CHARTERHOUSE PROPERTY FUNDS (HOLDING) LIMITED

FINANCIAL STATEMENTS

FOR THE PERIOD FROM
19 MARCH TO 31 DECEMBER 1997

Registered Number 3335872

DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the period from 19 March to 31 December 1997.

Incorporation

The Company was incorporated on 19 March 1997 as 259th Shelf Investment Company Limited. A Certificate of Incorporation on Change of Name to Charterhouse Property Funds (Holding) Limited was issued by the Registrar of Companies on 19 December 1997.

Capital

The Company has in issue two shares of £1 each, which, since 19 December 1997, have been beneficially owned by Charterhouse plc. The Company is, therefore, a subsidiary of Charterhouse plc.

Review of the Business

The Company was incorporated as an investment holding company to hold investments made on behalf of Charterhouse plc in the field of property fund management.

Future Developments

The Directors intend that the Company shall continue to act as such a holding company for Charterhouse plc.

Accounts and Dividends

The Company's expenses are borne by a fellow subsidiary undertaking, Charterhouse Bank Limited.

The Company made neither a profit nor a loss for the period under review. The state of the Company's affairs as at the end of the period under review is shown in the accompanying balance sheet.

No dividends were declared or paid during the period under review and the Directors are not recommending the payment of any dividend in respect of that period.

Directors

Mr E D Glover and Mr W M F von Guionneau were appointed Directors of the Company on 19 December 1997 and served as such for the remainder of the period under review.

Other than Serjeants' Inn Nominees Limited and Loviting Limited, which were Directors of the Company from the date of its incorporation until 19 December 1997, no other person was a Director at any time during the period under review.

Directors' Interests

Neither of the Directors had, at 31 December 1997, any interests in the shares in the Company or in the securities of any other company in the group of which it is a member.

Auditors

The Company's auditors, Coopers & Lybrand, have indicated their willingness to continue in office. Resolutions to appoint them and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

for PATERNOSTER SECRETARIES LIMITED
Secretary

22 April 1998

DIRECTORS' RESPONSIBILITIES

The Directors are required by law to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss, if any, for that period. The financial statements must be prepared in accordance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards.

In addition, the Directors are required:-

* to adopt suitable accounting policies and then apply them consistently, supported by judgements and estimates that are reasonable and prudent;

* to prepare financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for maintaining adequate accounting records, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

The Directors confirm that the financial statements have been prepared on a going concern basis as they are satisfied that the Company has the resources to continue in business for the foreseeable future.

REPORT OF THE AUDITORS TO THE MEMBERS OF CHARTERHOUSE PROPERTY FUNDS (HOLDING) LIMITED

We have audited the financial statements on pages 5 to 7.

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 affairs of the Company at 31 December 1997 and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
29 April 1998

BALANCE SHEET
as at 31 December 1997

	Notes	£
Fixed Assets		
Investments in subsidiary undertakings	6	72
Current Assets		
Debtors	7	2
Current Liabilities		
Creditors - amounts falling due within one year	8	(72)
Net Current Liabilities		(70)
Net Assets		2
Capital and Reserves		
Called up share capital	9	2
Equity Shareholders' Funds		2

The Financial Statements on pages 5 to 7 were approved by the Board of Directors on 22 April 1998, and signed on its behalf by:-

W M F von Guionneau) Guionneau
)
) Directors
)
E D Glover)

NOTES TO THE FINANCIAL STATEMENTS
31 December 1997

1. Accounting Policies

(a) *Basis of Preparation*
These financial statements have been prepared under the historical cost convention and in accordance with accounting standards applicable to the United Kingdom.

In accordance with the exemption available under Section 228 (1)(a) of the Companies Act 1985, the Company has not prepared consolidated financial statements.

(b) *Cash Flow Statement*
These financial statements do not contain a cash flow statement by virtue of the exemption available to the Company under paragraph 5(a) of Financial Reporting Standard No. 1 (Revised 1996).

2. Investments

Investments in subsidiary undertakings are carried at cost less provisions for permanent diminution in value.

3. Directors' Emoluments

The Directors' emoluments are borne by a fellow subsidiary undertaking, Charterhouse Bank Limited. It is not possible to allocate costs to Charterhouse Property Funds (Holding) Limited for the services performed by the Directors in relation to this company.

4. Employees

The Company had no employees during the period under review.

5. Auditors' Remuneration

The auditors' remuneration for the period has been borne by a fellow subsidiary undertaking, Charterhouse Bank Limited.

6. Investments in subsidiary undertakings

	1997 £
Cost	
19 March 1997	-
Additions	72
31 December 1997	72

The Company's subsidiary undertakings are listed below. All are wholly owned and incorporated in Great Britain and registered in England and Wales.

Name of Undertaking	Class of Capital	Class of Business
Charterhouse Property General Partner Limited	Ordinary shares	Investment company
Charterhouse Property LP Limited	Ordinary shares	Investment company
Charterhouse Property Fund Manager Limited	Ordinary Shares	Fund management company
Charterhouse Property Nominees Limited	Ordinary Shares	Nominee company

NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 December 1997

7.	Debtors	1997 £
	Amount due from immediate parent undertaking	2

8.	Creditors - amounts falling due within one year	1997 £
	Amounts due to immediate parent undertaking	72

9.	Share Capital	1997 £
	Authorised 100 Shares of £1 each	100
	Allotted, called up and fully paid 2 Shares of £1 each	2

10. Profit and Loss Account and Recognised Gains and Losses

The Company made neither a profit nor a loss during the period under review. No profit and loss account or statement of total recognised gains and losses has been prepared as there were no movements during the period under review.

11. Related Party Transactions

Under the terms of Financial Reporting Standard No. 8, Related Party Disclosures, the Company is exempt from disclosing transactions with companies 90% or more controlled within the same group, as the consolidated financial statements in which the Company is included are publicly available.

12. Parent Undertakings

The Company is a wholly owned subsidiary undertaking of Charterhouse plc, its controlling party, which is registered in England and Wales and which is the parent undertaking of the smallest group of which the Company is a member and for which group accounts are drawn up. Copies of those accounts can be obtained from the Company Secretary, Charterhouse plc, 1 Paternoster Row, St Paul's, London, EC4M 7DH.

The parent undertaking of the largest group of which the Company is a member and for which group accounts are drawn up is European Corporate Finance Holding SA, the company regarded by the Directors as being the Company's ultimate parent undertaking and ultimate controlling party as at 31 December 1997, which is incorporated in Luxembourg and which was then directly or indirectly jointly owned by BHF-BANK AG and Credit Commercial de France SA.

Copies of the accounts of European Corporate Finance Holding SA are available from that company at 8, Avenue Marie-Thérèse, L 2132 Luxembourg.

On 30 March 1998, Credit Commercial de France SA purchased the 50 per cent equity interest held by BHF-BANK AG in European Corporate Finance Holding SA, as a result of which that company became a wholly owned subsidiary undertaking of Credit Commercial de France SA.

PLEASE FILE IN ACCORDANCE WITH
SECTION 228 (2) (e) COMPANIES ACT 1985
ON FILE OF CHARTERHOUSE PROPERTY
FUNDS (HOLDINGS) LIMITED - 3335872.

