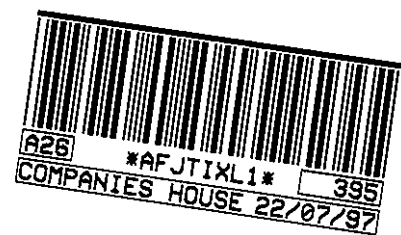


TU FUND MANAGERS LIMITED

ANNUAL REPORT FOR THE YEAR ENDED

31st MARCH 1997



Registration Number: 697641

IMRO Registration Number: 1986

## T U FUND MANAGERS LIMITED

### 1. Report of the Directors for the year ended 31 March 1997

The directors submit their report together with the audited financial statements of the company for the year ended 31 March 1997.

### 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 over £102m.

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 (1996: NIL). The directors recommend payment of a final dividend of £65,000 (1996: £50,000.). After payment of the above dividend, £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. The directors due to retire by rotation are Messrs. A M G Christopher, J Knapp and A Tuffin. They, 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 political donations to the Labour Party amounting to £1,904 (1996: £2,596).

8. Auditors

At the Annual General Meeting held on 1 November 1996, a resolution was passed appointing KPMG Audit Plc as the company's auditors.

9. Statement of Directors' Responsibilities

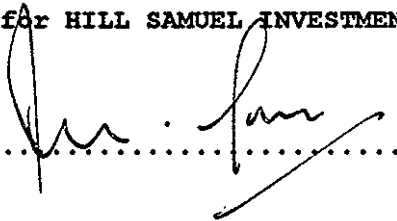
The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

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 1997. 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 INVESTMENT SERVICES GROUP LTD (Secretaries)



.....

Date:

**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 1997 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 Auditors  
London

Date:

# TU FUND MANAGERS LIMITED

## **Profit and loss account for the year ended 31 March 1997**

	Notes	1997	1996
	£		£
<b>Turnover and cost of sales</b>			
Unit trust management fee	2(b)	938,960	828,366
Initial service charge	2(c)	45,304	25,233
Dealing profits	2(d)		
Income from resale liquidation of units		4,516,047	4,346,784
Less:- Cost of units resold or liquidated		(4,520,454)	(4,344,285)
<b>Gross Profit</b>		979,857	856,098
Administrative expenses	2(f),3	(838,788)	(703,571)
<b>Operating Profit</b>		141,069	152,527
Other interest receivable and similar income	4	66,970	45,817
Other interest payable and similar charges	5	(1,804)	(604)
<b>Profit on Ordinary Activities before Taxation</b>		206,235	197,740
<b>Tax Charge on Profit on Ordinary Activities</b>	8	(56,874)	(50,059)
<b>Profit for the Financial Year on Ordinary Activities After Taxation</b>		149,361	147,681
<b>Proposed Dividends</b>		(65,000)	(50,000)
<b>Retained Profit for the Financial Year</b>	15	84,361	97,681

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.

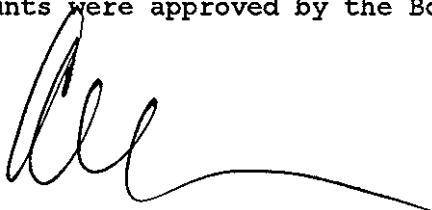
The notes on pages 8 to 14 form part of these financial statements.

# TU FUND MANAGERS LIMITED

## Balance sheet - as at 31 March 1997

	Notes	1997 £	1996 £
<b>Fixed Assets</b>			
Tangible	9	19,322	11,754
<b>Current Assets</b>			
Stock of units	2(e)	33,294	5,934
Debtors	10	23,043	34,120
Investments	2(g), 11	518,223	416,750
Cash at bank and in hand		629,017	832,399
		<hr/>	<hr/>
		1,203,577	1,289,203
Less:			
<b>Creditors - Amounts falling due within one year</b>	12	258,544	421,100
		<hr/>	<hr/>
<b>Net Current Assets</b>		945,033	868,103
<b>Provision for Liabilities &amp; Charges</b>			
Deferred taxation	13	1,098	961
		<hr/>	<hr/>
<b>Net Assets</b>		963,257	878,896
		<hr/>	<hr/>
<b>Capital &amp; Reserves</b>			
Called up share capital			
Called up and fully paid			
150,000 (1996: 150,000)			
ordinary shares of £1 each	14	150,000	150,000
Profit and loss account	15	813,257	728,896
		<hr/>	<hr/>
<b>Equity Shareholders' Funds</b>	16	963,257	878,896
		<hr/>	<hr/>

These accounts were approved by the Board on 16 July 1997....



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 1997

	Notes	1997 £	1996 £
Net Cash (Outflow)/Inflow From Operating Activities	17	(16,764)	389,217
Returns on investments and servicing of finance			
Interest and other cash received		55,488	43,409
Interest paid		(1,804)	(604)
Taxation			
Corporation tax paid		(74,397)	(1,277)
Capital Expenditure and Financial Investment			
Purchase of Fixed Assets		(14,432)	-
Purchase of Investments		(101,473)	-
Equity dividends paid		(50,000)	(45,000)
		<hr/>	<hr/>
(Decrease)/Increase in Cash	18	(203,382)	385,745
		<hr/>	<hr/>

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

## **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 received 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 less promotional discounts is levied upon the issue of new units and is recognised 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:

	1997	1996
	£	£
Investment Management fee	281,942	249,275
Secretarial fee	112,000	112,000
Auditor's remuneration		
- TU Fund Managers Ltd	12,000	13,413
- Other services	11,665	12,380
Directors' emoluments		
- fees for management	45,000	40,500
- paid to third parties	5,288	4,700
Depreciation	6,864	2,510
Operating leases	30,215	19,916

