employees of the Company and related bodies of the Company

The liabilities that are insured are legal costs that might be incurred in defending civil or criminal proceedings that may be brought against the directors and officers in their capacity as directors and

officers of the Company, and any other payments arising from liabilities incurred by the directors and officers in connection with such proceedings

Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital

The Pillar 3 document is available on the Vanguard UK website, www.vanguard.co.uk

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under such legislation the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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

In the case of each director in office at the date the directors' report is approved

(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) the director has taken all the steps that he ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Directors and their interests

The directors serving during the period and up to the date of this report were

Richard D Carpenter
Jeffery S Molitor
James M Norris
Thomas M Rampulla
Richard A Wane

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next annual general meeting

Signed on behalf of the board of directors

Director  RICHARD WANE
Date: 18 APRIL 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VANGUARD ASSET SERVICES, LIMITED

We have audited the consolidated financial statements of Vanguard Asset Services, Limited (the "Company") for the period ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Shareholders' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: (a) whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, (b) the reasonableness of significant accounting estimates made by the directors, and (c) the overall presentation of the financial statements.

Opinion on financial statements

In our opinion, the consolidated financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit and cash flows for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the consolidated financial statements are prepared is consistent with the consolidated financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter

We have reported separately on the parent company financial statements of Vanguard Asset Services, Limited for the period ended 31 December 2010

Andrew Moore

Andrew Moore (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

18/4/2011

VANGUARD ASSET SERVICES, LIMITED

Consolidated Statement of Comprehensive Income For the period ended 31 December 2010

		For the period 4 May 2010 (inception) through 31 December 2010
	Note	£
Continuing operations		
Revenue	4	<u>29,107</u>
Gross profit		<u>29,107</u>
Administrative expenses	5	<u>(27,076)</u>
Operating Profit		<u>2,031</u>
Profit before income tax		2,031
Income tax expense	6	<u>(426)</u>
Profit for the year		<u><u>1,605</u></u>

The notes on pages 12 through 18 are an integral part of these financial statements

Company Number: 7242969

VANGUARD ASSET SERVICES, LIMITED

Consolidated Statement of Financial Position at 31 December 2010

	Note	31-Dec-10 £
Assets		
Current assets		
Trade and Other Receivables	7	24,037
Cash at Bank		<u>5,999,994</u>
		<u>6,024,031</u>
Total Assets		<u><u>6,024,031</u></u>
Equity and Liabilities		
Shareholders' equity		
Ordinary shares	9	2
Share premium	9	5,999,998
Retained earnings	10	<u>1,605</u>
Total equity		<u>6,001,605</u>
Liabilities		
Current Liabilities		
Payables	8	22,000
Income Tax Payable	8	<u>426</u>
Total liabilities		<u>22,426</u>
Total equity and liabilities		<u><u>6,024,031</u></u>

The financial statements on pages 8 through 18 were approved by the board of directors and were signed on its behalf by:

Director  RICHARD WANE

Date 18 APRIL 2011

The notes on pages 12 through 18 are an integral part of these financial statements

VANGUARD ASSET SERVICES, LIMITED

Consolidated Cash Flow Statement For the period ended 31 December 2010

		For the period 4 May 2010 (inception) through 31 December 2010 £
	Note	
Cash flows from operating activities		
Cash used in operations	11	(6)
Taxation Paid		-
Net cash used in operating activities		<u>(6)</u>
Cash flows from financing activities		
Proceeds from issue of share capital		<u>6,000,000</u>
Net Cash generated from financing activities		<u>6,000,000</u>
Net increase in cash and cash equivalents*		<u>5,999,994</u>
Opening cash and cash equivalents		-
Closing cash and cash equivalents		<u><u>5,999,994</u></u>

* Cash and cash equivalents consist only of cash balances

The notes on pages 12 through 18 are an integral part of these financial statements

VANGUARD ASSET SERVICES, LIMITED

Consolidated Statement of changes in Shareholders' Equity For the period ended 31 December 2010

	Share Capital £	Share Premium £	Retained Earnings £	Total Equity £
Balance at 1 January 2010	-	-	-	-
Comprehensive income				
Profit for the year	-	-	1,605	1,605
Other Comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	1,605	1,605
Capital contribution	2	5,999,998	-	6,000,000
Balance at 31 December 2010	2	5,999,998	1,605	6,001,605

The notes on pages 12 through 18 are an integral part of these financial statements

VANGUARD ASSET SERVICES, LIMITED

Notes to the Consolidated Financial Statements

For the period ended 31 December 2010

1. Principal Accounting Policies

The principal accounting policies and estimation techniques applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared on a going concern basis in accordance with the IFRS as issued by the International Accounting Standards Board (IASB) in force at 31 December 2010 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) in force at 31 December 2010.

