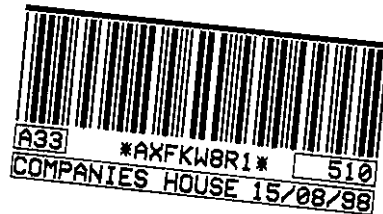


TU FUND MANAGERS LIMITED

ANNUAL REPORT FOR THE YEAR ENDED

31st MARCH 1998



Registration Number: 697641

IMRO Registration Number: 1986

T U FUND MANAGERS LIMITED

1. Report of the Directors
for the year ended 31 March 1998

The directors submit their report together with the audited financial statements of the company for the year ended 31 March 1998.

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 8% to over £110m.

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 (1997: NIL). The directors recommend payment of a final dividend of £75,000 (1997: £65,000). After payment of the above dividend, £232,320 (1997: £84,361) 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:-

A M G Christopher, CBE (Chairman)
M R Cornwall-Jones
A Cunningham
J Knapp
A Tuffin, CBE
G M Nissen, CBE
P Blagbrough
R Engledow
T Burlison

None of the directors has a contract of service with the company. T Burlison resigned on 29 September 1997. The directors due to retire by rotation are Messrs. R Engledow and G M Nissen, CBE. R Engledow being eligible, offers himself for re-election. G. M Nissen is not seeking re-election and the Board wish to thank him very much for the valuable contribution he has made during his time as a director.

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 political donations to the Labour Party amounting to £12,000 (1997: £1,904).

8. Auditors

At the Annual General Meeting held on 26 September 1997, a resolution was passed appointing KPMG Audit Plc as the company's auditors.

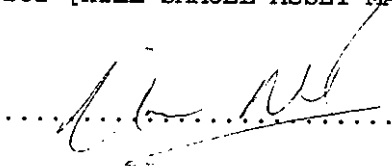
9. Statement of Directors' Responsibilities

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 1998. 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
for [HILL SAMUEL ASSET MANAGEMENT]

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Date:

30/7/98

**AUDITORS' REPORT TO THE MEMBERS OF
TU FUND MANAGERS LIMITED**

We have audited the financial statements on pages 5 to 14 in accordance with Auditing Standards.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 at 31 March 1998 and of its profit and cash flows 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 and Registered Auditor
London

Date: 30 July 1998

TU FUND MANAGERS LIMITED

Profit and loss account for the year ended 31 March 1998

	Notes	1998	1997
	£		£
Turnover and cost of sales			
Unit trust management fee	2(b)	1,107,136	938,960
Initial service charge	2(c)	138,856	45,304
Dealing profits	2(d)		
Income from resale			
liquidation of units		29,834,813	4,516,047
Less:- Cost of units resold			
or liquidated		(29,923,070)	(4,520,454)
Gross Profit		1,157,735	979,857
Administrative expenses	2(f), 3	(823,636)	(838,788)
Operating Profit		334,099	141,069
Other interest receivable and			
similar income	4	70,457	66,970
Other interest payable and			
similar charges	5	(2,431)	(1,804)
Profit on Ordinary Activities			
before Taxation		402,125	206,235
Tax Charge on Profit			
on Ordinary Activities	8	(94,805)	(56,874)
Profit for the Financial Year on			
Ordinary Activities After Taxation		307,320	149,361
Proposed Dividends		(75,000)	(65,000)
Retained Profit for the Financial Year	15	232,320	84,361

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 1998

	Notes	1998 £	1997 £
Fixed Assets			
Tangible	9	12,916	19,322
Current Assets			
Stock of units	2(e)	12,877	33,294
Debtors	10	23,710,656	23,043
Investments	2(g), 11	519,170	518,223
Cash at bank and in hand		449,458	629,017
		<hr/>	<hr/>
		24,692,161	1,203,577
Less:			
Creditors - Amounts falling due within one year	12	23,509,500	258,544
		<hr/>	<hr/>
Net Current Assets		1,182,661	945,033
Provision for Liabilities & Charges			
Deferred taxation	13	-	1,098
		<hr/>	<hr/>
Net Assets		1,195,577	963,257
		<hr/>	<hr/>
Capital & Reserves			
Called up share capital			
Called up and fully paid 150,000 (1997: 150,000) ordinary shares of £1 each	14	150,000	150,000
Profit and loss account	15	1,045,577	813,257
		<hr/>	<hr/>
Equity Shareholders' Funds	16	1,195,577	963,257
		<hr/>	<hr/>

