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THE CHARTERHOUSE GROUP plc

DIRECTORS' REPORT

The Directors present their Report and Accounts for the nine months ended 30th September 1985 which have been prepared in accordance with the provisions of the Companies Act 1985.

Review of the Business:

On 8th February 1985 the Company became a wholly-owned subsidiary of The Royal Bank of Scotland Group plc.

Throughout the period the Company continued to be the holding company of a banking and investment group. The principal subsidiaries of the Company are listed on page 6.

During the period the Company acquired, from its ultimate holding company, the entire issued share capital of National Commercial & Glyns Limited for a consideration of £29,000,000. The investment was subsequently transferred at cost to Charterhouse Development Holdings Limited in exchange for the issue to the Company of 29,000,000 ordinary shares of £1 each in Charterhouse Development Holdings Limited, credited as fully paid.

Future Developments:

The Directors intend to continue appraising investment opportunities which, they consider, might be to the Company's advantage.

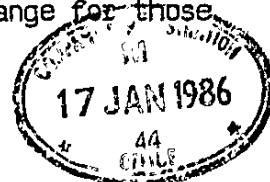
Results and Dividends:

The Company made a profit for the period ended 30th September 1985, after taxation and extraordinary items, of £4,611,611 (1984 £110,050,966) and has declared and paid no interim dividends (1984 £114,000,000) leaving aggregate retained profits carried forward in the balance sheet at £5,209,322 (1984 £597,711).

The Directors are not recommending the payment of a final dividend for the period.

Share Capital:

The Company issued 97,680 ordinary shares of 25p each on 11th March 1985, at a price of 87.5p per share, to the holders of 97,680 ordinary shares of 25p each in Keyser Ullmann Holdings Limited in exchange for those shares.



By Resolution of an Extraordinary General Meeting of the Company on 26th September 1985, the authorised share capital of the Company was increased to £75,000,000 by the creation of 100,000,000 ordinary shares of 25p each. Subsequently, on the same date, 116,000,000 ordinary shares of 25p each were issued at par to the Company's ultimate holding company, credited as fully paid, in consideration of the transfer to the Company of the entire issued share capital of National Commercial & Glyns Limited.

During the period, 25,000 ordinary shares of 25p each (0.5p paid), issued under the terms of The Charterhouse Group Senior Executive Incentive Scheme, were forfeited.

Directors:

The present Directors of the Company are:

Mr P E G Balfour
Mr J F Astbury
Mr M V Blank
Mr J E B Bowman
Mr E G Cox
Mr H E Farley
Mr G L W Ritchie
Mr R H Smith
Mr C M Winter.

Mr J E B Bowman and Mr G L W Ritchie were both appointed Directors on 3rd January 1985 and Mr H E Farley and Mr C M Winter were similarly both appointed on 8th February 1985. Mr J F Astbury and Mr R H Smith were both appointed on 27th February 1985.

Mr M M Halpern resigned on 8th February 1985 and Mr J B Hyde died on 20th August 1985.

Mr P E G Balfour, who was appointed a Director with effect from 1st December 1985, retires in accordance with the Articles of Association and, being eligible, offers himself for re-election.

Mr J F Astbury, Mr M V Blank and Mr J E B Bowman retire by rotation and, being eligible, offer themselves for re-election.

Directors' Interests:

The interests, if any, of the Directors and their families, as defined by the Companies Act 1985, in the share capital of the ultimate holding company, The Royal Bank of Scotland Group plc, at 8th February 1985 and 30th September 1985 are as follows:

	8th February 1985	30th September 1985
Mr H E Farley Ordinary 25p Shares	6,404	8,004
Mr C M Winter Ordinary 25p Shares	6,169	7,710

Close Company Provisions:

In the opinion of the Directors, the close company provisions of the Income and Corporation Taxes Act 1970, as amended, did not apply to the Company at 30th September 1985 and there has been no change in this respect since that date.

Auditors:

The Company's auditors, Deloitte Haskins & Sells, have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board

Michael G. Hotchin

Michael G Hotchin
Secretary.

- 2 DEC 1985

AUDITORS' REPORT TO THE MEMBERS OF THE CHARTERHOUSE GROUP PLC

We have audited the financial statements on pages 2 to 8 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 30th September 1985 and of the result for the period then ended and comply with the Companies Act 1985.