CHARTERHOUSE PLC

FINANCIAL STATEMENTS

31 DECEMBER 1997

Registered Number 288819

CHARTERHOUSE PLC DIRECTORS

CHAIRMAN AND CHIEF EXECUTIVE
M L Hepher

DEPUTY CHAIRMAN	AREA OF RESPONSIBILITY
D W Parish	Stockbroking
MANAGING DIRECTORS	
J G Bonnyman	Development Capital
W M F von Guionneau	Treasury, Structured Finance and Property Services

FINANCE DIRECTOR
R W Dix

SECRETARY
M G Hotchin

Registered Office

1 Paternoster Row
St Paul's
London EC4M 7DH
Tel: 0171 248 4000

Auditors

Coopers & Lybrand
1 Embankment Place, London WC2N 6NN

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 1997.

Profits and Dividends

The Group made a profit before tax for the year ended 31 December 1997 of £96.3m (year to 31 December 1996: £40.4m). The profit after taxation amounted to £66.1m (year to 31 December 1996: £27m). An interim dividend amounting to £30m has been paid (year to 31 December 1996: £19.5m) and a second interim dividend of £30.5m (year to 31 December 1996: £13.5m) is proposed.

Review of the Business

The Company, which is a wholly owned subsidiary undertaking of Charterhouse European Holding Limited, is a holding company co-ordinating the activities of its subsidiary undertakings which are engaged in providing a range of banking, development capital and stockbroking services.

Charterhouse European Holding Limited was jointly owned, through an intermediate holding company, by BHF-BANK AG and Crédit Commercial de France SA.

On 30 March 1998 Crédit Commercial de France SA purchased the 50 per cent. equity interest held by BHF-BANK AG in the Company's ultimate parent, as a result of which that company became a wholly-owned subsidiary undertaking of Crédit Commercial de France SA.

Directors

The present members of the Board of Directors are named on the previous page.

Mr M L Hepher retires by rotation at the next Annual General Meeting and, being eligible, offers himself for re-appointment.

Mr J C Metz and Mr M V Blank resigned as Directors on 31 July 1997 and 31 October 1997 respectively. Mr E G Cox retired as a Director on 1 March 1998.

Mr J G Bonnyman was appointed a Managing Director of the Company effective 1 March 1998. In accordance with the Articles of Association he retires at the next Annual General Meeting and, being eligible, offers himself for re-appointment.

Directors' Interests

No Director held a beneficial interest in the share capital of Charterhouse plc or of the holding company, Charterhouse European Holding Limited.

Directors' and Officers' Liability Insurance Policy

During the year the Company has maintained cover for its Directors and Officers, and those of its subsidiary undertakings, under a Directors' and Officers' liability insurance policy, as permitted by section 137 of the Companies Act 1989.

Corporate Governance

The Directors have reviewed the Company's system of corporate governance, and, more specifically, have compared the scope and effectiveness of internal procedures and practices against the standards set by the Cadbury Committee on the Financial Aspects of Corporate Governance. As a result of this review, and in order to place beyond doubt the Directors' commitment to the highest standards of corporate behaviour, the Directors have deemed it appropriate to formalise many of the requirements contained in the Code of Best Practice.

The following summary outlines the framework within which the Company operates its system of corporate governance.

The Board, which has a formal schedule of matters specifically reserved to it for decision, has ultimate responsibility for the proper stewardship of the Group in all its undertakings and meets regularly throughout the year to discharge its responsibilities.

The Board has delegated the responsibility for the day to day management of the Company's affairs to the Charterhouse Executive Committee, and for remuneration issues to the Charterhouse Group Remuneration Committee. Both are formal committees of the Board whose terms of reference and membership are under continual review by the Board.

Whilst the Company has no formal audit committee of its own, that function is fulfilled by the Charterhouse Audit Committee (a formal committee of the Charterhouse European Holding Limited Board).

Year 2000 Compliance

During 1996 the Company and its subsidiary undertakings sought confirmation from their external suppliers of computer software that the products used by the Company and those subsidiary undertakings had been tested and found to be Year 2000 compliant.

Upon receipt of such assurances, the systems were subjected to testing within the corporate environment, as were systems written internally by the Company and its subsidiary undertakings.

Regular reports are submitted to the Charterhouse Executive Committee and it is envisaged that all testing will be completed by the end of 1998, leaving 1999 as a contingency period.

Payment Policies

Suppliers to the Company and its subsidiary undertakings are numerous and operate in a diverse range of businesses. As such, the Company and its subsidiary undertakings do not employ a single payment policy for their suppliers but ensure that payments are made upon receipt of an invoice from a supplier, or alternatively in accordance with agreed terms and conditions.

The number of supplier creditor days outstanding at 31 December 1997 was 21 days.

Employment Policies

The Company and its subsidiary undertakings are firmly committed to the continuation of the policy of communication and consultation with their employees. Arrangements, including regular briefing meetings and, in the case of Charterhouse Bank Limited, a joint consultative committee, have been established for the provision of information to all employees on matters which affect them.

The Company and its subsidiary undertakings are committed to giving fair consideration to applications for employment made by disabled persons. Continuing employment and opportunities for training are also provided for employees who become disabled.

Charitable Contributions

The total amount given for charitable purposes by the Company and its subsidiary undertakings during the year amounted to £315,000 (1996: £84,250).

Auditors

The auditors of the Company, Coopers & Lybrand, have indicated their willingness to continue in office. Resolutions to appoint them and to authorise the Directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board

Michael G. Hotchin

Michael G Hotchin (Secretary)
London
28 April 1998

DIRECTORS' RESPONSIBILITY STATEMENT & AUDITORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by law to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit or loss for that year of the Group. The financial statements must be prepared in accordance with applicable accounting standards.

In addition, the Directors are required:

- to adopt suitable accounting policies and then apply them consistently supported by judgements and estimates that are reasonable and prudent;

- to prepare financial statements on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they are satisfied that the Company and the Group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts, and confirm that these financial statements comply with the above requirements.

The Directors are also responsible for maintaining adequate accounting records, for safeguarding the assets of the Company and the Group and for preventing and detecting fraud and other irregularities.

REPORT OF THE AUDITORS

To the Members of Charterhouse plc

We have audited the financial statements on pages 3 to 23.

Respective Responsibilities of Directors and Auditors

As described above, 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 affairs of the Company and the Group at 31 December 1997 and of the profit and total recognised gains of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
29 April 1998

CONSOLIDATED PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997

	Notes	1997 £m	1996 £m
Interest receivable			
- Interest receivable & similar income arising from debt securities & other fixed income securities		38.6	25.6
- Other interest receivable and similar income		43.9	60.3
Interest payable		(67.3)	(74.2)
Net interest income		15.2	11.7
Dividend income from equity shares		4.7	7.1
Fees and commissions receivable		47.4	48.1
Fees and commissions payable	2	(7.2)	(0.9)
Dealing profits		4.6	4.6
Other operating income	3	105.5	41.6
Operating income		**170.2**	**112.2**
Administrative expenses	4	(74.8)	(73.9)
Depreciation and amortisation	21	(1.6)	(1.4)
Provisions			
Release of provisions for bad and doubtful debts	15	1.4	1.0
Provisions for contingent liabilities and commitments	28	(1.6)	0.2
Operating profit		93.6	38.1
Income from associated undertakings		2.7	2.3
Profit on ordinary activities before taxation	5	**96.3**	**40.4**
Tax on profit on ordinary activities	6	(30.2)	(13.4)
Profit on ordinary activities after taxation		66.1	27.0
Equity minority interests		(6.2)	-
Profit for the financial year		59.9	27.0
Equity dividends	7	(60.5)	(33.0)
Retained deficit	8	(0.6)	(6.0)

Movements in profit and loss account reserves are shown in Note 30 to these financial statements.

