

Company No. 1998251

MELLON FUND MANAGERS LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2006**

RE-SCAN

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MELLON FUND MANAGERS LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2006

BUSINESS REVIEW

The principal activity of the Company is the management and administration of unit trusts and Investment Companies with Variable Capital (ICVC). In its role, the Company acts as the Authorised Corporate Director (ACD) for such products

The ACD of a fund is responsible for managing and administering the products in accordance with FSA and Treasury Regulations. The ACD may delegate its management and administration functions to third parties including associates subject to the FSA Regulations. Mellon Fund Managers has delegated the investment management of all unit trusts and ICVCs to Newton Investment Management Limited and part of the administration to Mellon Investment Management Solutions. The Board regularly reviews the service levels from these companies to ensure continual delivery of quality to the customer

2006 was a successful year for the company with management fees growing to £150,388,000 (2005 £116,855,000). The principal driver in management fee growth is the increase in fund under management of the Company, which as at 31 December 2006 stands at £12,861 million (2005 £10,804 million). The profit and loss account for the year is set out on page 5. The profit after taxation for the year was £822,000 (2005 £332,000). Ordinary dividends declared during the year amounted to £1,500,000 in respect of the year ended 31 December 2006 (2005 nil). The directors have not proposed a final ordinary dividend in respect of the current financial year (2005 nil). The net assets of the Company as at 31 December 2006 were £11,518,000. The balance sheet is set out on page 6

RISKS

Strategic Risks

The company operates principally in the retail investments market, either directly or through intermediaries. The main strategic risks are external, including a sustained fall in markets, or a change in the structure of the market leading to a need to change the product range that is offered. The main risk limitation is to seek to promote sales of a sufficiently broad range of products and funds while seeking operational efficiencies to contain or reduce costs

Commercial Risks

The main commercial risk is suffering poor long-term performance of the company's investment funds that would make the products unattractive to the market place. The Board regularly reviews the performance of the Company's products to ensure that any deterioration in performance is highlighted and necessary action taken

Operational Risks

The Board reviews operational risks regularly. An Operational Plan for the Company is prepared annually and the Board monitors progress on a quarterly basis against that plan. The operations of the company and associated companies that provide Investment Management and Administration services are subject to periodic reviews by the Risk and Compliance Committee as well as periodic Internal Audit review

FUTURE DEVELOPMENTS

During 2007 the Company will aim to continue momentum in Funds Under Management growth through launching new products and servicing existing clients

MELLON FUND MANAGERS LIMITED

DIRECTORS' REPORT – Continued

FUTURE DEVELOPMENTS – Continued

Following the announcement in December 2006, Bank of New York is due to merge with Mellon Financial Corporation effective 1st July 2007. Whilst it is not currently envisaged that there will be a direct impact on the Company as a result of this acquisition, this transaction will increase the array of Mellon Asset Management products available to the Company for distribution.

DIRECTORS AND DIRECTORS' INTERESTS

The directors in office during the year and to the date of this report were as follows

M Allpress

J M Little (resigned 15th January 2007)

G A Brisk

A Mearns

M G Rayward

I Harvey (appointed 8th February 2007)

None of the directors who held office at the end of the financial period have any disclosable interest in the shares of the Company.

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Company made no charitable or political contributions during the year (2005 £0).

REGISTERED OFFICE

Mellon Financial Centre, 160 Queen Victoria Street, London, EC4V 4LA

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

By resolutions dated 6 July 1995, the members of the Company adopted an elective regime in accordance with Sections 366A, 252 and 386 of the Companies Act 1985 dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the Company in general meetings and reappointing auditors annually.

The last resolution will lead to the continuing appointment of KPMG Audit Plc as auditors of the Company until further notice.

