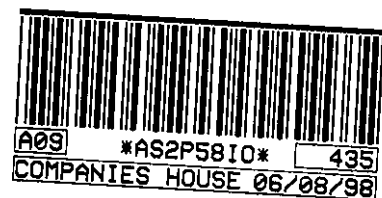


DIRECTORS' REPORT AND ACCOUNTS

COLONIAL UNIT TRUSTS (UK) LIMITED

31 DECEMBER 1997

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COLONIAL UNIT TRUSTS (UK) LIMITED

Directors' Report

Directors: R J Garnsworthy (Chairman)
D Condon
C A Edwards
C Harvey
R J Lewis

Secretary: J A Bamford

Registered Office: Colonial House, Quayside, Chatham Maritime, Kent, ME4 4YY

The Directors present their report and the audited accounts for the year ended 31 December 1997.

Principal Activities and Business Review

The principal activity of the Company is the management of four authorised Unit Trusts: the Colonial Balanced Trust, the Colonial Capital Trust, the Colonial Top 50 Trust and the Colonial High Income Trust. The Company is also a Personal Equiry Plan Manager.

Results and Dividends

The profit for the year after tax of £10,927 (1996 - £35,943) was transferred to reserves and is dealt with in note 12 to the accounts. The Directors do not recommend the payment of a dividend.

Subsequent Events and Future Developments

There have been no significant events since the balance sheet date.

Directors and their Interests

The Directors of the Company during the year were those listed above. None of the Directors had, at the end of the year, any interest in shares or debentures of the Company or other UK group companies. No Director nor a member of his immediate family was during the financial year granted, nor did any such person exercise, any right to subscribe for shares in or debentures of the Company or another UK body corporate in the same group.

COLONIAL UNIT TRUSTS (UK) LIMITED

Directors' Report (continued)

Statement of Directors' Responsibilities in respect of the Accounts

Company law requires the Directors to prepare financial statements for each financial year 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;
- prepare 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.

Auditors and General Meetings

The Company has by elective resolution dispensed with:

- (i) the laying of accounts and reports before the Company in general meeting;
- (ii) the holding of an annual general meeting; and
- (iii) the obligation to appoint auditors annually.

Accordingly KPMG Audit Plc continue in office as auditors.

By order of the Board



J.A. Bamford

Secretary

19 February 1998

**Report of the Auditors KPMG Audit Plc
To the Members of Colonial Unit Trusts (UK) Limited**

We have audited the financial statements on pages 5 to 10.

Respective Responsibilities of Directors and Auditors

As described on page 3, the Company's Directors are responsible for the preparation of the 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 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 the Company's affairs as at 31 December 1997 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**

19 February 1998

COLONIAL UNIT TRUSTS (UK) LIMITED

Profit and Loss Account

For the Year Ended 31 December 1997

	Note	1997 £	1996 £
Turnover	2	4,745,699	812,388
Administrative expenses		<u>(4,737,590)</u>	<u>(778,994)</u>
Operating profit	3	8,109	33,394
Interest receivable and similar income	4	47,340	39,272
Interest payable and similar charges	4	<u>(39,498)</u>	<u>(19,355)</u>
Profit on ordinary activities before taxation		15,951	53,311
Tax charge on profit on ordinary activities	5	<u>(5,024)</u>	<u>(17,368)</u>
Retained profit for year	12	<u>10,927</u>	<u>35,943</u>

The Company has no recognised gains or losses other than those stated above.

The results for the year arise from continuing activities.

COLONIAL UNIT TRUSTS (UK) LIMITED

Balance Sheet as at 31 December 1997

		1997	1996
	Note	£	£
Current assets			
Stock of units		119,090	76,802
Debtors	8	547,006	511,876
Investments	9	650,000	688,483
Cash at bank and in hand		1,150,180	439,878
		<u>2,466,276</u>	<u>1,717,039</u>
Creditors - amounts falling due within one year	10	<u>(1,630,493)</u>	<u>(892,183)</u>
Net assets		<u>835,783</u>	<u>824,856</u>
Capital and reserves			
Called up share capital	11	1,000,000	1,000,000
Profit and loss account	12	<u>(164,217)</u>	<u>(175,144)</u>
Equity shareholders' funds		<u>835,783</u>	<u>824,856</u>

The financial statements on pages 5 to 10 were approved by the Board of Directors on 19 February 1998 and were signed on its behalf by:



C A Edwards
Director
19 February 1998

COLONIAL UNIT TRUSTS (UK) LIMITED

Notes to the Accounts for the Year Ended 31 December 1997

1. Accounting policies

(a) Accounting convention

The accounts are prepared under the historical cost convention and applicable accounting standards.