The financial statements do not include a statement of source and application of funds as required by Statement of Standard Accounting Practice number 10.

London EC4

2 December 1985

Delia Y. Haskins & Pells

Chartered Accountants

PROFIT AND LOSS ACCOUNT
for the period ended 30th September 1985

	Note	9 Mths 1985 £	Year 1984 £
Income from shares in group companies	2	5,000,000	44,307,537
Interest receivable and similar income	3	52,875	7,389,285
Administrative expenses		(1)	(5,067)
Exceptional amount written off current assets	4	(161,882)	-
Interest payable	5	(279,381)	(5,592,241)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,611,611	46,099,514
Taxation	6	-	(502,874)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		4,611,611	45,596,640
Extraordinary items	7	-	64,454,326
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL PERIOD		4,611,611	110,050,966
Dividends	8	-	(114,000,000)
		<hr/>	<hr/>
RETAINED PROFIT (LOSS) FOR THE PERIOD		£4,611,611	£(3,949,034)
		=====	=====

The notes on pages 4 to 8 form an integral part of these accounts.

BALANCE SHEET

30th September 1985

	Note	30th Sept. 1985 £	31st Dec. 1984 £
FIXED ASSETS			
Investments	9	106,744,338	72,563,491
CURRENT ASSETS			
Debtors	10	11,928,000	12,255,109
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR	11	(140,196)	(773,252)
NET CURRENT ASSETS		11,787,804	11,481,857
		<u>£118,532,142</u> =====	<u>£84,045,348</u> =====
CAPITAL AND RESERVES			
Called up share capital	12	71,153,539	41,900,414
Share premium account	13	42,169,281	41,547,223
Profit and loss account	14	5,209,322	597,711
		<u>£118,532,142</u> =====	<u>£84,045,348</u> =====

Approved by the Board of Directors
on

M. G. G. G.
- 2 DEC 1985
George L. H. R. R. R.

)
) Directors
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The notes on pages 4 to 8 form an integral part of these accounts.

NOTES TO THE ACCOUNTS
30th September 1985

	30th Sept. 1985 £	31st Dec. 1984 £
1. ACCOUNTING POLICIES These financial statements have been prepared in accordance with the historical cost convention.		
2. INCOME FROM SHARES IN GROUP COMPANIES Dividends receivable from subsidiaries	£5,000,000 =====	£44,307,537 =====
3. INTEREST RECEIVABLE AND SIMILAR INCOME Loan interest from subsidiaries Bank deposit interest from subsidiary Other bank interest	52,875 - - £52,875 =====	7,353,891 10,971 24,423 £7,389,285 =====
4. EXCEPTIONAL AMOUNT WRITTEN OFF CURRENT ASSETS Provision against amount owed by subsidiary	£161,882 =====	£- ==
5. INTEREST PAYABLE To subsidiary on bank loans and overdrafts repayable within 5 years To subsidiaries on loans repayable within 5 years On other loans repayable within 5 years	279,381 - - £279,381 =====	- 403,527 5,188,714 £5,592,241 =====
6. TAXATION Tax credit on franked investment income Advance corporation tax	- - £- ==	(2,404,628) 1,901,754 £(502,874) =====

No taxation liability is anticipated based upon the results for the period.

NOTES TO THE ACCOUNTS
30th September 1985

	30th Sept. 1985 £	31st Dec. 1984 £
7. EXTRAORDINARY ITEMS		
Net profit on disposal of investments in subsidiaries	-	66,239,977
Provision for net loss on transactions regarded as being outside the company's ordinary activities	-	(1,255,791)
Provision against investment in subsidiary	-	(98)
Provision against amounts owed by subsidiary	-	(529,762)
	-	-
Taxation thereon	-	64,454,326
	-	-
	£-	£64,454,326
	==	=====

8. DIVIDENDS		
Ordinary		
Interim paid (nil per share) (1984 - 68.03p per share)	£-	£114,000,000
	==	=====

9. FIXED ASSET INVESTMENTS

	Subsidiaries Shares £	Loans £	Unlisted Investment £	Total £
Cost				
At 1st January 1985	49,397,145	23,636,444	-	73,033,589
Acquired/advanced	58,086,328	4,544,519	550,000	63,180,847
Disposal	(29,000,000)	-	-	(29,000,000)
At 30th September 1985	78,483,473	28,180,963	550,000	107,214,436
Provisions				
At 1st January 1985 and 30th September 1985	(98)	(470,000)	-	(470,098)
Net book value				
At 30th September 1985	£78,483,375	£27,710,963	£550,000	£106,744,338
	=====	=====	=====	=====
At 31st December 1984	£49,397,047	£23,166,444	£-	£72,563,491
	=====	=====	==	=====

