

**Company No. 1998251**

**MELLON FUND MANAGERS LIMITED**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2004**



## 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 2004.

### PRINCIPAL ACTIVITY

The principal activity of the Company continued to be the management and administration of unit trusts and open-ended investment companies (OEICs).

### BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The principal business activities of the Company have not changed during 2004, and this continues to be the management and administration of unit trusts and open-ended investment companies.

The Company continued to launch products in support of its investors specific investment requirements.

During 2004, a stock-lending programme was introduced to encompass the investment companies with variable capital Institution and Retail share classes. A review of on-line marketing services was also commenced and future enhancements expected for 2005.

The performance in 2004 has returned a lower profit compared to the previous year. This is primarily due to a transfer of revenue to a fellow group undertaking so as to match costs and revenues within the group

During 2005, the Mellon Investment Funds umbrella will be converted to the Undertakings for Collective Investment in Transferable Securities ("UCITS") III EU Directive. Significant preparatory work was undertaken during 2004 in preparation for this conversion.

### RESULTS AND DIVIDENDS

The profit and loss account for the year is set out on page 6.

The profit on ordinary activities after taxation amounted to £504,000 (2003 - £3,792,000). During the year a dividend of £5,000,000 was proposed to the ordinary shareholders (2003 - nil).

### 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

G A Brisk

A Mearns

S P Wombwell (resigned 09/02/04)

M G Rayward (appointed 05/08/04)

S P Rogers (appointed 05/08/04, resigned 05/10/04)

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

### REGISTERED OFFICE

On 19 April 2004, the Company changed its registered office to Mellon Financial Centre, 160 Queen Victoria Street, London, EC4V 4LA.

**MELLON FUND MANAGERS LIMITED**

**DIRECTORS' REPORT – Continued**

**AUDITORS**

By resolutions dated 6 July 1997, 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

A handwritten signature in black ink, appearing to read 'J Striker', written in a cursive style.

J Striker  
Secretary

28 April 2005

160 Queen Victoria Street  
LONDON  
EC4V 4LA

## **MELLON FUND MANAGERS LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for the year. In preparing these financial statements, the directors are required to:-

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the 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**

### **REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT PLC, TO THE MEMBERS OF MELLON FUND MANAGERS LIMITED**

We have audited the financial statements on pages 5 to 12.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

#### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 the Company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
28 April 2005

8 Salisbury Square  
LONDON  
EC4Y 8BB

## **MELLON FUND MANAGERS LIMITED**

### **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 FRS 8 '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 UK parent company, Mellon Europe Limited, and the consolidated financial statements of this 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****PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

	<u>Notes</u>	<u>Year to</u> <u>31 December</u> <u>2004</u> <u>£'000</u>	<u>Year to</u> <u>31 December</u> <u>2003</u> <u>£'000</u>
Revenue	1	27,311	24,725
Administrative expenses		(27,605)	(20,177)
Operating (loss)/profit	2	(294)	4,548
Interest receivable	4	1,042	767
Interest payable	5	(22)	(29)
Profit on ordinary activities before taxation		726	5,286
Taxation	6	(222)	(1,494)
Profit on ordinary activities after taxation		504	3,792
Ordinary dividends		(5,000)	-
Retained (deficit)/earnings for the year		(4,496)	3,792
Retained profit brought forward		8,735	4,943
Retained profit carried forward		4,239	8,735

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.

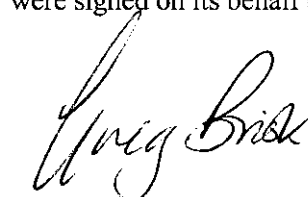
**MELLON FUND MANAGERS LIMITED**

**BALANCE SHEET**

**AT 31 DECEMBER 2004**

		<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
	<u>Notes</u>		
CURRENT ASSETS			
Stocks		676	388
Debtors	7	48,315	34,763
Cash at bank		11,159	16,886
		<u>60,150</u>	<u>52,037</u>
CREDITORS: amounts falling due within one year	8	(48,286)	(35,677)
		<u></u>	<u></u>
NET ASSETS		<u>11,864</u>	<u>16,360</u>
 CAPITAL AND RESERVES			
Called-up share capital	9	1,625	1,625
Share Premium account	9	6,000	6,000
Profit and loss account	9	<u>4,239</u>	<u>8,735</u>
EQUITY SHAREHOLDERS' FUNDS	10	<u>11,864</u>	<u>16,360</u>