All activities of the Group are regarded as continuing.

There is no difference between the profit on ordinary activities before tax and the loss retained by the Group for the financial year stated above, and their historical cost equivalents.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1997 £m	1996 £m
Profit for the financial year	59.9	27.0
Currency translation differences on foreign currency net investments	-	(0.2)
Revaluation of investments on acquisition of subsidiary	3.5	
Total recognised gains and losses relating to the year	63.4	26.8

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 1997

	Notes	1997 £m	1996 £m
Assets			
Cash and balances at central banks		0.1	0.1
Loans and advances to banks	13	381.6	584.1
Loans and advances to customers	14	111.0	152.0
Debt securities	16	818.1	769.4
Equity shares and other variable yield securities	17	44.6	41.6
Interests in associated undertakings	18	2.7	9.4
Tangible fixed assets	21	29.1	32.8
Other assets	22	234.3	292.7
Prepayments and accrued income		12.6	10.5
Total assets		1,634.1	1,892.6
Liabilities			
Deposits by banks	23	641.3	822.4
Customer accounts	24	319.1	401.1
Certificates of deposit in issue	25	200.5	163.6
Other liabilities	26	184.9	242.4
Accruals and deferred income		51.9	45.4
Provision for liabilities and charges			
- deferred taxation	27	17.0	12.4
- other provisions for liabilities and charges	28	16.5	14.9
		1,431.2	1,702.2
Capital and reserves			
Called up share capital	29	73.2	73.2
Share premium	30	42.2	42.2
Other reserves	30	4.2	-
Profit and loss account	30	73.2	75.0
Equity interests		190.8	188.4
Non-equity interests		2.0	2.0
Total shareholders' funds	31	192.8	190.4
Equity minority interests		10.1	-
Total liabilities and shareholders' funds		1,634.1	1,892.6
Memorandum items			
Contingent liabilities			
- acceptances and endorsements	35	54.4	78.5
- guarantees and assets pledged as collateral security	35	7.9	7.6
		62.3	86.1
Commitments			
- credit lines	35	249.2	64.3
- other commitments	35	-	36.3
		249.6	100.6

The financial statements on pages 3 to 23 were approved by the Board of Directors on 28 April 1998 and are signed on its behalf by:-

M L Hepher)
) Directors
R W Dix)

BALANCE SHEET
AT 31 DECEMBER 1997

	Notes	1997 £m	1996 £m
Fixed Assets			
Investments			
Shares in subsidiary undertakings	19	183.1	179.1
Loans to subsidiary undertakings	20	6.8	4.0
		189.9	183.1
Current Assets			
Amounts due from subsidiary undertakings		50.9	35.1
Other investments		0.1	0.1
		51.0	35.2
Creditors : Amounts falling due within one year			
Taxation		7.2	4.6
Other liabilities		31.5	14.5
Accruals and deferred income		9.4	8.8
		48.1	27.9
Net current assets		2.9	7.3
Total assets less current liabilities		192.8	190.4
Capital and reserves			
Called-up share capital	29	73.2	73.2
Share premium account	30	42.2	42.2
Revaluation reserve	30	76.8	72.8
Profit and loss account	30	0.6	2.2
Equity interests		190.8	188.4
Non-equity interests		2.0	2.0
Total shareholders' funds	31	192.8	190.4

The financial statements on pages 3 to 23 were approved by the Board of Directors on 28 April 1998 and are signed on its behalf by:-

M L Hepher)
) Directors
R W Dix)

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

a *Basis of preparation*

The consolidated financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable to banking companies and banking groups. The presentation of the consolidated financial statements reflects the Companies Act 1985 (Bank Accounts) Regulations 1991 which brought into effect the requirements of the EC Bank Accounts Directive. The holding company is not a banking company and consequently its balance sheet is presented under Schedule 4 of the Companies Act 1985.

The financial statements have been prepared under the historical cost convention modified by the revaluation of investments in subsidiary and associated undertakings, fixed assets and certain trading assets, and in accordance with applicable UK accounting standards except as disclosed in notes 1 (p), 1 (q) and 32 below.

b *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiary and quasi-subsidiary undertakings and the group's share of the results and post-acquisition reserves of its associated undertakings. The financial statements of subsidiary and associated undertakings are coterminous with those of Charterhouse plc, apart from Cromwell Land Holdings Limited, whose results have been consolidated from management accounts drawn up to 31 December 1997 and 31 December 1996 respectively.

The results of subsidiary and associated undertakings acquired or sold are included from the date of acquisition or to the date of sale respectively.

Goodwill is calculated as the difference between the cost of investment in subsidiary and associated undertakings and the fair values of the assets and liabilities purchased at the date of acquisition. Goodwill is charged to reserves in the year of acquisition. Negative goodwill is transferred to reserves.

Certain of the Group's investments in subsidiary undertakings are excluded from consolidation on the bases set out in accounting policy notes p and q below. In addition, investments in subsidiary companies where the group's interests are restricted by long term contractual agreements are excluded from the group consolidation and accounted for as equity shares.

c *Income and expense recognition*

In general, income and expenses, including interest, are included in the profit and loss account on an accruals basis, except where assets and liabilities are included in trading portfolios which are accounted for on a fair value basis. The fair value, less any associated dealing costs incurred, is calculated by reference to all anticipated future cash flows, valued at year end interest and exchange rates, net of cash paid or received, discounted back to net present value. The net movement in fair value during the period is taken to the profit and loss account after making an adjustment to reflect all anticipated future risks and costs, including the potential cost of closing out positions and identifiable dealing costs.

The amount receivable and payable in respect of trading assets and liabilities included at fair value, is included as a debtor and creditor respectively within other assets and liabilities. In accordance with industry standard practice, no offset between amounts receivable and payable to a counterparty is made unless legally enforceable.

d *Dealing profits*

Dealing profits comprise profits and losses from transactions in securities and foreign exchange activities from dealing in financial instruments, including interest, less associated funding costs.

e *Fees and commissions*

Lending fees and commissions charged in lieu of interest are amortised over the lives of the underlying contracts. All other fees and commissions are accounted for when invoiced on completion of services provided to clients.

f *Foreign currencies*

Assets, liabilities and trading results denominated in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date. All exchange differences relating to trading are dealt with in the profit and loss account other than those arising from the application of closing rates of exchange to the opening net assets of overseas subsidiary and associated undertakings and related hedging transactions, are taken to reserves.

g *Financial instruments with off-balance sheet risk*

Off-balance sheet items such as forward rate agreements, interest rate swaps, currency swaps, interest rate options, foreign currency options and financial futures are segregated into hedging transactions and trading transactions. The valuation of trading transactions is as disclosed in Principal Accounting Policy (c).

Generally, hedging transactions are valued on the same basis as the assets, liabilities or positions which are the subject of the hedge. Any profit or loss is recognised at the same time as any profit or loss arising from the transactions which are the subject of the hedge.

Fees and amounts receivable and payable arising from transactions in trading portfolios, are included in the profit and loss account at their fair value.

g ***Financial instruments with off-balance sheet risk (continued)***

Forward foreign exchange contracts are valued at the forward market rates ruling at the balance sheet date and the differences between those values and the contract prices are taken to the profit and loss account. Where, however, matched spot against forward contracts are entered into in conjunction with loans and deposits the resultant gains or losses are apportioned over the period of the contracts.

h ***Depreciation***

Long leasehold buildings are maintained to a high standard by regular expenditure charged to the profit and loss account. In the opinion of the Directors the residual value would be sufficiently high to make any depreciation charge immaterial. The residual values are based on a recent valuation of the properties in question. Should the Directors consider there to be a permanent diminution in value the asset will be written down.