NOTES TO THE ACCOUNTS
30th September 1985

9. FIXED ASSET INVESTMENTS (continued)

The company's principal subsidiaries, which are all wholly-owned and which, except where stated, are registered in England, are:

Charterhouse Development Holdings Limited (0.34% held by a subsidiary)

Charterhouse Finance Corporation Limited
(Registered in Scotland)

Charterhouse Japhet plc (held by a subsidiary)

Hocroft Trust Limited (59.57% held by a subsidiary)

Keyser Ullmann Holdings Limited

Myrayarn Limited

National Commercial & Glyns Limited (held by a subsidiary)

During the period the company acquired, from its ultimate holding company, the entire issued share capital of National Commercial & Glyns Limited for a consideration of £29,000,000. The investment was subsequently transferred at cost to Charterhouse Development Holdings Limited in exchange for the issue to the company of 29,000,000 ordinary shares of £1 each in Charterhouse Development Holdings Limited, credited as fully paid.

Group accounts have not been prepared because the company is itself a wholly-owned subsidiary of another body corporate registered in England.

In the opinion of the directors, the value of the investments is not less than the amounts at which they are included in the balance sheet.

	30th Sept. 1985 £	31st Dec. 1984 £
10. DEBTORS		
Amount owed by subsidiaries	£11,928,000 =====	£12,255,109 =====
11. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR		
Amount owed to holding company	-	397,073
Amount owed to subsidiaries	139,960	376,179
Accruals and deferred income	236	-
	£140,196 =====	£773,252 =====

NOTES TO THE ACCOUNTS
30th September 1985

12. SHARE CAPITAL

Authorised

300,000,000 (1984 - 200,000,000) ordinary
shares of 25p each

30th Sept. 1985 £	31st Dec. 1984 £
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£75,000,000	£50,000,000
=====	=====

Allotted

Fully paid

284,614,156 (1984 - 167,582,476) ordinary
shares of 25p each

71,153,539	41,895,619
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Partly paid ($\frac{1}{2}$ p paid)Nil (1984 - 959,000) ordinary shares
of 25p each

-	4,795
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£71,153,539	£41,900,414
=====	=====

97,680 ordinary shares of 25p each were issued on 11th March 1985, at a price of 87 $\frac{1}{2}$ p per share, to the holders of 97,680 ordinary shares of 25p each in Keyser Ullmann Holdings Limited in exchange for those shares.

By resolution of an extraordinary general meeting of the company on 26th September 1985, the authorised share capital of the company was increased to £75,000,000 by the creation of 100,000,000 ordinary shares of 25p each. Subsequently, on the same date, 116,000,000 ordinary shares of 25p each were issued at par to the company's ultimate holding company, credited as fully paid, in consideration of the transfer to the company of the entire issued share capital of National Commercial & Glyns Limited.

During the period, 25,000 ordinary shares of 25p each ($\frac{1}{2}$ p paid), issued under the terms of The Charterhouse Group Senior Executive Incentive Scheme, were forfeited.

NOTES TO THE ACCOUNTS
30th September 1985

	30th Sept. 1985 £	31st Dec, 1984 £
13. SHARE PREMIUM ACCOUNT		
At 1st January	41,547,223	41,257,406
Premium on: shares issued in the period	61,050	-
the exercise of share options	-	200,287
the paying up of partly paid shares	569,022	96,212
Partly paid shares forfeited	125	-
Expenses relating to issue of shares	(8,139)	(6,682)
At 30th September	<u>£42,169,281</u> =====	<u>£41,547,223</u> =====
14. PROFIT AND LOSS ACCOUNT		
Balance at 1st January	597,711	5,249,653
Retained profit (loss) for the period	4,611,611	(3,949,034)
Currency translation differences	-	(702,908)
Balance at 30th September	<u>£5,209,322</u> =====	<u>£597,711</u> =====
15. ULTIMATE HOLDING COMPANY		
The ultimate holding company is The Royal Bank of Scotland Group plc, which is registered in Scotland.		