

TU FUND MANAGERS LIMITED

ANNUAL REPORT FOR THE YEAR ENDED

31 MARCH 2004

Registration Number: 697641

FSA Registration Number: 122346



T U FUND MANAGERS LIMITED

1. Report of the Directors for the year ended 31 March 2004

The directors submit their report together with the audited financial statements of the company for the year ended 31 March 2004.

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 16% to £95m (2003: £82m).

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 company made a profit for the financial year of £23,675 (2003: £56,435 profit). During the year no donations were made to the TUUT Charitable Trust, the parent company of TU Fund Managers Limited (2003: £150,000). Gross profit decreased 9% to £930,879 (2003: £1,019,699).

No interim dividend was paid during the year (2003: nil). The directors do not recommend the payment of a final dividend (2003: nil). The profit for the financial year of £23,675 (2003: £56,435 profit) will be transferred to reserves.

4. Directors

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

The Lord Christopher, CBE (Chairman)
Mark Cornwall-Jones, OBE
Andrew Cunningham
Alan Tuffin, CBE
Paul Blagbrough
Stephen Pickering (resigned 30 June 2003)
The Baroness Prosser, OBE
David Sachon
Rosalind Gilmore, CB
Paul Noon

The Lord Christopher, Alan Tuffin and Rosalind Gilmore were re-elected at the 2003 Annual General Meeting held on 29 August 2003. The directors due to retire by rotation are Mark Cornwall-Jones, Paul Blagbrough and Margaret Prosser, and being eligible they offer themselves for re-election.

5. **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.

6. **Donations**

During the year, the company did not make any political donations (2003: £nil).

There were no other charitable donations made during the year.

7. **Auditors**

A resolution to re-appoint KPMG Audit Plc as the company's auditor will be proposed at the Annual General Meeting.

8. **Statement of Directors' Responsibilities**

Company law requires the directors to prepare financial statements for each financial period which 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 those 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 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 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

BY ORDER OF THE BOARD

.....
Director [or secretary]

Date: 20 July 2004

Registered Office: Congress House
Great Russell Street
London WC1B 3LQ

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

We have audited the financial statements on pages 5 to 16.

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 the 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 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 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 statements give a true and fair view of the state of affairs of the company as at 31 March 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

8 Salisbury Square
London
EC4Y 8BB

Date: 20 July 2004

TU FUND MANAGERS LIMITED

Profit and loss account for the year ended 31 March 2004

	Notes	2004 £	2003 £
Turnover	1(a),2	930,879	1,019,699
Administrative expenses	1(c),3	(1,035,824)	(882,476)
Donation to parent company		-	(150,000)
Operating loss		(104,945)	(12,777)
Other interest receivable and similar income	4	64,878	90,495
Other interest payable and similar charges	5	(2,713)	(2,121)
Profit on Sale of Investment		66,455	-
Profit on ordinary activities before taxation		23,675	75,597
Tax charge on profit on ordinary activities	1(e), 8	-	(19,162)
Profit for the financial year after taxation		23,675	56,435
Proposed dividends		-	-
Retained profit for the financial year	15	23,675	56,435

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.

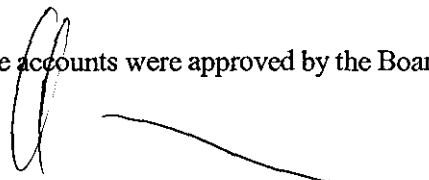
The notes on pages 8 to 16 form part of these financial statements.

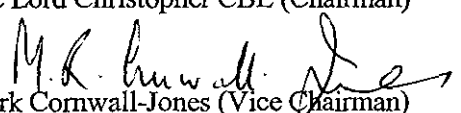
TU FUND MANAGERS LIMITED

Balance sheet - as at 31 March 2004

	Notes	2004 £	2003 £
Fixed assets			
Tangible	10	11,655	9,502
Investments	1(d),11	787,200	796,363
Total Fixed Assets		<u>798,855</u>	<u>805,865</u>
Current assets			
Stock of units	1(b)	41,073	29,480
Debtors	12	282,601	257,753
Cash at bank and in hand		736,728	666,816
Total Current Assets		<u>1,060,402</u>	<u>954,049</u>
Less: Creditors - Amounts falling due within one year	13	(422,818)	(347,150)
Net Current Assets		<u>637,584</u>	<u>606,899</u>
Net Assets		<u><u>1,436,439</u></u>	<u><u>1,412,764</u></u>
Capital & reserves			
Called up and fully paid share capital	14	150,000	150,000
Profit and loss reserve	15	1,286,439	1,262,764
Equity shareholders' funds	16	<u><u>1,436,439</u></u>	<u><u>1,412,764</u></u>

These accounts were approved by the Board on 20 July 2004


The Lord Christopher CBE (Chairman)


Mark Cornwall-Jones (Vice Chairman)

The notes on pages 8 to 16 form part of these financial statements.

