

TU FUND MANAGERS LIMITED

ANNUAL REPORT FOR THE YEAR ENDED

31 MARCH 2003



Registration Number: 697641

FSA Registration Number: 122346

T U FUND MANAGERS LIMITED

1. Report of the Directors for the year ended 31 March 2003

The directors submit their report together with the audited financial statements of the company for the year ended 31 March 2003.

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 decreased by 39% to £82m (2002: £136m).

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 £56,435 (2002: £54,374 loss). During the year a donation of £150,000 was made to the TUUT Charitable Trust, the parent company of TU Fund Managers Limited (2002: £100,000). Gross profit decreased 28% to £1,019,699 (2002: £1,413,373).

No interim dividend was paid during the year (2002: nil). The directors do not recommend the payment of a final dividend (2002: £nil). The profit for the financial year of £56,435 (2002: £54,374 loss) 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

Andrew Cunningham

Alan Tuffin, CBE

Paul Blagbrough

Stephen Pickering

Margaret Prosser, OBE

David Sachon

Rosalind Gilmore, CBE

Paul Noon

Bob Crow (appointed 4 September 2002, resigned 10 January 2003)

Mark Cornwall-Jones, Andrew Cunningham, David Sachon and Paul Noon were re-elected at the 2002 Annual General Meeting held on 30 August 2002. The directors due to retire by rotation are The Lord Christopher, Alan Tuffin and Rosalind Gilmore, 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 (2002: £nil).

Apart from the donations made to the parent company, there were no other charitable donations made during the year.

7. **Auditors**

At the Annual General Meeting held on 30 August 2002, a resolution was passed appointing KPMG Audit Plc as the company's auditors.

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 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 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



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Date: 28 July 2003

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.

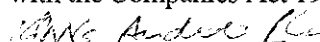
Basis of opinion

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG Audit Plc
Chartered Accountants
Registered Auditors

Date: 28 July 2003

TU FUND MANAGERS LIMITED

Profit and loss account for the year ended 31 March 2003

	Notes	2003 £	2002 £
Turnover	2	3,498,539	6,736,235
Less:- Cost of sales		(2,478,840)	(5,322,862)
Gross profit		1,019,699	1,413,373
Administrative expenses	1(c),3	(882,476)	(1,450,633)
Donation to parent company		(150,000)	(100,000)
Operating loss		(12,777)	(137,260)
Other interest receivable and similar income	4	90,495	72,872
Other interest payable and similar charges	5	(2,121)	(3,581)
Profit/(loss) on ordinary activities before taxation		75,597	(67,969)
Tax (charge)/credit on profit/(loss) on ordinary activities	8	(19,162)	13,595
Profit/(loss) for the financial year on ordinary activities after taxation		56,435	(54,374)
Proposed dividends		-	-
Retained profit/(loss) for the financial year	15	56,435	(54,374)

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

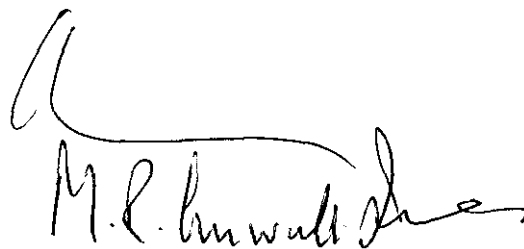
Balance sheet - as at 31 March 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible	10	9,502	6,702
Investments	1(d),11	796,363	546,789
Current assets			
Stock of units	1(b)	29,480	108,643
Debtors	12	257,753	1,189,751
Cash at bank and in hand		666,816	927,701
		<hr/>	<hr/>
		954,049	2,226,095
Less:			
Creditors - Amounts falling due within one year	13	(347,150)	(1,423,257)
		<hr/>	<hr/>
Net current assets		606,899	802,838
Total assets less current liabilities		1,412,764	1,356,329
		<hr/>	<hr/>
Net Assets		1,412,764	1,356,329
		<hr/>	<hr/>
Capital & reserves			
Called up and fully paid share capital	14	150,000	150,000
Profit and loss reserve	15	1,262,764	1,206,329
		<hr/>	<hr/>
Equity shareholders' funds	16	1,412,764	1,356,329
		<hr/>	<hr/>

These accounts were approved by the Board on 28 July 2003.

