

TU FUND MANAGERS LIMITED

ANNUAL REPORT FOR THE YEAR ENDED

31st MARCH 1999

Registration Number: 697641

IMRO Registration Number: 1986

T U FUND MANAGERS LIMITED

1. Report of the Directors for the year ended 31 March 1999

The directors submit their report together with the audited financial statements of the company for the year ended 31 March 1999.

2. Review of activities

There was no change during the year in the principal activity of the company which is the management of Unit Trusts. During the year funds under management increased by 7% to over £126m.

The year end financial position of the company was satisfactory and the directors expect that this position will be sustained for the foreseeable future.

3. Results

The results for the year are shown in the profit and loss account on page 5.

4. Dividends

No interim dividend was paid during the year (1998: NIL). The directors recommend payment of a final dividend of £75,000 (1998: £75,000). After payment of the above dividend, £101,433 (1998:£232,320) of the profit for the financial year will be transferred to reserves.

5. Directors

The persons who were directors of the company during the year were:-

The Lord Christopher, CBE (Chairman)
Mark Cornwall-Jones
Andrew Cunningham
Jimmy Knapp
Alan Tuffin, CBE
George Nissen, CBE
Paul Blagbrough
Roger Engledow
Stephen Pickering
Margaret Prosser, OBE
David Sachon

None of the directors has a contract of service with the company. George Nissen resigned on 11 September 1998. Stephen Pickering, Margaret Prosser, OBE and David Sachon were appointed respectively with effect from 13.7.98, 2.10.98 and 1.02.99. They will offer themselves for election at the annual general meeting. The directors due to retire by rotation are Mark Cornwall-Jones and Andrew Cunningham and being eligible offer themselves for re-election.

6. Directors' interests

According to the register required to be maintained under section 325 of the Companies Act 1985, the directors have not had any interests in the share capital of the company at any time during the year.

7. **Donations**

During the year, the company made no political donations (1998: £12,000).

8. **Auditors**

At the Annual General Meeting held on 11th September 1998, a resolution was passed appointing PricewaterhouseCoopers as the company's auditors.

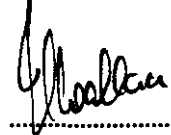
9. **Statement of Directors' Responsibilities**

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1999. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, 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.

BY ORDER OF THE BOARD



(Company Secretary)

Date: 26th July 1999

AUDITORS' REPORT TO THE MEMBERS OF TU FUND MANAGERS LIMITED

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and 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. 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 transaction is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.


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. Its 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 consider 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 statement give a true and fair view of the state of the company's affairs at year ended 31 March 1999 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

Date: 26 July 1999.

TU FUND MANAGERS LIMITED

Profit and loss account for the year ended 31 March 1999

	Notes £	1999	1998 £
Unit trust management fee	1(a)	1,076,252	1,107,136
Initial service charge	1(a)	602,743	138,856
Dealing profits	1(a)		
Income from resale and liquidation of units		20,460,310	29,834,813
Turnover	1(a)	22,139,305	31,080,805
Less:- Cost of sales		(20,964,980)	(29,923,070)
Gross Profit		1,174,325	1,157,735
Administrative expenses	1(c)2	(1,017,646)	(823,636)
Operating Profit		156,679	334,099
Other interest receivable and similar income	3	75,610	70,457
Other interest payable and similar charges	4	(-)	(2,431)
Profit on Ordinary Activities before Taxation		232,289	402,125
Tax Charge on Profit on Ordinary Activities	7	(55,856)	(94,805)
Profit for the Financial Year on Ordinary Activities After Taxation		176,433	307,320
Proposed Dividends		(75,000)	(75,000)
Retained Profit for the Financial Year	14	101,433	232,320

All results are in respect of continuing activities.

The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation, the retained profit for the year stated above and their historical cost equivalents.

The notes on pages 8 to 14 form part of these financial statements.

TU FUND MANAGERS LIMITED

Balance sheet - as at 31 March 1999

	Notes	1999 £	1998 £
Fixed Assets			
Tangible	8	5,842	12,916
Investments	1(d),9	520,867	519,170
Current Assets			
Stock of units	1(b)	51,967	12,877
Debtors	10	459,466	23,710,656
Cash at bank and in hand		4,449,021	449,458
		<hr/>	<hr/>
		5,481,321	24,692,161
Less:			
Creditors - Amounts falling due within one year	11	4,190,154	23,509,500
		<hr/>	<hr/>
Net Current Assets		1,291,168	1,182,661
Provision for Liabilities & Charges			
Deferred taxation	12	-	-
		<hr/>	<hr/>
Net Assets		1,297,010	1,195,577
		<hr/>	<hr/>
Capital & Reserves			
Called up share capital			
Called up and fully paid			
150,000 (1998: 150,000)			
ordinary shares of £1 each	13	150,000	150,000
Profit and loss account	14	1,147,010	1,045,577
		<hr/>	<hr/>
Equity Shareholders' Funds	15	1,297,010	1,195,577
		<hr/>	<hr/>

These accounts were approved by the Board on26th July 1999

The Lord Christopher CBE (Chairman)

Mark Cornwall-Jones (Vice Chairman)

The notes on pages 8 to 14 form part of these financial statements.