TU FUND MANAGERS LIMITED

Cash flow statement for the year ended 31 March 2004

	Notes	2004 £	2003 £
Net cash outflow from operating activities	17	(36,170)	(91,738)
Returns on investments and servicing of finance			
Interest received		38,846	59,749
Interest paid		(2,713)	(2,121)
Distributions received		29,376	26,902
Taxation			
Corporation tax (paid)/received		(27,602)	2,314
Capital expenditure and financial investment			
Purchase of Fixed Assets		(7,443)	(6,417)
Acquisition of Investments		(10,837)	(249,574)
Redemption of Investments		86,455	-
Equity dividends paid		-	-
Increase/ (Decrease) in cash	18	<u>69,912</u>	<u>(260,885)</u>

These accounts were approved by the Board on 20 July 2004

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) Turnover

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

(b) Stock of units

Units held by the manager to facilitate in the trading of the unit trusts it manages are valued at the lower of cost and net realisable value.

(c) Administrative expenses

Administrative expenses include irrecoverable value added tax.

(d) Investments

Investments held by the manager for long term purposes are held at cost less a provision for any permanent diminution in value.

(e) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

(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.

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

2. Turnover

Per Note 1(a) Turnover includes sales of units (including sales of repurchased units), net of the cost of units sold and any related discounts, and management fees receivable from the unit trusts.

	2004	2003
	£	£
Sales of units	1,406,990	2,514,313
Less: Cost of sale of units	(1,372,002)	(2,478,840)
Initial service charge	(1,010)	(19,350)
	<hr/>	<hr/>
Revenue from the purchase and sale of units	33,978	16,123
Unit trust management fee	896,901	1,003,576
	<hr/>	<hr/>
	930,879	1,019,699
	<hr/>	<hr/>

3. Administrative expenses

Operating profit is stated after deducting the following administrative expenses:

	2004	2003
	£	£
Investment Management fee	251,035	281,169
VAT refund from Customs and Excise	-	(310,236)
Secretarial fee	106,139	146,875
Administration expenses	292,516	325,793
Auditor's remuneration		
- audit	31,284	20,592
- other services	1,592	1,004
Directors' emoluments		
- fees for management	65,250	55,900
- paid to third parties	10,722	13,513
Depreciation	5,289	3,617
Rental operating lease payments	17,910	17,910
Other rent & rates	14,804	16,938
Employment costs, including training	132,675	120,711
Marketing	51,619	115,741
Printing & stationery	4,853	6,970
Legal & professional	9,500	14,166
Consultancy	10,142	21,898
Sundry	30,494	29,915
	<hr/>	<hr/>
	1,035,824	882,476
	<hr/>	<hr/>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

4. Other interest receivable and similar income

	2004	2003
	£	£
Income from listed investments	25,265	31,763
Bank interest receivable and other income	39,613	58,732
	<u>64,878</u>	<u>90,495</u>

5. Other interest payable and similar charges

	2004	2003
	£	£
Bank interest payable	2,713	2,121
	<u>2,713</u>	<u>2,121</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 three part-time (2003: two full-time and one part-time). The aggregate payroll costs of these persons were as follows:

	2004	2003
	£	£
Salaries	123,059	107,161
Social security costs	9,616	13,550
	<u>132,675</u>	<u>120,711</u>

Details of directors' emoluments are given in Note 7 below.

7. Directors' emoluments

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

	2004	2003
	£	£
Aggregate for directors	75,972	69,413
	<u>75,972</u>	<u>69,413</u>

There were no loans, quasi-loans or other dealings in favour of directors of a kind described in section 330 of Companies Act 1985 during the year.

There were no pension contributions paid by the company into any pension schemes on behalf of the directors.

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

8. a) Analysis of tax charge for the year

	2004 £	2003 £
Current tax on income for the year at the rate of 19% (2003: 19%)	-	16,811
Adjustments in respect of prior periods	-	2,351
	<u>-</u>	<u>19,162</u>

b) Reconciliation of profit on ordinary activities before tax to tax charge for the period

The current tax charge for the period is lower than the standard rate of corporation tax in the UK (30%, 2003: 30%). The differences are explained below:

	2004 £	2003 £
Profit on ordinary activities before tax	23,675	75,597
Profit on ordinary activities multiplied by the standard rate of corporation tax (30%, 2003: 30%)	7,103	22,679
Effect of lower corporation tax rate applicable (19%, 2003: 19%)	(2,605)	(8,316)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	3,129	2,547
Capital allowances for year in excess of depreciation	(3,550)	(99)
Management expenses carried forward	697	-
Income not included for tax purposes	(488)	-
Adjustment in respect of accrued income	781	-
Adjustments in respect of prior periods	-	2,351
Gain on sale of shares	(5,067)	-
	<u>-</u>	<u>19,162</u>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

9. Deferred tax asset

	2004	2003
	£	£
At start of year	-	13,595
Deferred tax in profit and loss account for year	-	-
Deferred tax released and carried back against profits in prior years	-	(13,595)
Deferred tax asset at end of year	<u>-</u>	<u>-</u>