Motor cars and other equipment are depreciated on a straight line basis over their anticipated useful lives, being 3 to 4 years for motor cars and 3 to 10 years for other equipment.

i ***Post-retirement benefits***

The Group operates pension schemes and provides health insurance in retirement for the majority of pensioners and staff. Contributions are charged to the profit and loss so as to spread the cost over the period the employees are expected to work with the Group.

j ***Properties***

Investment properties are expected to be held for three to five years. The Directors consider it prudent, given the nature of the investment, to defer any recognition of any change in property value until disposal of the property. Costs associated with entering into the property transaction, which are not considered by the Directors to be capital in nature, are written off as incurred. Where the directors consider there to be a diminution in the value of the property, depreciation amounts are charged to the profit and loss account. In the opinion of the Directors the cost of the properties is not materially different from market value.

Other properties which are expected to be held for less than three years, are held at the lower of cost and net realisable value.

k ***Provisions for bad and doubtful debt***

Specific provisions are made against advances when, as a result of a detailed appraisal of the advances portfolio, it is considered that recovery is doubtful. The provisions are netted against advances. Provisions made during the period (less amounts released and recoveries of amounts written off in previous years) are charged to the profit and loss account. Advances classified as bad debts are written off in part or in whole when the extent of the loss incurred has been confirmed. Interest on doubtful advances is not recognised in the profit and loss account but held in suspense.

l ***General provision***

A general provision has been established to provide for contingencies and liabilities which may exist within the Group.

m ***Finance and operating leases***

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitment is included in other liabilities. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the profit and loss account. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets.

n ***Debt securities***

Debt securities, including certificates of deposit, bills discounted and fixed and floating rate notes are included at market value except where it is intended that they should be held to maturity when they are included at cost adjusted for accrued interest and the amortisation of any premium or discount to redemption. Unlisted debt securities are stated in aggregate at the lower of cost less amounts written off and Directors' valuation. The profit or loss arising from the sale of debt securities which are intended to be held to maturity is amortised over the period to maturity of the asset sold. The Directors consider that only those debt securities which are intended to be held to maturity are financial fixed assets.

o ***Equity shares***

All equity shares are classified as investment securities. Listed investments are stated individually at the lower of cost and market value, unless the Directors consider there has been a permanent diminution in value in which case the investment is stated at cost less amounts written off. Unlisted investments are stated at the lower of cost less amounts written off and Directors' valuation.

p *Investments in limited partnerships/unit trusts ("Funds"):*

Certain subsidiary undertakings of the Company are general partners or managers of Funds which invest in, primarily, unlisted companies, principally in the UK and Europe. As the general partners/managers are in a position to exercise dominant influence over the Funds, the Funds are considered to be subsidiary undertakings. The Directors are of the opinion that consolidating the accounts of the Funds would not present a true and fair view of the Group's results for the year or state of affairs at the year end. In order to present a true and fair view, the Directors consider that the accounts of the funds should be proportionally consolidated into the Group accounts. However, a proportional consolidation has not been considered necessary for the current year as the effect on the profit for the year and on net assets would not be material. The impact of fully consolidating the accounts of the Funds is shown in note 37. Advantage has been taken of the exemption conferred by regulation 7 of the Partnerships and Unlimited Companies (Accounts) Regulations, 1993 and the accounts of the limited partnerships prepared under the aforementioned regulations have not been appended to these accounts.

q *Investments held through limited partnerships/unit trusts ("Fund Investments")*

Certain of the Group's Fund Investments fall within the definition of associated undertakings contained in the Companies Act 1985 (as amended). The Act requires that the Group should equity account for such investments. The Directors are of the opinion that equity accounting for these investments would be misleading since this would not reflect the Group's beneficial interest in such investments. In order to present a true and fair view, the directors consider that the beneficial interest of the Fund in the Fund Investments should be proportionately consolidated into the Group accounts. However, a proportional consolidation has not been considered necessary for the current year as the effect on the profit for the year and on net assets would not be material.

r *Taxation*

Taxation is based on the Group profit for the period. Provision has been made for deferred taxation on timing differences between profits stated in the financial statements and profits computed for taxation purposes at the rate of taxation expected to be applicable on reversal, where there is a probability that a liability will crystallise.

s *Investments in subsidiary and associated undertakings*

Investments in subsidiary and associated undertakings are included in the balance sheet of the Company at the Company's share of the net assets.

t *Cash flow statements*

These financial statements do not contain a cash flow statement by virtue of the exemptions available to the Company under paragraph 5(a) of Financial Reporting Standard No. 1 (Revised 1996), as the Company's financial statements are included in the consolidated financial statements of its ultimate parent company, which are publicly available.

u *Minority interests*

Minority interests represent the share of profits less losses on ordinary activities after taxation attributable to outside interests in subsidiaries which are not wholly controlled by the Group.

2. FEES AND COMMISSIONS PAYABLE

	1997	1996
	£m	£m
Placement agents fees	6.7	-
Other fees and commissions payable	0.5	0.9
	7.2	0.9

3. OTHER OPERATING INCOME

	1997	1996
	£m	£m
Equity share realisations	95.7	34.0
Other realisations	7.2	0.2
Provisions for debt and equity securities charged in the year	(5.7)	(1.5)
Rental income	6.7	5.0
Other operating income	1.6	3.9
	105.5	41.6

NOTES TO THE FINANCIAL STATEMENTS

4. ADMINISTRATIVE EXPENSES

	1997	1996
	£m	£m
Staff costs		
- wages and salaries	36.1	39.6
- social security costs	2.8	4.4
- other pension costs	3.0	3.1
Other administrative expenses	32.9	26.8
	74.8	73.9
The average number of persons employed by the Group during the year was as follows:-		
UK and overseas	389	388

5. GROUP PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Auditors remuneration was £200,235 (1996: £166,945) for audit services and £75,900 (1996: £79,750) was payable to the Group's auditors for non-audit work.

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1997	1996
	£m	£m
United Kingdom corporation taxation at 31.5%	24.0	10.9
Adjustments to provisions in prior years	(0.8)	0.4
Taxation on franked investment income	1.6	1.7
Deferred taxation	5.0	0.3
	29.8	13.3
Share of associated undertakings' taxation	0.4	0.1
	30.2	13.4

7. EQUITY DIVIDENDS

	1997	1996
	£m	£m
First interim dividend at 10.5p per share (1996: 6.85p)	30.0	19.5
Proposed second interim dividend at 10.7p per share (1996: 4.7p)	30.5	13.5
	60.5	33.0

8. RETAINED LOSS FOR THE FINANCIAL YEAR

	1997	1996
	£m	£m
The profit/(loss) of the Group has been retained by:-		
- Charterhouse plc	(1.6)	(8.8)
- Subsidiary undertakings	1.0	2.8
	(0.6)	(6.0)
- Associated undertakings	-	-
	(0.6)	(6.0)

The retained loss for the year after taxation of Charterhouse plc, after crediting dividends from subsidiary undertakings, amounted to £1.6m (1996: loss of £8.8m). As provided by section 230(3) of the Companies Act 1985, a profit and loss account for the Company alone is not presented.