These accounts were approved by the Board on 30.7.98



Director

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 1998

	Notes	1998 £	1997 £
Net Cash Outflow			
From Operating Activities	17	(131,635)	(16,764)
Returns on investments and servicing of finance			
Interest and other cash received		66,061	55,488
Interest paid		(2,431)	(1,804)
Taxation			
Corporation tax paid		(44,956)	(74,397)
Capital Expenditure and Financial Investment			
Purchase of Fixed Assets		(651)	(14,432)
Purchase of Investments		(947)	(101,473)
Equity dividends paid		(65,000)	(50,000)
		<hr/>	<hr/>
Decrease in Cash	18	(179,559)	(203,382)
		<hr/>	<hr/>

TU FUND MANAGERS LIMITED

Notes to the financial statements

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

2. (a) Basis of Preparation

The financial statements have been prepared under the historical cost convention.

(b) Unit Trust Management Fee

The unit trust management fee charged to the Trusts is calculated monthly, based on the value of the funds at the opening of business on the first business day of each month as laid down in the Trust Deeds.

(c) Initial Service Charge

An initial service charge is levied upon the issue of new units and is recognised at the date of creation. This initial charge is reduced by a promotional discount at the date of contract for sale.

(d) Dealing Profits

Dealing profits arise on units purchased and resold. Income from the dealing in units is taken into account at the date of the contract for sale and is stated after deducting discounts and transfer duty.

(e) Stock of Units

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

(f) Administrative Expenses

Administrative expenses include irrecoverable value added tax.

(g) Investments

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

(h) 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)

i) 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

j) Operating Leases

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

3. Administrative Expenses

Administrative expenses inclusive of VAT include:

	1998	1997
	£	£
Investment Management fee	334,064	281,942
Secretarial fee	112,000	112,000
Auditor's remuneration		
- TU Fund Managers Ltd	12,000	12,000
- Other services	11,033	11,665
Directors' emoluments		
- fees for management	48,250	45,000
- paid to third parties	5,434	5,288
Depreciation	7,057	6,864
Operating leases	26,008	30,215

4. Other interest receivable and similar income

	1998	1997
	£	£
Income from listed investments	24,850	37,883
Bank interest receivable and other income	45,607	29,087
	<hr/>	<hr/>
	70,457	66,970
	<hr/>	<hr/>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

5. Other interest payable and similar charges

	1998	1997
	£	£
Bank interest payable	2,431	-
Gilt interest payable	-	1,804
	<u>2,431</u>	<u>1,804</u>

6. 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 (1997: one full-time and one part-time). The aggregate payroll costs of these persons were as follows:

	1998	1997
	£	£
Salaries	57,650	50,692
Social Security Costs	5,625	4,768
	<u>57,650</u>	<u>50,692</u>

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

7. Directors' Emoluments

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

	1998	1997
	£	£
Emoluments of the Chairman & highest paid director	12,000	9,000
	<u>12,000</u>	<u>9,000</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)

8. Tax on Profit on Ordinary Activities

The tax charge comprises:-	1998	1997
	£	£
UK Corporation Tax based on the profit for the year at the rate of 31% (1997 - effective rate of 24%)	89,021	44,085
Overprovision in respect of prior year	(7,901)	
Taxation incurred on franked investment income	13,685	12,652
Deferred taxation	0	137
	<hr/>	<hr/>
	94,805	56,874
	<hr/>	<hr/>