By order of the board



Director

30.4.07

MELLON FUND MANAGERS LIMITED
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 that law they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

MELLON FUND MANAGERS LIMITED

Independent auditors' report to the members of Mellon Fund Managers Limited

We have audited the financial statements of Mellon Fund Managers Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page

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 UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- 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.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

30 April 2007

MELLON FUND MANAGERS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

		<u>Year to</u> <u>31 December</u> <u>2006</u> £'000	<u>Year to</u> <u>31 December</u> <u>2005</u> £'000
	<u>Notes</u>		
Revenue	2	7,352	7,246
Administrative expenses		(7,862)	(7,825)
Operating loss	3	(510)	(579)
Interest receivable	5	1,690	1,068
Interest payable	6	(7)	(21)
Profit on ordinary activities before taxation		1,173	468
Tax on profit on ordinary activities	7	(351)	(136)
Profit for the year		822	332

Revenue and operating profit relate solely to continuing operations

The Company has not prepared a statement of total recognised gains and losses as all gains and losses are reflected in the profit and loss account

Notes 1 to 14 form part of these financial statements

MELLON FUND MANAGERS LIMITED

BALANCE SHEET
AT 31 DECEMBER 2006

		<u>31 December</u> <u>2006</u> £'000	<u>31 December</u> <u>2005</u> £'000
	<u>Notes</u>		
CURRENT ASSETS			
Stocks		1,082	928
Debtors	8	52,104	63,466
Cash at bank		5,700	10,658
		<u>58,886</u>	<u>75,052</u>
CREDITORS amounts falling due within one year	9	(47,368)	(62,856)
		<u></u>	<u></u>
NET ASSETS		<u>11,518</u>	<u>12,196</u>
CAPITAL AND RESERVES			
Called-up share capital	10	1,625	1,625
Share Premium account	11	6,000	6,000
Profit and loss account	11	<u>3,893</u>	<u>4,571</u>
SHAREHOLDERS' FUNDS	12	<u>11,518</u>	<u>12,196</u>

Notes 1 to 14 form part of these financial statements

The financial statements on pages 5 to 12 were approved by the board of directors and were signed on its behalf by



Director

30.4.07

MELLON FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2006**

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention and comply with applicable Accounting Standards

REVENUE

Revenue comprises management fees and the gross profit arising from the sale of units and shares after deducting discounts, commissions, stamp duty and other costs. Revenue is accounted for on the accruals basis.

Management fees represent income earned from the provision of fund management and administration services where fees are dependent on the value of funds under management.

STOCKS

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

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

RELATED PARTY DISCLOSURES

The Company is exempt from the requirement of FRS8 'Related Party Disclosures' to disclose transactions with entities that are part of the same group because it is a wholly owned subsidiary of the ultimate parent company, Mellon Financial Corporation, and the consolidated financial statements of that Company are publicly available.

FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

MELLON FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 – continued

2 REVENUE

Revenue arises from management fees charged for the management of unit trusts and open-ended investment companies (OEICS) and the creation and maintenance of a market for the purchase and sale of units and shares

Management fees represent income earned from the provision of fund management and administration services where fees are dependent on the value of funds under management. A further source of revenue is the initial charge on the sale of unit trusts and OEICS which is calculated as a percentage of the value of new units and shares sold and varies with the value of units and shares sold. The Company meets requirements for the purchase or sale of units and shares by the creation and liquidation of units and shares and by dealing as principal.

	<u>Year to</u> <u>31 December</u> <u>2006</u> <u>£'000</u>	<u>Year to</u> <u>31 December</u> <u>2005</u> <u>£'000</u>
Management fees	150,388	116,855*
Gross sale of units and shares	<u>4,175,645</u>	<u>3,236,362</u>
Total turnover	<u>4,326,033</u>	<u>3,353,217</u>
Cost of units and shares	4,088,965	3,149,698
Discounts	82,077	81,726
Commissions and other costs	<u>147,639</u>	<u>114,547*</u>
Total cost of sales	<u>4,318,681</u>	<u>3,345,971</u>
Revenue	<u>7,352</u>	<u>7,246</u>

* £1,130,000 netted off against management fees for the year ended 31 December 2005 was reclassified within commissions and other costs for consistency of presentation with the current year

MELLON FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 – continued

3 OPERATING LOSS

	<u>Year to</u> <u>31 December</u> <u>2006</u> £'000	<u>Year to</u> <u>31 December</u> <u>2005</u> £'000
Operating loss is stated after charging		
Auditors' remuneration - Audit	-	-

The auditors' remuneration for audit and non-audit services for the current year is borne by the parent undertaking. The fee of the Company in respect of the audit of financial statements pursuant to legislation was £23,500 (2005 £23,200) and in respect of other services pursuant to such legislation was £1,000 (2005 £800).

4 STAFF COSTS

The emoluments of the directors for their services as directors of Mellon Fund Managers Limited were borne by fellow group undertakings.