9. SEGMENTAL ANALYSIS

Classes of Business	Merchant Banking		Development Capital		Other		Total	
	1997	1996	1997	1996	1997	1996	1997	1996
	£m	£m	£m	£m	£m	£m	£m	£m
Operating profit	15.3	12.0	83.7	33.3	(5.4)	(7.2)	93.6	38.1
Income from associated undertakings	0.1	-	2.6	2.3	-	-	2.7	2.3
Group profit before tax	15.4	12.0	86.3	35.6	(5.4)	(7.2)	96.3	40.4
Total assets	1,402.2	1,643.1	152.7	137.4	79.2	112.1	1,634.1	1,892.6
Group net assets	122.7	121.5	53.7	50.9	16.4	18.0	192.8	190.4

No geographical analysis is given because the level of transactions originating from offices outside the United Kingdom is not significant.

10. DIRECTORS' EMOLUMENTS

	1997	1996
	£m	£m
Directors' emoluments (excluding pension contributions and awards under long term incentive schemes)	2.5	2.6
Awards receivable during the year under long term incentive schemes	0.4	0.6
Company pension contributions to money purchase schemes	0.1	0.2
	3.0	3.4

	1997	1996
The emoluments (including awards under long term performance incentive schemes) of the highest paid Director were:	£776,065	£681,284

The amount of the accrued pension of the highest paid director at 31 December 1997 is £nil (1996 £nil).

Payments made to pension schemes for and on behalf of former Directors in connection with their retirement from office amounted to £800,000 for one Director (1996: £553,655). These payments are not included in the emoluments stated above.

	1997	1996
Number of Directors who:		
- are members of a defined benefit scheme	2	2
- are members of a money purchase scheme*	1	2
- have received awards during the year in the form of long term incentive schemes	4	5

* includes one director who is also a member of a defined benefit scheme.

Incentive Schemes

The Company has established long term performance incentive schemes in which a number of the Group's senior executives may participate. Amounts under these schemes may become payable in the future but, because the amounts are discretionary, they have no monetary value to potential beneficiaries at the balance sheet date. Amounts received by directors will be disclosed in Directors' emoluments if, or when, paid.

11. ADVANCES TO DIRECTORS AND OTHER OFFICERS

There were no advances, either in the current or prior years, in respect of loans made by the Company or Group to Directors and Officers and/or connected persons, which are required to be disclosed in accordance with Companies Act 1985. Banks are obliged by law to observe a strict duty of confidentiality in respect of their customers' affairs. This is recognised by Financial Reporting Standard No 8 and advantage has been taken of this exemption by not disclosing deposits and other transactions covered by the exemption transacted in the normal course of business on standard third party terms by Directors with Charterhouse Bank Limited.

NOTES TO THE FINANCIAL STATEMENTS

12. PENSION SCHEMES AND POST-RETIREMENT BENEFITS

The Group's employees are members of three pension schemes, the Charterhouse Group Security Benefits Scheme ("the scheme"), the Keyser Ullmann Group Pension Fund ("the fund") and the Charterhouse Tilney Securities Limited ("CTSL") scheme. These pension schemes are provided by the group for UK employees. Contributions to the pension schemes, which are of the defined benefit type, are based upon pension costs across the Charterhouse Group as a whole.

The pension schemes' assets are held in separate trustee administered funds. The pension costs relating to the pension schemes are assessed in accordance with the advice of an independent qualified actuary using the projected unit funding method. The latest valuations for the scheme, for the fund and for CTSL were at 31 March 1997. At these dates the actuarial values of the assets were £67.9m for the scheme, £17.7m for the fund, and £3.4m for CTSL. The actuarial values were sufficient to cover 114.9% for the scheme, 111.3% for the fund, and 95.7% for CTSL, of the benefits that had accrued to members, after allowing for expected future increases in earnings. The principal assumptions used in the latest valuations for the scheme and the fund, were that the annual rate of return on investments would be 2% higher than the annual increase in salaries, and 4% higher than the annual increase in pensions in payment. The principal assumptions used in the valuations for CTSL were that the annual rate of return on investments would be 2% higher than the annual increases in salaries and 8% higher than the annual increase in pensions in payment.

The pension schemes are funded in accordance with actuarial recommendations, and for the scheme the past service surplus has been spread over twelve and a half years reducing contributions by 9.4% of Pensionable Salary. For CTSL, the past service deficit is being spread over twelve and a half years increasing contributions by 1.6% of Pensionable Salary. The surplus in the fund has resulted in a total contribution holiday. As a result of the differing accounting and funding policies a provision of £1.1m (1996: £1.3m), which arises from a previous valuation of the scheme, is included in provisions for liabilities and charges. Both the contribution holiday and the provision are in accord with accounting treatment stipulated by SSAP 24.

The Group has arrangements in place to provide health insurance in retirement for the majority of pensioners and staff. As a result of UITF6, the Company has assessed the liability in accordance with the advice of an independent qualified actuary. The cost of post-retirement benefits included in the profit and loss account is £1.3m (1996: £0.2m).

13. LOANS AND ADVANCES TO BANKS - Group

	1997 £m	1996 £m
Repayable on demand	48.0	14.5
Other loans and advances by remaining maturity:-		
3 months or less	313.4	473.4
1 year or less but over 3 months	15.0	90.9
5 years or less but over 1 year	4.0	4.1
over 5 years	1.2	1.2
	381.6	584.1

14. LOANS AND ADVANCES TO CUSTOMERS - Group

	1997 £m	1996 £m
Repayable on demand or at short notice	31.7	42.4
Other loans and advances by remaining maturity:-		
3 months or less	12.4	26.1
1 year or less but over 3 months	27.6	24.1
5 years or less but over 1 year	59.6	77.2
over 5 years	9.8	13.7
Specific bad and doubtful debt provisions	(30.1)	(31.5)
	111.0	152.0

15. SPECIFIC PROVISION FOR BAD AND DOUBTFUL DEBTS - Group

	1997 £m	1996 £m
At 1 January	31.5	33.2
Exchange movements	-	(0.1)
Release for the year	(1.4)	(1.0)
Amounts written off	-	(0.6)
At 31 December	30.1	31.5

16. DEBT SECURITIES - Group

	1997 Balance Sheet £m	1997 Market Value £m	1996 Balance Sheet £m	1996 Market Value £m
Investment securities issued by other issuers				
- bank and building society certificates of deposit	614.0	615.6	436.4	436.3
- other private sector debt securities	191.3	221.7	180.2	208.0
	805.3	837.3	616.6	644.3
Other securities				
- bank and building society certificates of deposit	12.8	12.7	152.8	152.5
	818.1	850.0	769.4	796.8
Investment securities				
- listed on a recognised UK exchange	4.8	4.8	-	-
- listed elsewhere	130.4	130.4	113.4	113.4
- unlisted	670.1	702.1	503.2	530.9
	805.3	837.3	616.6	644.3
Other securities				
- unlisted	12.8	12.7	152.8	152.5
	818.1	850.0	769.4	796.8

The book cost of other securities amounted to £12.3m (1996:£149.0m).

The book cost of debt securities held as financial fixed assets amounted to £749.9m (1996: £549.8m).