After making enquiries, the directors have a reasonable expectation the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

(b) Basis of measurement

The financial statements are prepared under the historical cost convention.

(c) Functional and presentation currency

These financial statements are presented in Pounds Sterling, which is the Company's functional currency. All financial information presented in Pounds Sterling has also been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(e) Foreign Currencies

Income and expenditure expressed in foreign currencies are translated into Pounds Sterling at the average monthly exchange rate in which the transactions are recorded. Differences arising on translation are included in the results for the period.

Assets and liabilities expressed in foreign currencies are translated into Pounds Sterling at rates of exchange ruling at the Balance Sheet date. Differences arising on translation are included in the results for the period.

VANGUARD ASSET SERVICES, LIMITED

Notes to the Consolidated Financial Statements (continued)

For the period ended 31 December 2010

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, on demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value. Under IFRS cash and cash equivalents are included in the cash flow statement.

(g) Revenue

Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Company's activities. The Company collects revenue from VGI and certain investment accounts in its region ("United Kingdom").

In consideration for services the Company provides as a contractual investment manager of third party accounts in the United Kingdom and otherwise to VGI, VGI ensures that the Company receives revenue equal to its expenses plus 7.5%, taking into account any revenue the Company collects from these accounts. An agreement between the Company and VGI sets forth these payment arrangements and provides that all portfolio management and other activities (except certain client support services) for these accounts are sub-contracted to VGI.

Revenue is recognised in the period in which the services are rendered.

(h) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the United Kingdom where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(i) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries, Vanguard Asset Management Limited. A subsidiary is defined as an entity controlled by the company. Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(j) Financial instruments

The Company's financial instruments are comprised of cash in a non-interest bearing account and receivables and payables balances that arise from its daily operations. All cash accounts are shown at their fair market value. The Company's risk exposure is discussed in Note 3.

VANGUARD ASSET SERVICES, LIMITED

Notes to the Consolidated Financial Statements (continued)

For the period ended 31 December 2010

2. Changes in accounting policy and disclosures

New and amended standards adopted by the Company

The following standard and amendment to existing standards have been published and are mandatory for the Company accounting periods beginning on or after 1 January 2010 or later periods

IAS 1 (amendment), 'Presentation of financial statements' The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

3. Financial Risk Management

The financial instruments held by the Company expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange, and ageing analysis for credit risk.

(a) Market Risk

(i) Foreign exchange risk

The Company is exposed to minimal foreign exchange risk arising from various currency exposures, primarily with the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Management have assessed that the foreign exchange risk does not represent a significant risk to the Company.

(ii) Interest rate risk

The Company's exposure to interest rate risk is limited to the cash and cash equivalent accounts. The risk is managed by the Company maintaining the cash and cash equivalent accounts in on demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to minimal changes in value. The Management have assessed that the interest rate risk does not represent a significant risk to the Company.

(b) Credit Risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as credit exposure to wholesale and retail customers including outstanding receivables and committed transactions. Credit risk is considered to be minimal, given the nature of the transactions.

VANGUARD ASSET SERVICES, LIMITED

Notes to the Consolidated Financial Statements (continued)

For the period ended 31 December 2010

3. Financial Risk Management (continued)

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, to meet the obligations associated with financial liabilities. The Company manages liquidity risk by continuously monitoring forecasts and actual cash flows. The Company maintains significant liquid financial assets which are sufficient to meet projected liabilities and cash flow obligations. The liquidity risk exposure is considered to be minimal.