The financial statements on pages 5 to 12 were approved by the board of directors on 28 April 2005 and were signed on its behalf by:



G A Brisk  
Director



## **MELLON FUND MANAGERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **for the year ended 31 December 2004**

#### **1 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>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
Management fees	89,564	68,533
Gross sale of units and shares	<u>1,839,345</u>	<u>1,716,682</u>
Total turnover	<u>1,928,909</u>	<u>1,785,215</u>
Cost of units and shares	1,777,509	1,661,653
Discounts,	56,577	49,923
Commissions and other costs	<u>67,522</u>	<u>48,932</u>
Total cost of sales	<u>1,901,608</u>	<u>1,760,508</u>
Other income	10	18
Revenue	<u>27,311</u>	<u>24,725</u>

#### **2 OPERATING (LOSS)/PROFIT**

	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
Operating (loss)/profit is stated after charging:		
Auditors' remuneration - Audit	<u>26</u>	<u>31</u>

**MELLON FUND MANAGERS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004 - continued**

**3 STAFF COSTS**

	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
<u>Directors:</u>		
Aggregate emoluments	-	241
Company pension contributions to money purchase scheme	-	22

The emoluments of the directors for their services as directors of Mellon Fund Managers Limited were borne by fellow group undertakings for 2004.

No directors exercised share options in the ultimate holding company, Mellon Financial Corporation, during the year (2003: nil).

	£'000	£'000
<u>Highest paid director:</u>		
Aggregate emoluments	-	222
Company pension contributions to money purchase scheme	-	20

**4 INTEREST RECEIVABLE**

	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
Interest earned on short term deposits	1,042	767
	<u>1,042</u>	<u>767</u>

**5 INTEREST PAYABLE**

	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
On bank loans and overdrafts	22	29

**MELLON FUND MANAGERS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004– continued**

**6 TAXATION**

	<u>Year to</u> <u>31 December</u> <u>2004</u> £'000	<u>Year to</u> <u>31 December</u> <u>2003</u> £'000
Provision for UK corporation tax at 30%	222	1,585
Over provision in prior years	-	(91)
	<u>222</u>	<u>1,494</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>726</u>	<u>5,286</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	218	1,586
Effects of:		
Expenses not deductible for tax purposes	4	(1)
Adjustments to tax in respect of previous years	-	(91)
Current corporation tax charge for the period	<u>222</u>	<u>1,494</u>

**7 DEBTORS**

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
Trade debtors	38,775	26,900
Amounts due from group companies	-	200
Prepayments and accrued income	9,180	7,663
Other debtors	360	-
	<u>48,315</u>	<u>34,763</u>

**MELLON FUND MANAGERS LIMITED****NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2004 – continued****8 CREDITORS: Amounts falling due within one year**

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
Bank overdrafts	3,973	-
Trade creditors	39,059	32,614
Amounts due to group companies	4,352	1,588
Corporation tax	222	792
Accruals	43	119
Other creditors	637	564
	<u>48,286</u>	<u>35,677</u>

**9 CALLED UP SHARE CAPITAL AND RESERVES**

	<u>Share</u> <u>Capital</u> £'000	<u>Share</u> <u>Premium</u> £'000	<u>Profit</u> <u>&amp; Loss</u> £'000
At 1 January 2004	1,625	6,000	8,735
Retained deficit for the year	-	-	(4,496)
At 31 December 2004	<u>1,625</u>	<u>6,000</u>	<u>4,239</u>

The Company has authorised share capital of 1,625,000 ordinary shares of £1 each (2003 - 1,625,000), all of which are allotted and fully paid.

**10 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	<u>31 December</u> <u>2004</u> £'000	<u>31 December</u> <u>2003</u> £'000
Shareholders' funds brought forward	16,360	12,568
Retained (deficit)/earnings for the year	<u>(4,496)</u>	<u>3,792</u>
Shareholders' funds carried forward	<u>11,864</u>	<u>16,360</u>

## **MELLON FUND MANAGERS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **for the year ended 31 December 2004 – continued**

#### **11 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.

#### **12 ULTIMATE CONTROLLING COMPANY**

The ultimate holding company as at 31 December 2004 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 largest group in which the Company's results are consolidated in the UK are those for Mellon Europe Limited, a company registered in England and Wales. Copies of accounts for Mellon Europe Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.