10. Fixed assets - tangible

	Fixtures and Fittings	Office Machinery	Office Furniture	Total
	£	£	£	£
Cost at 1 April 2003	12,702	20,521	26,148	59,371
Additions	-	7,443	-	7,443
Disposals	-	(4,161)	-	(4,161)
Cost at 31 March 2004	<u>12,702</u>	<u>23,803</u>	<u>26,148</u>	<u>62,653</u>
Depreciation at 1 April 2003	12,702	11,526	25,641	49,869
Provided in the year	-	4,952	338	5,290
Disposals in the year	-	(4,161)	-	(4,161)
Depreciation at 31 March 2004	<u>12,702</u>	<u>12,317</u>	<u>25,979</u>	<u>50,998</u>
<u>Net book values:</u>				
31 March 2003	<u>-</u>	<u>8,995</u>	<u>507</u>	<u>9,502</u>
31 March 2004	<u>-</u>	<u>11,486</u>	<u>169</u>	<u>11,655</u>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

11. 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 (2003: £904,433) are detailed below:

	Investments £
Cost at 1 April 2003	796,363
Additions - Cost	10,837
Redemptions – Cost	(20,000)
Cost at 31 March 2004	<u>787,200</u>

	Cost £	Valuation £
TU British Trust	100,000	132,186
TU European Trust	66,439	168,503
TU Income Trust	250,000	204,990
British Government Stocks	<u>370,761</u>	<u>385,738</u>
	<u>787,200</u>	<u>891,417</u>

A potential tax liability of £19,801 (2003: £20,533) would arise if the investments were sold at market value at the balance sheet date. No provision has been made for this liability, as the directors do not foresee the disposal of these assets in the near future.

12. Debtors

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

	2004 £	2003 £
Trade debtors	73,239	48,983
Corporation tax debtor	4,289	15,722
Other debtors	2,346	-
Prepayments and accrued income	202,727	193,048
	<u>282,601</u>	<u>257,753</u>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

13. Creditors

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

	2004	2003
	£	£
Trade creditors	119,215	40,055
Corporation tax	-	12,884
Sundry creditors	44,262	7,922
Accruals and deferred income	109,341	136,289
Donation to parent company	150,000	150,000
	<u>422,818</u>	<u>347,150</u>

14. Called up and fully paid share capital

	2004	2003
	£	£
Ordinary shares of £1 each		
Issued, authorised and fully paid	150,000	150,000
	<u>150,000</u>	<u>150,000</u>

15. Profit & loss reserve

	2004	2003
	£	£
Balance at 1 April	1,262,764	1,206,329
Retained profit for the year	23,675	56,435
Balance at 31 March	<u>1,286,439</u>	<u>1,262,764</u>

16. Reconciliation of movement in shareholder's funds

	2004	2003
	£	£
Profit for the financial year after tax	23,675	56,435
Dividends	-	-
Net addition to shareholders' funds	23,675	56,435
Opening shareholders' funds	1,412,764	1,356,329
Closing shareholders' funds	<u>1,436,439</u>	<u>1,412,764</u>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

17. Reconciliation of operating loss to net cash outflow from operating activities

	2004	2003
	£	£
Operating loss	(104,945)	(12,777)
Depreciation	5,290	3,617
(Increase) / decrease in stocks	(11,593)	79,163
(Increase) / decrease in debtors	(39,627)	935,842
Increase / (decrease) in creditors	114,705	(1,097,583)
Net cash outflow from operating activities	<u>(36,170)</u>	<u>(91,738)</u>

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

	2004	2003
	£	£
Balance at 1 April	666,816	927,701
Net cash inflow/(outflow) in the year	69,912	(260,885)
Balance at 31 March	<u>736,728</u>	<u>666,816</u>

19. Lease commitments

As at 31 March 2004, the company had annual commitments under non-cancellable operating leases expiring as set out below:

	2004	2003
	£	£
	Land and Buildings	Land and Buildings
Within one year	Nil	13,433
In the second to fifth years inclusive	-	-
	<u>Nil</u>	<u>13,433</u>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

20. 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.

21. Investment management & secretarial services

Insight Investment Management (Global) Limited (formerly Rothschild Asset Management Limited) provide investment and administrative services to TU Fund Managers Limited. The basic secretarial fee for these services is £75,000 (excluding VAT) per annum, (2003: £125,000) which is paid monthly. In addition there is a monthly investment management fee equal to $\frac{1}{12}$ th of 0.275% of the funds under management at the end of the preceding month.

22. Related party transactions

None of the directors received consultancy fees (2003:Nil) for services rendered to the company outside of the normal directorial services.

The company acts as a manager for three authorised unit trusts (2003: three). Each trust is controlled by the trustees, HSBC. The aggregate total of transactions for creations was £12,850,072 (2003: £13,293,521) and liquidations was £11,478,125 (2003: £9,403,081).

The amounts received in respect of gross management charges for the unit trusts were £896,901 (2003: £1,003,576). The amounts outstanding at the year end in relation to management charges were £78,241 (2003: £66,395).