4. Operating Income - Continuing Operations

	Period ended 31-Dec-10 £
Administrative Service Fees	29,107
Total Revenue	<u>29,107</u>

5. Operating Expenses

	Period ended 31-Dec-10 £
Management Company Audit Fees	22,000
Fund Legal Fees	5,070
Miscellaneous fees	6
	<u>27,076</u>

VANGUARD ASSET SERVICES, LIMITED

Notes to the Consolidated Financial Statements (continued)

For the period ended 31 December 2010

6. Income Tax Expense

	For The Period ended 31-Dec-10 £
(a) Current Tax Charge	
Current period	426
Total	426
Deferred Tax Charge	
Current period	-
Total	-
Total Tax charge in period	426
(b) Factors affecting current tax	
Profits on ordinary activities before tax	2,031
Profits on ordinary activities at UK corporation tax rate of 21%*	426
Effects of	
Expenses not deductible for tax purposes	-
Adjustments to tax change in respect of previous periods	-
Total Taxation	426

*The charge for tax is based upon the UK small company marginal group relief rate of 21%

Vanguard Asset Services, Ltd and its subsidiary Vanguard Asset Management, Ltd were incorporated in May 2010. The consolidated operating profits and tax charge are recorded in the consolidated financial statements for the short accounting period ended December 31, 2010.

7. Trade and Other Receivables

	2010 £
Inter-company receivable	24,037
Current Portion	24,037

All financial assets listed above are non-interest bearing. The carrying amount of the financial assets listed above approximates their fair value.

8. Payables

	2010 £
Accruals	22,000
Income Tax Payable	426
	22,426

VANGUARD ASSET SERVICES, LIMITED

Notes to the Consolidated Financial Statements (continued)

For the period ended 31 December 2010

9. Ordinary Shares

	Share Capital 2010 £	Share Premium 2010 £
Allotted and Fully Paid - ordinary shares of £1 each		
On issue at 4 May 2010	1	-
Issued during the period	1	5,999,998
Balance at 31 December 2010	2	5,999,998

During the period ended 31 December 2010, 2 Ordinary shares were issued to Zealous, Inc for £1 each with a share premium of £5,999,998

10. Retained Earnings

	2010 £
Balance at 4 May 2010	-
Retained profit for the period	1,605
Balance at 31 December 2010	1,605

11. Reconciliation of operating profit to net cash inflow from operating activities

	2010 £
Profit before tax	2,031
Adjustments for	
Increase in trade and other receivables	(24,037)
Increase in trade and other payables	22,426
Increase in taxes payable	(426)
Cash used in operations	(6)

12. Holding Company

The Company is a wholly owned subsidiary of Zealous, Inc which is incorporated in the United States and is privately held. Vanguard Asset Services Limited and Zealous, Inc financial statements are consolidated as part of The Vanguard Group Inc, the ultimate parent company.

VANGUARD ASSET SERVICES, LIMITED

Notes to the Consolidated Financial Statements (continued)

For the period ended 31 December 2010

13. Related Party Transactions

The Company has entered into a transfer pricing arrangement with The Vanguard Group Inc which allows it to be reimbursed at cost plus 7.5% for expenses. This arrangement allows the Company to pass many of the financial risks associated with operations of the business through to the parent. The Company's Administrative Service Fee is discussed in Note 4.

At 31 December 2010 the company has the following intercompany receivable (payable) balance for fees in accordance with the Global Service Agreement by

The Vanguard Group Inc £29,950

The Company acquired 2 ordinary shares of Vanguard Asset Management, Limited, a wholly owned subsidiary, in return for £5,000,000 during the period ended 31 December 2010.

During the period, sister subsidiary Vanguard Investments UK, Limited incurred administrative expenses of £5,035 on the behalf of the Company and VAM. This amount remained payable at 31 December 2010.

14. Directors' emoluments

Emoluments of the directors of the Group were as follows

	2010
	£
Directors' emoluments	-

15. Events after the reporting period

On 1 January 2011, £5,200,000 of allotted share capital of Vanguard Investments UK, Limited was transferred from Zealous, Inc to the Company for no consideration.

VANGUARD ASSET SERVICES, LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2010

Company Number: 7242969

VANGUARD ASSET SERVICES, LIMITED

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VANGUARD ASSET SERVICES, LIMITED

Directors	Richard D Carpenter – Appointed 4 May 2010 Richard C Lohrey – Appointed 4 May 2010 resigned 17 May 2010 Jeffery S Molitor – Appointed 1 July 2010 James M Norris – Appointed 4 May 2010 Thomas M Rampulla – Appointed 4 May 2010 Heidi Stam – Appointed 4 May 2010 resigned 23 November 2010 Richard A Wane – Appointed 4 May 2010
Registered office	Vanguard Asset Services Ltd 50 Cannon Street London EC4N 6JJ
Registered number	7242969
Auditors	PricewaterhouseCoopers LLP 1 Hay's Lane Hay's Galleria London SE1 2RD
Bankers	HSBC Bank plc Level 37 8 Canada Square London E14 5HQ