TU FUND MANAGERS LIMITED

Cash flow statement for the year ended 31 March 1999

	Notes	1999 £	1998 £
Net Cash Inflow/(Outflow)			
From Operating Activities	16	4,089,113	(131,635)
 Returns on investments and servicing of finance			
Interest and other cash received		69,316	66,061
Interest paid		-	(2,431)
 Taxation			
Corporation tax paid		(82,169)	(44,956)
 Capital Expenditure and Financial Investment			
Purchase of Fixed Assets		(-)	(651)
Purchase of Investments		(1,697)	(947)
 Equity dividends paid		(75,000)	(65,000)
 Increase/(Decrease) in Cash	17	3,999,563	(179,559)
		=====	=====

TU FUND MANAGERS LIMITED

Notes to the financial statements

1. Principal accounting policies

The financial statements have been prepared under the historical cost convention in compliance with the Companies Act 1985 and in accordance with applicable accounting standards.

(a) Unit Trust Management Fee

Turnover comprises sales of units (including sales of repurchased units) net of any related discounts and management fees receivable from the unit trusts.

(b) Stock of Units

Units held by the managers are valued at the lower of cost and net realisable value.

(c) Administrative Expenses

Administrative expenses include irrecoverable value added tax.

(d) Investments

Investments are stated at the lower of cost and net realisable value.

(e) Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable items. Deferred tax is accounted for in respect of all material timing differences to the extent that they are expected to reverse in the foreseeable future. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements.

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

f) Depreciation

Depreciation is provided on a straight line basis to write off the cost of tangible fixed assets over their estimated useful lives:

Office Machinery	36 months
Office Furniture, fixtures and fittings	120 months

g) Operating Leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

2. Administrative Expenses

Administrative expenses inclusive of VAT include:

	1999	1998
	£	£
Investment Management fee	346,608	334,064
Secretarial fee	118,534	112,000
Auditor's remuneration		
- TU Fund Managers Ltd	12,120	12,000
- Other services	12,457	11,033
Directors' emoluments		
- fees for management	48,000	48,250
- paid to third parties	5,875	5,434
Depreciation	7,074	7,057
Rent & Rates	33,654	29,283
Employment costs	98,284	69,836
Marketing	156,583	75,053
Printing & Stationery	76,449	17,504
Legal & Professional	7,542	10,697
Consultancy	61,057	52,949
Sundry	33,409	38,476
	—	—
	1,017,646	823,636
	<u> </u>	<u> </u>

3. Other interest receivable and similar income

	1999	1998
	£	£
Income from listed investments	24,850	24,850
Bank interest receivable and other income	50,760	45,607
	—	—
	75,610	70,457
	<u> </u>	<u> </u>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

4. Other interest payable and similar charges

	1999	1998
	£	£
Bank interest payable	-	2,431
Gift interest payable	-	-
	-	2,431
	<u> </u>	<u> </u>

5. Number of Employees and Staff Costs

Other than the directors of the company, the number of employees during the year were one full-time and one part-time (1998: one full-time and one part-time). The aggregate payroll costs of these persons were as follows:

	1998	1997
	£	£
Salaries	48,221	57,650
Social Security Costs	4,824	5,625
	<u> </u>	<u> </u>

Details of fees for management paid to the directors are given in Note 7 below.

6. Directors' Emoluments

Directors' emoluments for service as directors, in accordance with Part V of Schedule 5 of the Companies Act 1985, are as follows:-

	1999	1998
	£	£
Emoluments of the Chairman & highest paid director	12,000	12,000
	<u> </u>	<u> </u>

There were no loans, quasi-loans or other dealings in favour of directors of a kind described in section 330 Companies Act 1995 during the year.