	1997 Balance Sheet £m	1996 Balance Sheet £m
Remaining maturities		
- due within one year	687.0	608.4
- due one year and over	131.1	161.0
	818.1	769.4
Unamortised discounts and premiums on investment securities	-	0.2

	Cost £m	Provisions £m	Carrying Value £m
Analysis of investment securities			
At 1 January 1997	622.4	(5.8)	616.6
Acquisitions	1,600.9	-	1,600.9
Disposals	(1,404.5)	0.8	(1,403.7)
Transfer	(0.2)	-	(0.2)
Provision charged in the year	-	(5.0)	(5.0)
Exchange Movement	(3.4)	0.1	(3.3)
At 31 December 1997	815.2	(9.9)	805.3

NOTES TO THE FINANCIAL STATEMENTS

17. EQUITY SHARES AND OTHER VARIABLE YIELD SECURITIES - Group

	1997 Balance Sheet £m	1997 Market Value £m	1996 Balance Sheet £m	1996 Market Value £m
Investment securities				
- listed on a recognised UK exchange	5.1	54.2	6.7	58.1
- listed elsewhere	0.4	0.6	0.7	1.5
- unlisted	39.1	59.7	34.2	55.8
	44.6	114.5	41.6	115.4

Investment securities	Cost £m	Provision £m	Carrying Value £m
At 1 January 1997	62.0	(20.4)	41.6
Acquisitions	16.1	-	16.1
Disposals	(17.1)	5.2	(11.9)
Transfer	0.2	-	0.2
Provision charged in the year	-	(0.7)	(0.7)
Exchange movement	(0.9)	0.2	(0.7)
At 31 December 1997	60.3	(15.7)	44.6

18. INTERESTS IN ASSOCIATED UNDERTAKINGS - Group

	Share of Net Assets £m
Cost/net worth:-	
At 1 January 1997	9.4
Acquisitions	0.1
Redemption of loans	(6.2)
Transferred to subsidiary undertaking	(2.9)
Share of retained profit	2.3
At 31 December 1997	2.7

On historical cost basis accounting the interest in associated undertakings would have been included as follows:-

	1997 £m	1996 £m
Cost	4.2	11.1
Provisions	(1.5)	(1.7)
Net book value	2.7	9.4

The interests in associated undertakings comprise unlisted non-bank undertakings.

The principal associated undertakings are listed below:-

Name of Undertakings	Shares Held	Owned %	Cost £m	Country of Incorporation/ Registration	Business
CCF Charterhouse SpA	480 [1]	20.0	0.2	Italy	Corporate Finance
Finanzas Charterhouse Iberica SA	1,000 [1]	20.0	0.1	Spain	Corporate Finance
CIBI Investments Limited	50 [1]	33.0	-	England & Wales	Property Investment
East Grinstead Holdings Limited	50 [1]	33.0	-	England & Wales	Property Investment
Geranium Limited	37,500 [1]	50.0	-	England & Wales	Property Investment
Patime Limited	50 [1]	50.0	-	England & Wales	Property Investment
Peaston (South West) Holdings Limited	1,000 [1]	50.0	-	England & Wales	Property Investment

[1] *Ordinary shares*

19. SHARES IN GROUP UNDERTAKINGS - Company

	1997 £m	1996 £m
Banks	122.7	121.6
Other	60.4	57.5
	183.1	179.1

	£m	£m
Cost/net worth:-		
At 1 January 1997	179.1	176.5
Revaluation of group undertakings	4.0	2.6
At 31 December 1997	183.1	179.1

The principal subsidiary undertakings are listed below:-

Name of Undertakings	Owned %	Country of Registration	Business
Charterhouse Bank Limited	100	England & Wales	Merchant Banking
Charterhouse Development Capital Holdings Limited	100	England & Wales	Development Capital
Charterhouse Tilney Securities Limited	100	England & Wales	Stockbroking

In accordance with Financial Reporting Standard No. 5 the Group consolidates the assets and liabilities of entities which the Directors consider to be quasi subsidiary undertakings.

The Group holds 5,000 £1 fixed cumulative preference shares in Cromwell Land Holdings Limited on which the dividend arrears are £29.8m (1996: £24.8m). In addition there is an entitlement to subscribe for "B" ordinary shares which would entitle the Group to 99.9% of post preference dividend profits. Hence any profits arising will accrue to the Group as if Cromwell Land Holdings Limited was a subsidiary undertaking.

The Group holds units in Charterhouse Carried Interest Trust ("CCIT"), a Jersey registered unauthorised unit trust, which gives it an effective 70.5% controlling interest.

The balances of the quasi subsidiaries, including the balance sheet and profit and loss account of the Group, are shown below:

	Charterhouse Carried Interest Trust		Cromwell Land Holdings Limited	
	1997 £m	1996 £m	1997 £m	1996 £m
Profit after tax	5.3	-	4.2	1.7
Loans and advances to banks	27.0	-	-	-
Tangible fixed assets	-	-	0.1	0.1
Other assets	-	-	39.9	33.3
Deposits by banks	-	-	16.0	17.0
Other liabilities	13.9	-	-	-
Deferred tax	2.4	-	5.8	5.8
Minority interests	5.4	-	-	-
Reserves	5.3	-	14.2	10.0

20. LOANS TO SUBSIDIARY UNDERTAKINGS

	1997 £m	1996 £m
At 1 January	4.0	4.0
Net movement in the year	2.8	-
At 31 December	6.8	4.0

21. TANGIBLE FIXED ASSETS - Group

	Premises £m	Equipment £m	Investment Properties £m	Total £m
Cost/valuation				
At 1 January 1997	17.8	9.3	10.6	37.7
Additions	0.2	1.6	-	1.8
Disposals	-	(2.9)	(3.3)	(6.2)
At 31 December 1997	18.0	8.0	7.3	33.3
Depreciation				
At 1 January 1997	(0.2)	(4.6)	(0.1)	(4.9)
Charge for year	-	(1.5)	(0.1)	(1.6)
Disposals	-	2.3	-	2.3
At 31 December 1997	(0.2)	(3.8)	(0.2)	(4.2)
Net book value				
At 31 December 1997	17.8	4.2	7.1	29.1
At 31 December 1996	17.6	4.7	10.5	32.8

The premises owned by the Company are long leasehold, held at Directors' open market valuation and occupied solely for own activities.

	Group £m
The cost/valuation of premises is made up as follows:-	
Long leasehold	17.8
Short leasehold	0.2
	18.0

The net book value of tangible fixed assets includes an amount of £0.1m (1995: £0.5m) in respect of assets held under finance leases for the Group on which the depreciation charge was £0.1m (1996: £0.3m).

22. OTHER ASSETS - Group

	1997 £m	1996 £m
Foreign exchange and interest rate contracts	55.5	101.8
Present value of future interest flows	0.4	0.9
Taxation recoverable	1.3	0.8
Trade debtors	84.5	127.6
Properties held for resale	86.9	53.4
Other	5.7	8.2
	234.3	292.7

Foreign exchange and interest rate contracts are held at market value and net present value respectively.

The present value of future interest flows represents the present value of future interest receivable on loans and certificates of deposit, which are included in trading portfolios.

NOTES TO THE FINANCIAL STATEMENTS

23. DEPOSITS BY BANKS - Group

	1997	1996
	£m	£m
With agreed maturity dates or periods of notice by remaining maturity:-		
Repayable on demand	61.7	73.3
3 months or less	407.5	649.6
1 year or less but over 3 months	133.5	62.5
5 years or less but over 1 year	37.0	37.0
Over 5 years	1.6	-
	641.3	822.4

24. CUSTOMER ACCOUNTS - Group

	1997	1996
	£m	£m
With agreed maturity dates or periods of notice by remaining maturity:-		
Repayable on demand	83.5	25.5
3 months or less	157.8	318.5
1 year or less but over 3 months	61.8	52.8
5 years or less but over 1 year	16.0	4.3
	319.1	401.1

25. CERTIFICATES OF DEPOSIT IN ISSUE - Group

	1997	1996
	£m	£m
Certificates of deposit in issue by remaining maturity:-		
3 months or less	88.2	108.8
1 year or less but over 3 months	112.3	54.8
	200.5	163.6

26. OTHER LIABILITIES - Group

	1997	1996
	£m	£m
Foreign exchange and interest rate contracts	38.1	75.4
Present value of future interest flows	0.2	0.8
Trade creditors	78.5	112.9
Taxation	33.8	19.2
Other liabilities	3.8	20.6
Dividend proposed	30.5	13.5
	184.9	242.4

Foreign exchange and interest rate contracts are held at market value and net present value respectively.