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Significant changes in the state of affairs

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During the period ended 31 December 2010, the Company invested £5,000,000 in its newly created subsidiary Vanguard Asset Management, Ltd (VAM)

In the opinion of the directors there were no other significant changes in the state of the affairs of the Company that occurred during the financial year

Likely developments

The Company will continue to act as a holding Company for the European group

Risk Management Policies

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Indemnities and insurance premiums for officers or auditors

Indemnification

Under the Company's constitution, the directors and officers are indemnified out of the Company's assets for any loss, damage or expense or other liability incurred by him or her in properly performing or exercising any of his or her powers, duties or rights in relation to the Company

The Company has not indemnified any auditor of the Company

Insurance premiums

During the financial period, and again since the end of the financial period, the Company's subsidiary Vanguard Investments UK, Ltd paid its premium for an insurance policy for the benefit of the directors and employees of the Company and related bodies of the Company

The liabilities that are insured are legal costs that might be incurred in defending civil or criminal proceedings that may be brought against the directors and officers in their capacity as directors and

officers of the Company and any other payments arising from liabilities incurred by the directors and officers in connection with such proceedings

Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital

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- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
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In the case of each director in office at the date the directors' report is approved

(a) so far as the director is aware there is no relevant audit information of which the Company's auditors are unaware and

(b) the director has taken all the steps that he ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Directors and their interests


The directors serving during the period and up to the date of this report were

Richard D. Carpenter
Jeffery S. Molitor
James M. Norris
Thomas M. Rampulla
Richard A. Wane

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next annual general meeting.

Signed on behalf of the board of directors

Director  RICHARD WANE
Date 18 APRIL 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VANGUARD ASSET SERVICES, LIMITED

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Respective responsibilities of directors and auditors

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This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: (a) whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; (b) the reasonableness of significant accounting estimates made by the directors; and (c) the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit and cash flows for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

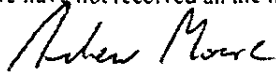
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit



Andrew Moore (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

18/4/2011

VANGUARD ASSET SERVICES, LIMITED

The Statement of Comprehensive Income For the period ended 31 December 2010

		For the period 4 May 2010 (inception) through 31 December 2010
	Note	£
Continuing operations		
Revenue	1	<u>15,094</u>
Gross profit		<u>15,094</u>
Administrative expenses	5	<u>(14,041)</u>
Operating Profit		<u>1,053</u>
Profit before income tax		<u>1,053</u>
Income tax expense	6	<u>(221)</u>
Profit for the year		<u><u>832</u></u>

The notes on pages 12 through 18 are an integral part of these financial statements

Company Number: 7242969

VANGUARD ASSET SERVICES, LIMITED

Statement of Financial Position at 31 December 2010

	Note	31-Dec-10 £
Assets		
Non-current assets		
Long Term Investment in Subsidiary	14	<u>5 000 000</u> <u>5,000 000</u>
Current assets		
Trade and Other Receivables	7	15,059
Cash at Bank		<u>999 994</u> <u>1 015 053</u>
Total Assets		<u><u>6 015 053</u></u>
Equity and Liabilities		
Shareholders' equity		
Ordinary shares	9	2
Share Premium	9	5 999,998
Retained Earnings	10	<u>832</u>
Total equity		<u><u>6 000,832</u></u>
Liabilities		
Current Liabilities		
Payables	8	14,000
Income Tax Payable	8	<u>221</u>
Total liabilities		<u><u>14 221</u></u>
Total equity and liabilities		<u><u>6 015,053</u></u>

The financial statements on pages 8 through 18 were approved by the board of directors and were signed on its behalf by

Director  **RICHARD WANE**

Date **12 APRIL 2011**

The notes on pages 12 through 18 are an integral part of these financial statements