### 4. Other interest receivable and similar income

	1997	1996
	£	£
Income from listed investments	37,883	18,543
Bank interest receivable and other income	29,087	27,274
	<u>66,970</u>	<u>45,817</u>

### 5. Other interest payable and similar charges

	1997	1996
	£	£
Bank interest payable	-	604
Gilt interest payable	1,804	-
	<u>1,804</u>	<u>604</u>

# TU FUND MANAGERS LIMITED

## Notes to the financial statements - (continued)

### 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 (1996: one full-time and one part-time). The aggregate payroll costs of these persons were as follows:

	1997	1996
	£	£
Salaries	50,692	53,425
Social Security Costs	4,768	6,408
	<hr/>	<hr/>

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

General administration and investment management are provided by Hill Samuel Investment Services Group Limited under a secretarial agreement, the cost of which is given in Note 3 above.

### 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:-

	1997	1996
	£	£
Emoluments of the Chairman & highest paid director	9,000	9,000
	<hr/>	<hr/>

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:-	1997	1996
	£	£
UK Corporation Tax based on the profit for the year at the rate of 24% (1996 - effective rate of 25%)	44,085	41,362
Overprovision in respect of prior year	-	1,277
Taxation incurred on franked investment income	12,652	8,041
Deferred taxation	137	(621)
	<hr/>	<hr/>
	56,874	50,059
	<hr/>	<hr/>

### 9. Fixed Assets

	Fixtures and Fittings £	Office Machinery £	Office Furniture £	Total £
Cost at 1 April 1996	12,051	4,073	10,702	26,826
Additions cost at 31 March 1997	0	0	14,432	14,432
	<hr/>	<hr/>	<hr/>	<hr/>
	12,051	4,073	25,134	41,258
Depreciation at 1 April 1996	6,166	4,073	4,833	15,072
Provided in the period	2,152	0	4,712	6,864
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation at 31 March 1997	8,318	4,073	9,545	21,936
	<hr/>	<hr/>	<hr/>	<hr/>
<b><u>Net Book Values:</u></b>				
31 March 1996	5,885	nil	5,869	11,754
	<hr/>	<hr/>	<hr/>	<hr/>
31 March 1997	3,733	nil	15,589	19,322
	<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:-

	1997	1996
	£	£
Trade Debtors	0	1,075
Other Debtors	19,263	25,466
Prepayments and accrued income	3,780	7,579
	<hr/>	<hr/>
	23,043	34,120
	<hr/>	<hr/>

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	64,448	10,668
TU British Trust	100,000	142,980	10,315
T U European Trust	52,957	91,695	9,297
British Government Stocks	345,266	369,407	5,794
	<hr/>	<hr/>	<hr/>
Total	518,223	668,530	36,074
	<hr/>	<hr/>	<hr/>

### 12. Creditors

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

	1997	1996
	£	£
Trade creditors	21,803	221,664
Corporation tax	44,212	76,392
Other taxation and social security	-	32,081
Sundry creditors	192,529	90,963
	<hr/>	<hr/>
	258,544	421,100
	<hr/>	<hr/>

# TU FUND MANAGERS LIMITED

## Notes to the financial statements - (continued)

### 13. Deferred Taxation

	1997	1996
	£	£
Opening balance	961	1,583
Tax due to timing differences	1,098	961
Deferred tax written back	(961)	(1,583)
	<hr/>	<hr/>
Closing balance	1,098	961
	<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

	1997	1996
	£	£
Ordinary shares of £1 each Issued, authorised and fully paid	150,000	150,000
	<hr/>	<hr/>

### 15. Profit & Loss Account

	1997	1996
	£	£
Balance at 1 April	728,896	631,215
Retained profit for the year	84,361	97,681
	<hr/>	<hr/>
Balance at 31 March	813,257	728,896
	<hr/>	<hr/>

### 16. Reconciliation of Movement in Shareholder's Funds

	1997	1996
	£	£
Profit for the financial year	149,361	147,681
Dividends	(65,000)	(50,000)
	<hr/>	<hr/>
Net addition to shareholders' funds	84,361	97,681
Opening shareholders' funds	878,896	781,215
	<hr/>	<hr/>
Closing shareholders' funds	963,257	878,896
	<hr/>	<hr/>

# TU FUND MANAGERS LIMITED

## Notes to the financial statements - (continued)

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

	1997	1996
	£	£
Operating profit	141,069	152,527
Depreciation	6,864	2,510
(Increase) in stocks	(27,360)	(1,504)
Decrease in debtors	13,931	24,324
(Decrease)/Increase in creditors	(145,377)	215,596
Taxation on distributions	(5,891)	(4,236)
	<hr/>	<hr/>
Net cash (Outflow)/Inflow from operating activities	(16,764)	389,217
	<hr/>	<hr/>

### 18. Analysis of changes in cash and cash equivalents during the year

	1997	1996
	£	£
Balance at 1 April	832,399	446,654
Net cash (Outflow)/Inflow in the year	(203,382)	385,745
	<hr/>	<hr/>
Balance at 31 March	629,017	832,399
	<hr/>	<hr/>

### 19. Lease Commitments

The Company is committed to make a payment of £13,540 (1996: £13,540) during the coming year in respect of an operating lease in respect of land and buildings, with an expiry date more than 3 years from the balance sheet date.

### 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  $\frac{1}{12}$ <sup>th</sup> of 0.3% of the funds under management at the end of the preceding month.