One director exercised share options in the ultimate parent company, Mellon Financial Corporation, during the year (2005 – nil).

The company had no other employees in the period.

5 INTEREST RECEIVABLE

	<u>Year to</u> <u>31 December</u> <u>2006</u> £'000	<u>Year to</u> <u>31 December</u> <u>2005</u> £'000
Interest earned on short term deposits	1,690	1,068
	<u>1,690</u>	<u>1,068</u>

6 INTEREST PAYABLE

	<u>Year to</u> <u>31 December</u> <u>2006</u> £'000	<u>Year to</u> <u>31 December</u> <u>2005</u> £'000
On bank loans and overdrafts	7	21
	<u>7</u>	<u>21</u>

MELLON FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 – continued

7 TAXATION

	<u>Year to</u> <u>31 December</u> <u>2006</u> £'000	<u>Year to</u> <u>31 December</u> <u>2005</u> £'000
Provision for UK corporation tax at 30%	351	140
Over provision in prior years	-	(4)
	<u>351</u>	<u>136</u>
The tax assessed for the year is different to the standard rate of corporation tax in the UK of 30%. The differences are explained below		
Profit on ordinary activities before taxation	<u>1,173</u>	<u>468</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	351	140
Effects of		
Adjustments to tax in respect of previous years	-	(4)
Current corporation tax charge for the period	<u>351</u>	<u>136</u>

Factors that may affect future current and total tax charges

On 21st March 2007 the UK Government announced that it proposed to reduce Corporation tax from 30% to 28%. It is expected that this will be substantively enacted during 2007. It is not expected that this will have a significant effect on the Company's Current and Deferred Tax assets and liabilities.

8 DEBTORS

	<u>31 December</u> <u>2006</u> £'000	<u>31 December</u> <u>2005</u> £'000
Trade debtors	38,515	51,535
Prepayments and accrued income	13,562	11,931
Other debtors	27	-
	<u>52,104</u>	<u>63,466</u>

MELLON FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 – continued

9 CREDITORS. Amounts falling due within one year

	<u>31 December</u> <u>2006</u> £'000	<u>31 December</u> <u>2005</u> £'000
Trade creditors	37,159	54,743
Amounts due to group companies	9,030	6,514
Corporation tax	339	10
Accruals	741	1,134
Other creditors	99	455
	<u>47,368</u>	<u>62,856</u>

10 SHARE CAPITAL

	<u>31 December</u> <u>2006</u> £'000	<u>31 December</u> <u>2005</u> £'000
Authorised 1,625,000 Ordinary shares of £1 each	<u>1,625</u>	<u>1,625</u>
Allotted, called up and fully paid 1,625,000 Ordinary shares of £1 each	<u>1,625</u>	<u>1,625</u>

11 RESERVES

	<u>Share</u> <u>Premium</u> <u>Account</u> £'000	<u>Profit &</u> <u>Loss</u> <u>Account</u> £'000	<u>Total</u> £'000
At 1 January 2006	6,000	4,571	10,571
Profit for the financial year	-	822	822
Interim dividends paid on ordinary shares	-	(1,500)	(1,500)
At 31 December 2006	<u>6,000</u>	<u>3,893</u>	<u>9,893</u>

MELLON FUND MANAGERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 – continued

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>31 December</u> <u>2006</u>	<u>31 December</u> <u>2005</u>
	£'000	£'000
Shareholders' funds brought forward	12,196	11,864
Profit for the financial year	822	332
Ordinary dividends	(1,500)	-
Shareholders' funds carried forward	<u>11,518</u>	<u>12,196</u>

13 CASH FLOW STATEMENT

The Company is exempt from the requirement of FRS1 (Revised 1996) 'Cash Flow Statements' to prepare a cash flow statement because it is a wholly owned subsidiary of a company which prepares consolidated financial statements which are publicly available

14 ULTIMATE CONTROLLING COMPANY

The ultimate holding company as at 31 December 2006 was Mellon Financial Corporation, a company incorporated in The United States of America. The consolidated accounts of the ultimate parent company may be obtained from

The Corporate Secretary
Mellon Financial Corporation
One Mellon Center, Room 4826
Pittsburgh
PA 15258-0001
USA

The immediate parent undertaking of the Company is Mellon Global Investments (Holdings) Limited, a company registered in England and Wales. Copies of accounts for Mellon Global Investments (Holdings) Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