The present value of future interest flows represents the present value of future interest payable on loans and certificates of deposit, which are included in trading portfolios.

	Group 1997	Group 1996
	£m	£m
The net finance lease obligations included above to which the group are committed are:-		
within one year	-	0.2
between one year and five years	-	-
	-	0.2

NOTES TO THE FINANCIAL STATEMENTS

27. DEFERRED TAXATION - Group

	1997 £m	1996 £m
Full provision for deferred taxation		
- other timing differences	17.0	12.4
At 1 January	12.4	12.1
Arising on acquisition	1.3	-
Transfer from profit and loss account	5.0	0.3
Other movements	(1.7)	-
At 31 December	17.0	12.4

28. OTHER PROVISIONS FOR LIABILITIES AND CHARGES - Group

	Provision for Pensions and PRMB* £m	General Provision £m	Other Provision £m	Total £m
At 1 January 1997	4.4	10.0	0.5	14.9
Charge for the year	1.1	-	0.5	1.6
At 31 December 1997	5.5	10.0	1.0	16.5

*Post Retirement Medical Benefits

The pensions and PRMB charge is net of £0.3m release of the provision for pensions (see note 12).

29. CALLED UP SHARE CAPITAL

	1997 £m	1996 £m
Authorised 300,000,000 (1996: 300,000,000) ordinary shares of 25p each	75.0	75.0
Authorised 2,200,000 (1996: 2,200,000) redeemable shares of £1 each	2.2	2.2
	77.2	77.2
Allotted and fully paid 284,614,156 (1996: 284,614,156) ordinary shares of 25p each	71.2	71.2
Allotted and fully paid 2,041,600 (1996: 2,041,600) redeemable shares of £1 each	2.0	2.0
	73.2	73.2

The redeemable shares, which carry neither dividend nor voting rights, are redeemable at par at the option of the holders and carry a preferential right to repayment in the event of a winding up.

30. RESERVES

	GROUP				COMPANY			
	Share Premium £m	Other Reserves £m	Profit and Loss £m	Total £m	Share Premium £m	Revalua -tion Reserve £m	Profit and Loss £m	Total £m
At 1 January 1997	42.2	-	75.0	117.2	42.2	72.8	2.2	117.2
Revaluation during year	-	-	-	-	-	4.0	-	4.0
Retained deficit	-	-	(0.6)	(0.6)	-	-	(1.6)	(1.6)
Goodwill on acquisition	-	-	(1.2)	(1.2)	-	-	-	-
Revaluation of investments on acquisition	-	3.5	-	3.5	-	-	-	-
Negative goodwill on acquisition	-	0.7	-	0.7	-	-	-	-
At 31 December 1997	42.2	4.2	73.2	119.6	42.2	76.8	0.6	119.6

31. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Profit for the financial year	59.9	27.0	58.9	24.2
Dividends	(60.5)	(33.0)	(60.5)	(33.0)
Retained deficit	(0.6)	(6.0)	(1.6)	(8.8)
Goodwill on acquisition	(1.2)	-	-	-
Revaluation of investments on acquisition	3.5	-	-	-
Negative goodwill on acquisition	0.7	-	-	-
Revaluation of subsidiaries	-	-	4.0	2.6
Translation difference	-	(0.2)	-	-
Net addition to shareholders' funds	2.4	(6.2)	2.4	(6.2)
Opening shareholders' funds	190.4	196.6	190.4	196.6
Closing shareholders' funds	192.8	190.4	192.8	190.4

The shareholders' funds for the Group and the Company are attributable to equity interests apart from £2.0m attributable to redeemable shares (see note 29).

32. ACQUISITIONS

In February 1997 the Group acquired Luminy Inv. SA, Epargne Partenaires SA and Charterhouse Expansion SA for a total cash consideration of £1,663,000. The consolidated net assets acquired amounted to £413,000 and their book value was also equivalent to the fair value. Acquisition goodwill of £1,250,000 being the difference between the consideration paid and the fair value of the net assets acquired has been written off against reserves.

On 3 November the Group paid £1,482,859 for 179,934 shares in Charterhouse Development Capital Fund (Holdings) Limited ("CDCFH"). On this date CDCFH became a subsidiary of the Group having previously been an associate of the Group. On 22 December 1997 an additional 65,500 shares were acquired for an additional consideration of £539,794. As a result of these transactions the Group increased its shareholding in CDCFH from 47.55% to 68.33%.

The assets and liabilities of CDCFH acquired, shown in the format of Bank Accounts regulations are set out below:

	Book value	Fair value adjustments	Fair value of assets and liabilities
	£m	£m	£m
Loans and advances to banks	4.5	-	4.5
Debt securities	2.2	8.2	10.4
Other liabilities	(0.3)	-	(0.3)
Deferred taxation	-	(1.3)	(1.3)
Cash			
	6.4	6.9	13.3
Minority interest			(4.2)
Total net assets			9.1
Consideration:			
Cash			2.0
Transfer cost of investment in associated undertaking			2.9
Negative goodwill			0.7
Revaluation reserve acquired			3.5
			9.1

The fair value adjustments to debt securities have been based on the Directors' best estimates using generally accepted valuation principles in the valuation of debt securities. Deferred tax has been provided at the current rate of tax on the revalued amounts.

32. ACQUISITIONS (continued)

In the opinion of the Directors in order to show a true and fair view, goodwill has been calculated as the difference between the cost of the purchase and the fair value of the assets and liabilities of CDCFH on the date of purchase in accordance with the provisions of FRS2. The Companies Act requires goodwill arising on the acquisition of a subsidiary to be calculated as the difference between the total cost and the fair value of the total assets and liabilities of the subsidiary on the date it becomes a subsidiary undertaking.

If goodwill had been calculated in accordance with the basis set out in the Companies Act, £3.5m of the Group's share of retained earnings, categorised above as revaluation reserves, would have been classified as negative goodwill and £4.2m of negative goodwill would have been recognised in total.

33. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Denominated in sterling	1,161.5	2,205.7	192.8	190.4
Denominated in currency other than sterling	472.6	(313.1)	-	-
Total Assets	1,634.1	1,892.6	192.8	190.4
Denominated in sterling	1,260.0	2,158.1	192.8	190.4
Denominated in currency other than sterling	374.1	(265.5)	-	-
Total Liabilities	1,634.1	1,892.6	192.8	190.4

The Group also has commitments under forward and future exchange rate contracts and therefore the above does not represent the Group's exposure to foreign exchange rate movements.

34. DERIVATIVES TRANSACTIONS

Quantitative disclosures

The table below highlights the notional principal of the Group's non-trading and trading derivatives. The latter is further split between gross positive and negative replacement cost.