VANGUARD ASSET SERVICES, LIMITED

Cash Flow Statement

For the period ended 31 December 2010

	Note	For the period 4 May 2010 (inception) through 31 December 2010 £
Cash flows from operating activities		
Cash used in operations		(6)
Taxation Paid		
Net cash used in operating activities	11	<u>(6)</u>
Cash flows from investing activities		
Long Term Investment in Subsidiary		(5 000 000)
Net cash used in investing activities		<u>(5 000 000)</u>
Cash flows from financing activities		
Proceeds from issue of share capital		6 000 000
Net Cash generated from financing activities		<u>6,000,000</u>
Net increase in cash and cash equivalents*		999.994
Opening cash and cash equivalents		-
Closing cash and cash equivalents		<u><u>999 994</u></u>

* Cash and cash equivalents consist only of cash balances

The notes on pages 12 through 18 are an integral part of these financial statements

VANGUARD ASSET SERVICES, LIMITED

Statement of changes in Shareholders' Equity For the period ended 31 December 2010

	Share Capital £	Share Premium £	Retained Earnings £	Total Equity £
Balance at 1 January 2010	-	-	-	-
Comprehensive income				
Profit for the year	-	-	832	832
Other Comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	832	832
Capital contribution	2	5,999,998	-	6,000,000
Balance at 31 December 2010	2	5,999,998	832	6,000,832

The notes on pages 12 through 18 are an integral part of these financial statements

VANGUARD ASSET SERVICES, LIMITED

Notes to the Financial Statements

For the period ended 31 December 2010

1 Principal Accounting Policies

The principal accounting policies and estimation techniques applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared on a going concern basis in accordance with the IFRS as issued by the International Accounting Standards Board (IASB) in force at 31 December 2010 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) in force at 31 December 2010.

After making enquiries, the directors have a reasonable expectation the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

(b) Basis of measurement

The financial statements are prepared under the historical cost convention.

(c) Functional and presentation currency

These financial statements are presented in Pounds Sterling, which is the Company's functional currency. All financial information presented in Pounds Sterling has also been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(e) Foreign Currencies

Income and expenditure expressed in foreign currencies are translated into Pounds Sterling at the average monthly exchange rate in which the transactions are recorded. Differences arising on translation are included in the results for the period.

Assets and liabilities expressed in foreign currencies are translated into Pounds Sterling at rates of exchange ruling at the Balance Sheet date. Differences arising on translation are included in the results for the period.

VANGUARD ASSET SERVICES, LIMITED

Notes to the Financial Statements (continued)

For the period ended 31 December 2010

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand on demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value. Under IFRS cash and cash equivalents are included in the cash flow statement.

(g) Revenue

Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Company's activities. The Company collects revenue from VGI and certain investment accounts in its region (United Kingdom).

In consideration for services the Company provides as a contractual investment manager of third party accounts in the United Kingdom and otherwise to VGI, VGI ensures that the Company receives revenue equal to its expenses plus 7.5%, taking into account any revenue the Company collects from these accounts. An agreement between the Company and VGI sets forth these payment arrangements and provides that all portfolio management and other activities (except certain client support services) for these accounts are sub-contracted to VGI.

Revenue is recognised in the period in which the services are rendered.

(h) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the United Kingdom where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(i) Financial instruments

The Company's financial instruments are comprised of cash in a non-interest bearing account and receivables and payables balances that arise from its daily operations. All cash accounts are shown at their fair market value. The Company's risk exposure is discussed in Note 3.

2. Changes in accounting policy and disclosures

New and amended standards adopted by the Company

The following standard and amendment to existing standards have been published and are mandatory for the Company accounting periods beginning on or after 1 January 2010 or later periods.

IAS 1 (amendment) 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

VANGUARD ASSET SERVICES, LIMITED

Notes to the Financial Statements (continued)

For the period ended 31 December 2010

3. Financial Risk Management

The financial instruments held by the Company expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and ageing analysis for credit risk.

(a) Market Risk

(i) Foreign exchange risk

The Company is exposed to minimal foreign exchange risk arising from various currency exposures, primarily with the US dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Management have assessed that the foreign exchange risk does not represent a significant risk to the Company.

(ii) Interest rate risk

The Company's exposure to interest rate risk is limited to the cash and cash equivalent accounts. The risk is managed by the Company maintaining the cash and cash equivalent accounts in on demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to minimal changes in value. The Management have assessed that the interest rate risk does not represent a significant risk to the Company.

(b) Credit Risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as credit exposure to wholesale and retail customers including outstanding receivables and committed transactions. Credit risk is considered to be minimal, given the nature of the transactions.