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 2003

	Notes	2003 £	2002 £
Net cash outflow from operating activities	17	(91,738)	(518,820)
Returns on investments and servicing of finance			
Interest received		59,749	51,300
Interest paid		(2,121)	(3,581)
Distributions received		26,902	18,766
Taxation			
Corporation tax received/(paid)		2,314	(23,000)
Capital expenditure and financial investment			
Purchase of Fixed Assets		(6,417)	(6,876)
Acquisition of Investments		(249,574)	-
Redemption of Investments		-	100,000
Equity dividends paid		-	-
Decrease in cash	18	<u><u>(260,885)</u></u>	<u><u>(382,211)</u></u>

These accounts were approved by the Board on 28 July 2003.

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

	2003	2002
	£	£
Unit trust management fee	1,003,576	1,329,140
Initial Service Charge	(19,350)	40,399
Income from Sale and Resale of units	2,514,313	5,366,696
	<u>3,498,539</u>	<u>6,736,235</u>

3. Administrative expenses

Operating profit is stated after deducting the following administrative expenses:

	2003	2002
	£	£
Investment Management fee	281,169	424,507
VAT refund from Customs and Excise	(310,236)	-
Secretarial fee	146,875	146,875
Administration expenses	325,793	343,052
Sales Commission	-	12,063
Auditor's remuneration		
- TU Fund Managers Limited	20,592	35,644
- other services	1,004	18,859
Directors' emoluments		
- fees for management	55,900	64,050
- paid to third parties	13,513	17,250
Depreciation	3,617	3,658
Rental operating lease payments	17,910	17,910
Other rent & rates	16,938	15,897
Employment costs, including training	120,711	59,770
Marketing	115,741	176,267
Printing & Stationery	6,970	2,644
Legal & Professional	14,166	18,846
Consultancy	21,898	45,346
Sundry	29,915	47,995
	<u>882,476</u>	<u>1,450,633</u>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

4. Other interest receivable and similar income

	2003	2002
	£	£
Income from listed investments	31,763	21,279
Bank interest receivable and other income	58,732	51,593
	<u>90,495</u>	<u>72,872</u>

5. Other interest payable and similar charges

	2003	2002
	£	£
Bank interest payable	2,121	3,581
	<u>2,121</u>	<u>3,581</u>

6. Number of employees and staff costs

Other than the directors of the company, the number of employees during the year were two full-time and one part-time (2002: one full-time and one part-time). The aggregate payroll costs of these persons were as follows:

	2003	2002
	£	£
Salaries	107,161	51,724
Social Security Costs	13,550	6,959
	<u>120,711</u>	<u>58,683</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 and other services, in accordance with Part V of Schedule 5 of the Companies Act 1985, are as follows:-

	2003	2002
	£	£
Aggregate for directors	69,413	81,300
	<u>69,413</u>	<u>81,300</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.

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

	2003 £	2002 £
Current tax on income for the year at the rate of 19% (2002: 20%)	16,811	(13,595)
Adjustments in respect of prior periods	2,351	-
	<u>19,162</u>	<u>(13,595)</u>

b) Reconciliation of profit/(loss) 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%, 2002: 30%). The differences are explained below:

	2003 £	2002 £
Profit/(loss) on ordinary activities before tax	75,597	(67,969)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax (30%, 2002: 30%)	22,679	(20,391)
Effect of lower corporation tax rate applicable (19%, 2002: 20%)	(8,316)	6,796
<i>Effects of:</i>		
Expenses not deductible for tax purposes	2,547	-
Capital allowances for year in excess of depreciation	(99)	-
Adjustments in respect of prior periods	2,351	-
	<u>19,162</u>	<u>(13,595)</u>

9. Deferred tax asset

	2003 £	2002 £
At start of year	13,595	-
Deferred tax in profit and loss account for year	-	13,595
Deferred tax released and carried back against profits in prior years	(13,595)	-
	<u>-</u>	<u>13,595</u>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