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

7. Tax on Profit on Ordinary Activities

The tax charge comprises:-	1999	1998
	£	£
UK Corporation Tax based on the profit for the year at the rate of 23% (1998 - effective rate of 24%)	51,433	89,021
Prior year adjustment	4,423	(7,901)
Taxation incurred on franked investment income	-	13,685
	<hr/>	<hr/>
	55,856	94,805
	<hr/>	<hr/>

8. Fixed Assets -Tangible

	Fixtures and Fittings £	Office Machinery £	Office Furniture £	Total £
Cost at 1 April 1998	12,702	4,073	25,134	41,909
Additions cost at 31 March 1999	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	12,702	4,073	25,134	41,909
Depreciation at 1 April 1998	10,518	4,073	14,402	28,993
Provided in the period	2,184	-	4,890	7,074
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation at 31 March 1999	12,702	4,073	19,292	36,067
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<u>Net Book Values:</u>				
31 March 1998	2,184	Nil	10,732	12,916
	<hr/>	<hr/>	<hr/>	<hr/>
31 March 1999	Nil	Nil	5,842	5,842
	<hr/>	<hr/>	<hr/>	<hr/>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

9. Fixed Assets - Investments

The company's investments are stated in the balance sheet at cost. The quoted market values of the investments at the balance sheet date and the potential tax liability if the investments were sold at those valuations are detailed below. No provision has been made for this liability.

	Investments	
	£	
Cost at 1 April 1998	519,170	
Additions cost at 31 March 1999	1,697	
	<hr/>	
Cost at 31 March 1999	<u>520,867</u>	

	Cost	Valuation	Potential
	£	£	Tax liability
			£
Five Arrows International			
Reserves Ltd	20,000	72,411	11,006
TU British Trust	100,000	194,977	19,945
TU European Trust	55,601	171,356	24,309
British Government Stocks	345,266	401,293	11,766
	<u>520,867</u>	<u>840,037</u>	<u>67,026</u>

10. Debtors

Debtors comprise the following, all of which are due within one year:-

	1999	1998
	£	£
Trade Debtors	326,504	23,271,040
Other Debtors	-	39,061
Prepayments and accrued income	132,962	400,555
	<hr/>	<hr/>
	459,466	23,710,656
	<hr/>	<hr/>

11. Creditors

Creditors comprise the following, all of which are due within one year:-

	1999	1998
	£	£
Trade creditors	3,819,664	23,269,987
Corporation tax	49,908	89,021
Other taxation and social security	-	-
Sundry creditors	320,582	150,492
	<hr/>	<hr/>
	4,190,154	23,509,500
	<hr/>	<hr/>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

12. Deferred Taxation

	1999	1998
	£	£
Opening balance	-	1,098
Tax due to timing differences	-	-
Deferred tax written back	-	(1,098)
	—	—
Closing balance	-	Nil
	==	==

The movement in the deferred tax account for the year is charged to the profit and loss account.

13. Called up Share Capital

	1999	1998
	£	£
Ordinary shares of £1 each		
Issued, authorised and fully paid	150,000	150,000
	—	—

14. Profit & Loss Account

	1999	1998
	£	£
Balance at 1 April	1,045,577	813,257
Retained profit for the year	101,433	232,320
	—	—
Balance at 31 March	1,147,010	1,045,577
	==	==

15. Reconciliation of Movement in Shareholder's Funds

	1999	1998
	£	£
Profit for the financial year	176,433	307,320
Dividends	(75,000)	(75,000)
	—	—
Net addition to shareholders' funds	101,433	232,320
Opening shareholders' funds	1,195,577	963,257
	—	—
Closing shareholders' funds	1,297,010	1,195,577
	==	==

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

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

	1999	1998
	£	£
Operating profit	156,679	334,099
Depreciation	7,074	7,057
Decrease/(Increase) in stocks	(39,090)	20,416
(Increase)/Decrease in debtors	23,244,682	(23,681,528)
Increase/(Decrease) in creditors	(19,280,232)	23,196,145
Taxation on distributions	-	(7,824)
Net cash Outflow from operating activities	4,089,113	(131,635)
	=====	=====

17. Analysis of changes in cash and cash balances during the year

	1999	1998
	£	£
Balance at 1 April	449,458	629,017
Net cash Outflow in the year	3,999,563	(179,559)
Balance at 31 March	4,449,021	449,458
	=====	=====

18. Lease Commitments

The Company is currently negotiating a new lease in respect of existing premises.

19. Ultimate Owner

All the issued share capital of the Company is held on behalf of the T.U.U.T Charitable Trust registered in England.

20. Investment Management & Secretarial Services

Hill Samuel Asset Management Ltd (a subsidiary of Lloyds TSB Group plc) provide investment and administrative services to TU Fund Managers Ltd. The basic secretarial fee for these services is £112,000 (excluding VAT) per annum which is paid monthly. In addition there is a monthly investment management fee equal to $\frac{1}{12}^{\text{th}}$ of 0.3% of the funds under management at the end of the preceding month.