9. Fixed Assets

	Fixtures and Fittings £	Office Machinery £	Office Furniture £	Total £
Cost at 1 April 1997	12,051	4,073	25,134	41,258
Additions cost at 31 March 1998	651	-	-	651
	<hr/>	<hr/>	<hr/>	<hr/>
	12,702	4,073	25,134	41,909
Depreciation at 1 April 1997	8,318	4,073	9,545	21,936
Provided in the period	2,200	-	4,857	7,057
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation at 31 March 1998	10,518	4,073	14,402	28,993
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Net Book Values:</u>				
31 March 1997	3,733	Nil	15,589	19,322
	<hr/>	<hr/>	<hr/>	<hr/>
3 1 March 1998	2,184	Nil	10,732	12,916
	<hr/>	<hr/>	<hr/>	<hr/>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

10. Debtors

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

	1998	1997
	£	£
Trade Debtors*	23,271,040	0
Other Debtors	39,061	19,263
Prepayments and accrued income	400,555	3,780
	<hr/>	<hr/>
	23,710,656	23,043
	<hr/>	<hr/>

* The trade debtors include an outstanding in specie liquidation of £23,108,520 by National Mutual Life. This is matched by a corresponding trade creditor for the same amount.

11. 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.

	Cost	Valuation	Potential Tax liability
	£	£	£
Five Arrows International Reserves Ltd	20,000	68,290	11,589
TU British Trust	100,000	189,149	21,396
TU European Trust	53,904	132,954	18,972
British Government Stocks	345,266	385,669	9,696
	<u>519,170</u>	<u>776,062</u>	<u>61,653</u>

12. Creditors

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

	1998	1997
	£	£
Trade creditors *	23,269,987	21,803
Corporation tax	89,021	44,212
Other taxation and social security	-	-
Sundry creditors	150,492	192,529
	<hr/>	<hr/>
	23,509,500	258,544
	<hr/>	<hr/>

* The trade creditors include an outstanding in specie liquidation of £23,108,520 by National Mutual Life. This is matched by a corresponding trade debtor for the same amount.

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

13. Deferred Taxation

	1998	1997
	£	£
Opening balance	1,098	961
Tax due to timing differences	-	1,098
Deferred tax written back	(1,098)	(961)
	<hr/>	<hr/>
Closing balance	-	1,098
	<hr/>	<hr/>

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

14. Called up Share Capital

	1998	1997
	£	£
Ordinary shares of £1 each		
Issued, authorised and fully paid	150,000	150,000
	<hr/>	<hr/>

15. Profit & Loss Account

	1998	1997
	£	£
Balance at 1 April	813,257	728,896
Retained profit for the year	232,320	84,361
	<hr/>	<hr/>
Balance at 31 March	1,045,577	813,257
	<hr/>	<hr/>

16. Reconciliation of Movement in Shareholder's Funds

	1998	1997
	£	£
Profit for the financial year	307,320	149,361
Dividends	(75,000)	(65,000)
	<hr/>	<hr/>
Net addition to shareholders' funds	232,320	84,361
Opening shareholders' funds	963,257	878,896
	<hr/>	<hr/>
Closing shareholders' funds	1,195,577	963,257
	<hr/>	<hr/>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

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

	1998	1997
	£	£
Operating profit	334,099	141,069
Depreciation	7,057	6,864
Decrease/(Increase) in stocks	20,416	(27,360)
(Increase)/Decrease in debtors	(23,681,528)	13,931
Increase/(Decrease) in creditors	23,196,145	145,377
Taxation on distributions	(7,824)	(5,891)
Net cash Outflow from operating activities	(131,635)	(16,764)

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

	1998	1997
	£	£
Balance at 1 April	629,017	832,399
Net cash Outflow in the year	(179,559)	(203,382)
Balance at 31 March	449,458	629,017

19. Lease Commitments

The Company is currently negotiating a new lease in respect of land and buildings as the existing lease has become void.

20. Ultimate Owner

All the issued share capital of the Company is held on behalf of the Trades Union Unit Trust Charitable Trust in England.

21. 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 per annum which is paid monthly. In addition there is a monthly investment management fee equal to $\frac{1}{12}$ th of 0.3% of the funds under management at the end of the preceding month.

In December 1997 £400k was prepaid over to HSAM in respect of the management fee attributable to TUFM for the period from 1.1.98 to 31.12.98.