10. Fixed assets - tangible

	Fixtures and Fittings £	Office Machinery £	Office Furniture £	Total £
Cost at 1 April 2002	12,702	16,494	26,148	55,344
Additions	-	6,417	-	6,417
Disposals	-	(2,390)	-	(2,390)
Cost at 31 March 2003	12,702	20,521	26,148	59,371
Depreciation at 1 April 2002	12,702	10,637	25,303	48,642
Provided in the year	-	3,279	338	3,617
Disposals in the year	-	(2,390)	-	(2,390)
Depreciation at 31 March 2003	12,702	11,526	25,641	49,869
<u>Net book values:</u>				
31 March 2002	-	5,857	845	6,702
31 March 2003	-	8,995	507	9,502

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 (2002: £782,401) are detailed below:

	Investments £
Cost at 1 April 2002	546,789
Additions cost at 31 March 2003	249,574
Redemptions – Cost	-
	<hr/>
Cost at 31 March 2003	<u>796,363</u>

	Cost £	Valuation £
Five Arrows International		
Reserves Ltd	20,000	84,387
TU British Trust	100,000	103,186
TU European Trust	55,601	125,200
TU Income Trust	250,000	193,062
British Government Stocks	<u>370,762</u>	<u>398,598</u>
	<u>796,363</u>	<u>904,433</u>

A potential tax liability of £20,533 (2002: £47,122) 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:-

	2003 £	2002 £
Trade debtors	48,983	1,052,767
Corporation tax debtor	15,722	6,792
Deferred tax asset	-	13,595
Prepayments and accrued income	193,048	116,597
	<hr/> <u>257,753</u>	<hr/> <u>1,189,751</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:-

	2003	2002
	£	£
Trade creditors	40,055	1,102,263
Corporation tax	12,884	-
Sundry creditors	7,922	5,647
Accruals and deferred income	136,289	215,347
Donation to parent company	150,000	100,000
	<u>347,150</u>	<u>1,423,257</u>

14. Called up and fully paid share capital

	2003	2002
	£	£
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

	2003	2002
	£	£
Balance at 1 April	1,206,329	1,260,703
Retained profit/(loss) for the year	56,435	(54,374)
Balance at 31 March	<u>1,262,764</u>	<u>1,206,329</u>

16. Reconciliation of movement in shareholder's funds

	2003	2002
	£	£
Profit/(loss) for the financial year after tax	56,435	(54,374)
Dividends	-	-
Net addition/(reduction) to shareholders' funds	56,435	(54,374)
Opening shareholders' funds	1,356,329	1,410,703
Closing shareholders' funds	<u>1,412,764</u>	<u>1,356,329</u>

TU FUND MANAGERS LIMITED

Notes to the financial statements - (continued)

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

	2003	2002
	£	£
Operating loss	(12,777)	(137,260)
Depreciation	3,617	3,658
Decrease/(increase) in stocks	79,163	(45,332)
Decrease/(increase) in debtors	935,842	(976,241)
(Decrease)/increase in creditors	(1,097,583)	636,355
Net cash outflow from operating activities	<u>(91,738)</u>	<u>(518,820)</u>

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

	2003	2002
	£	£
Balance at 1 April	927,701	1,309,912
Net cash outflow in the year	(260,885)	(382,211)
Balance at 31 March	<u>666,816</u>	<u>927,701</u>

19. Lease commitments

As at 31 March 2003, the company had the annual commitments under non-cancellable operating leases expiring as set out below:

	2003	2002
	£	£
	Land and Buildings	Land and Buildings
Within one year	13,433	17,910
In the second to fifth years inclusive	-	13,433
	<u>13,433</u>	<u>31,343</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 £125,000 (excluding VAT) per annum, (2001: £125,000) which is paid monthly. In addition there is a monthly investment management fee equal to $\frac{1}{12}^{\text{th}}$ 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 (2002: £20,000) for services rendered to the company outside of the normal directorial services.

The company acts as a manager for three authorised unit trusts (2002: 3). Each trust is controlled by the trustees, HSBC, the aggregate total of transactions for creations was £13,293,521 (2002: £13,790,670) and liquidations was £9,403,081 (2002: £8,473,755).

The amounts received in respect of gross management charges were £1,003,576 (2002: £1,329,140). The amounts outstanding at the year end in relation to management charges were £66,395 (2002: £106,321).