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, to meet the obligations associated with financial liabilities. The Company manages liquidity risk by continuously monitoring forecasts and actual cash flows. The Company maintains significant liquid financial assets which are sufficient to meet projected liabilities and cash flow obligations. The liquidity risk exposure is considered to be minimal.

VANGUARD ASSET SERVICES, LIMITED

Notes to the Financial Statements (continued)

For the period ended 31 December 2010

4. Operating Income - Continuing Operations

	Period ended 31-Dec-10 £
Administrative Service Fees	15 094
Total Revenue	<u>15 094</u>

5. Operating Expenses

	Period ended 31-Dec-10 £
Management Company Audit Fees	14 000
Bank charges	6
Fund Legal Fees	35
	<u>14 041</u>

VANGUARD ASSET SERVICES, LIMITED**Notes to the Financial Statements (continued)****For the period ended 31 December 2010****6. Income Tax Expense**

	For The Period ended 31-Dec-10 £
(a) Current Tax Charge	
Current period	221
Total	<u>221</u>
Deferred Tax Charge	
Current period	-
Total	<u>-</u>
Total tax charge in period	<u>221</u>
(b) Factors affecting current tax	
Profits on ordinary activities before tax	<u>1 053</u>
Profits on ordinary activities at UK corporation tax rate of 21%*	221
Effects of	
Expenses not deductible for tax purposes	-
Adjustments to tax charge in respect of previous periods	<u>-</u>
Total Taxation	<u>221</u>

*The charge for tax is based upon the UK small company marginal group relief rate of 21%

Vanguard Asset Services Ltd was incorporated in May 2010. The operating profits and tax charge are recorded in the financial statements for the short accounting period ended December 31, 2010.

7. Trade and other receivables

	2010 £
Inter-company receivable	15,059
Current Portion	<u>15 059</u>

All financial assets listed above are non-interest bearing. The carrying amount of the financial assets listed above approximates their fair value.

8. Payables

	2010 £
Accruals	14 000
Income Tax Payable	<u>221</u>
	<u>14,221</u>

VANGUARD ASSET SERVICES, LIMITED

Notes to the Financial Statements (continued)

For the period ended 31 December 2010

9. Ordinary Shares

	Share Capital 2010 £	Share Premium 2010 £
Allotted and Fully Paid - ordinary shares of £1 each		
On issue at 4 May 2010	1	-
Issued during the period	1	5,999,998
Balance at 31 December 2010	2	5,999,998

During the period ended 31 December 2010, 2 Ordinary shares were issued to Zealous Inc for £1 each with a share premium of £5,999,998

10. Retained Earnings

	2010 £
Balance at 4 May 2010	-
Retained profit for the period	832
Balance at 31 December 2010	832

11. Reconciliation of operating profit to net cash inflow from operating activities

	2010 £
Profit before tax	1,053
Adjustments for	
Increase in trade and other receivables	(15,059)
Increase in trade and other payables	14,221
Increase in taxes payable	(221)
Cash used in operations	(6)

12. Holding Company

The Company is a wholly owned subsidiary of Zealous, Inc which is incorporated in the United States and is privately held. Vanguard Asset Services Limited and Zealous Inc financial statements are consolidated as part of The Vanguard Group Inc the ultimate parent company.

VANGUARD ASSET SERVICES, LIMITED

Notes to the Financial Statements (continued)

For the year ended 31 December 2010

13 Related Party Transactions

The Company has entered into a transfer pricing arrangement with The Vanguard Group Inc. which allows it to be reimbursed at cost plus 7.5% for expenses. This arrangement allows the Company to pass many of the financial risks associated with operations of the business through to the parent. The Company's Administrative Service Fee is discussed in Note 4.

At 31 December 2010 the company has the following intercompany receivable (payable) balance for fees in accordance with the Global Service Agreement by

The Vanguard Group Inc. £15,059

The Company acquired 2 ordinary shares of Vanguard Asset Management Limited, a wholly owned subsidiary, in return for £5,000,000 during the period ended 31 December 2010.

During the period, sister subsidiary Vanguard Investments UK, Limited incurred administrative expenses of £35 on the behalf of the Company. This amount remained payable at 31 December 2010.

14. Directors' emoluments

Emoluments of the directors of the Group were as follows:

	2010
	£
Directors' emoluments	-

15. Events after the reporting period

On 1 January 2011 £5,200,000 of allotted share capital of Vanguard Investments UK Limited was transferred from Zealous, Inc to the Company for no consideration.