The Company has relied on the exemption, given in Financial Reporting Standard 1 (revised 1996), not to disclose a separate cash flow statement on the grounds that the parent company includes the Company in its own published consolidated financial statements (see note 13).

The Company has relied on the exemption given in Financial Reporting Standard 8 not to disclose transactions with entities that are part of the group and qualify as related parties, on the grounds that its voting rights are more than 90% controlled within the group and the parent undertaking publishes consolidated financial statements which include the accounts of the Company.

(b) Deferred taxation

Deferred taxation is provided for, under the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that tax will be payable.

(c) Units held for resale

Units held by the Company pending resale or cancellation are valued at the lower of cost and cancellation price at the balance sheet date.

2. Turnover

Turnover comprises gross earnings from the management of unit trusts, including the net surplus arising from the purchase and resale of units.

3. Operating profit

Operating profit is stated after charging:

	1997	1996
	£	£
Auditors' remuneration	5,197	5,214
Amounts paid to auditors in respect of non-audit work	<u>17,055</u>	<u>7,638</u>

COLONIAL UNIT TRUSTS (UK) LIMITED

Notes to the Accounts for the Year Ended 31 December 1997

4. Interest Receivable and Payable

	1997	1996
	£	£
Interest receivable:		
Interest from cash on deposit	10,565	2,106
Interest from local authority deposits	36,775	37,166
	<u>47,340</u>	<u>39,272</u>
Interest payable:		
Interest on loan from parent undertaking	3,707	-
Interest on loan from fellow subsidiary undertaking	35,791	19,355
	<u>39,498</u>	<u>19,355</u>

5. Taxation

	1997	1996
	£	£
Group relief payable	5,024	21,502
Deferred tax	-	(4,134)
	<u>5,024</u>	<u>17,368</u>

6. Staff numbers and costs

The Company employs no staff. Day to day administration and operations are carried out by Colonial Financial Services (UK) Limited, which acts as an appointed representative for the Company under FSA 1986, which employs all group staff. Investment management of the Company's unit trusts is provided by secondment of staff from Colonial Financial Services (UK) Limited.

7. Directors' remuneration

None of the Directors received any emoluments during the year in respect of their services to the Company (1996 - £nil).

COLONIAL UNIT TRUSTS (UK) LIMITED

Notes to the Accounts for the Year Ended 31 December 1997

8. Debtors

	1997	1996
	£	£
Trade debtors	243,607	411,500
Amounts due from fellow subsidiary undertakings	115,261	43,164
Prepayments and accrued income	188,138	57,212
	<u>547,006</u>	<u>511,876</u>

9. Investments

	1997	1996
	£	£
Short term deposits	-	188,483
Local authority deposits	650,000	500,000
	<u>650,000</u>	<u>688,483</u>

10. Creditors - amounts falling due within one year

	1997	1996
	£	£
Trade creditors	57,374	99,500
Amounts due to Trustees for the liquidation of units	184,845	169,839
Amounts owed to parent undertaking	581,961	-
Amounts owed to fellow subsidiary undertakings	685,761	582,864
Group relief payable	5,024	-
Other creditors including tax and social security	115,528	39,980
	<u>1,630,493</u>	<u>892,183</u>

COLONIAL UNIT TRUSTS (UK) LIMITED

Notes to the Accounts for the Year Ended 31 December 1997

11. Called up share capital

	1997	1996
	£	£
Authorised:		
Ordinary shares of £1 each	1,000,000	1,000,000
Allotted, issued and fully paid:		
Ordinary shares of £1 each	1,000,000	1,000,000

12. Reconciliation of shareholders' funds and movements on reserves

	Share Capital	Profit & loss account	Total
	£	£	£
At 1 January 1996	1,000,000	(211,087)	788,913
Profit for the year	-	35,943	35,943
At 1 January 1997	1,000,000	(175,144)	824,856
Profit for the year	-	10,927	10,927
At 31 December 1997	1,000,000	(164,217)	835,783

13. Parent Undertakings

Colonial (UK) Limited is the parent undertaking of the Company which heads the smallest higher group of undertakings for which group accounts are drawn up.

Copies of the Colonial (UK) Limited consolidated accounts can be obtained from Colonial House, Quayside, Chatham Maritime, Kent, ME4 4YY.

Colonial Limited, a company incorporated in Victoria, Australia, is the ultimate parent company, it is also the parent undertaking of the largest group to consolidate the accounts of the Company.

Copies of the accounts of Colonial Limited can be obtained from 330 Collins Street, Melbourne, Victoria 3000, Australia.