	1997 Non-Trading Notional Principal £m	1997 Trading Notional Principal £m	1997 Trading Gross Positive Fair value £m	1997 Trading Gross Negative Fair value £m	1996 Non-Trading Notional Principal £m	1996 Trading Notional Principal £m	1996 Trading Gross Positive Fair value £m	1996 Trading Gross Negative Fair value £m
Exchange rate contracts	-	1,764.5	53.4	33.5	-	2,832.5	96.1	63.0
Interest rate contracts	83.2	1,583.9	2.1	4.6	67.7	1,733.9	5.7	12.4
	83.2	3,348.4	55.5	38.1	67.7	4,566.4	101.8	75.4

Exchange rate contracts include forward foreign exchange, foreign exchange swaps and foreign exchange options. Interest rate contracts include forward rate agreements (FRAs), interest rate swaps and options. In addition to the amounts in the table above, the company entered into exchange traded financial futures contracts with an outstanding aggregate notional principal amount of £2,892m (1996; £2,374m) of which £97m are classified as non-trading. Such contracts generally involve lower credit risk than over-the-counter transactions, as they are cleared through exchanges that require daily settlement of gains and losses through margin calls. Notional principal and positive replacement cost for non-trading and trading transactions is further analysed by residual maturity.

34. DERIVATIVES TRANSACTIONS (continued)

	1997 Within One Year £m	1997 One to Five Years £m	1997 Over Five Years £m	1997 Total £m	1996 Within One Year £m	1996 One to Five Years £m	1996 Over Five Years £m	1996 Total £m
Positive replacement cost								
- Exchange rate contracts	46.5	6.9	-	53.4	92.2	3.9	-	96.1
- Interest rate contracts	0.4	1.9	-	2.3	3.6	1.8	0.3	5.7
	46.9	8.8	-	55.7	95.8	5.7	0.3	101.8
Notional principal of the above								
- Exchange rate contracts	778.6	66.0	-	844.6	1,523.0	102.9	-	1,625.9
- Interest rate contracts	614.7	170.0	-	784.7	574.4	210.0	18.9	803.3
	1,393.3	236.0	-	1,629.3	2,097.4	312.9	18.9	2,429.2

The table below highlights the notional principal and positive replacement cost by counterparty.

	1997 Notional Principal £m	1996 Notional Principal £m	1997 Positive Replacement Cost £m	1996 Positive Replacement Cost £m
Financial institutions	1,619.6	2,366.0	55.7	100.5
Other	9.7	63.2	-	1.3
Total	1,629.3	2,429.2	55.7	101.8
OECD	1,629.3	2,352.5	55.7	95.4
Non OECD	-	76.7	-	6.4
Total	1,629.3	2,429.2	55.7	101.8

Qualitative disclosures

In the normal course of its business, the Group enters into both exchange traded and over the counter derivative transactions in the foreign exchange and interest rate markets. In common with all other dealing activities in the Group, all such products have to be pre-approved, and a formal policy exists clearly setting out the trading limits. The majority of such trades are proprietary and with counterparties who are primarily banks and other financial institutions also operating within counterparty limits.

Dealing in derivative instruments gives rise to three different types of risk, for which limits are set. These are market risk, liquidity risk and credit risk.

Market risk is the risk of incurring losses if either the interest rate, the foreign exchange rate, or the market value of the underlying security, moves adversely. These risks are quantified on a daily basis and a limit is set on the size of the potential loss, expressed in sterling terms, that could occur over a given period. This risk is measured in terms of Value at Risk (VAR) which, for interest rate books, is calculated using a historical simulations approach to determine the effect on the portfolios of adverse movements in market rates. All movements in rates, on an overnight basis, are compiled using a one year observation period and the results expressed using a probability factor of 99%. Whilst the Basle Committee's Accord on Banking Supervision concluded that the holding period used to measure VAR for market risk capital purposes should be ten business days, it is considered that a one day holding period for calculation of position risk for trading purposes is reasonable, given that normal market conditions provide adequate liquidity in the instruments in which the bank trades to enable trading managers to adjust risk on a daily basis. As at 31 December 1997 the VAR utilisation amounted to £0.4m (1996: £0.6m) against a limit of £1.25m (1996: £1.0m). The average daily VAR during 1997 was £0.6m (1996: £0.6m). Independent specified scenarios are also reviewed on a regular basis as part of a stress testing approach.

Liquidity risk is the risk that the Group will have insufficient funds to meet its liabilities. The bank has a formal policy designed to ensure that it is able, at all times, to meet its obligations as they fall due, ensuring that the liquidity risk is minimised. Liquidity limits are monitored daily and include all cash flows resulting from derivative transactions.

NOTES TO THE FINANCIAL STATEMENTS

34. DERIVATIVES TRANSACTIONS (continued)

All matters concerning market risk, liquidity risk and trading limits are reviewed on a fortnightly basis by the Charterhouse Bank Limited Market Risk Committee, which consists of both Treasury and independent Financial Control management. Proposals for changes in these risk limits are agreed within this forum, and permission is then sought from the Charterhouse Bank Limited Executive Committee which is composed of senior management. The implementation and monitoring of these policies is undertaken by the Risk Management Unit which is independent of Treasury management, and reports directly to the Financial Control Department. The calculation of both profit and loss and VAR (and all other sub-limits) for the Treasury division is carried out on a daily basis.

The Credit department is responsible for all matters relating to credit risk. The credit risk on derivatives is calculated using the current "mark to market plus an add-on percentage" approach. This percentage is weighted according to maturity and product, and allows for any increased exposure to loss due to interest rate movements. It is a principal role of the Credit Committee to review and sanction all changes in counterparty credit limits.

35. CONTINGENT LIABILITIES AND COMMITMENTS GROUP

		1997	1996
		£m	£m
i)	Contingent Liabilities		
	Acceptances and endorsements		
	- Contract amount	54.4	78.5
	- Credit equivalent amount	54.4	78.5
	- Weighted risk assets	36.5	26.1
	Guarantees and irrevocable letters of credit		
	- Contract amount	7.9	7.6
	- Credit equivalent amount	6.1	5.7
	- Weighted risk assets	4.9	4.4
ii)	Commitments		
	Undrawn credit lines and other commitments to lend		
	Less than one year		
	- Contract amount	1.4	3.6
	One year and over		
	- Contract amount	247.8	60.7
	- Credit equivalent amount	124.1	30.3
	- Weighted risk assets	109.0	21.9
	Forward deposits placed		
	- Contract amount	-	36.3
	- Credit equivalent amount	-	36.3
	- Weighted risk assets	-	18.2

NOTES TO THE FINANCIAL STATEMENTS

36. RELATED PARTY DISCLOSURE

Under the terms of the Financial Reporting Standard No. 8, the Company is exempt from disclosing transactions with companies 90% or more controlled within the same group, as the consolidated financial statements in which the company is included are publicly available. Therefore transactions with companies within the Group of companies have not been disclosed.

At 31 December 1997 the Group had the following balances outstanding with Crédit Commercial de France and BHF-BANK AG (see note 38):

	Crédit Commercial de France		BHF-BANK	
	1997	1996	1997	1996
	£m	£m	£m	£m
Loans and advances to banks	1.0	17.5	0.2	11.3
Deposits by banks	(116.9)	(84.5)	(10.9)	(27.7)
Interest receivable	0.6	0.2	0.6	1.3
Interest payable	(3.0)	(1.7)	(0.5)	(0.7)
Fees and commissions	1.8	-	0.5	0.1

In addition to the above transactions, the Group has entered into off balance sheet and other derivative transactions with Crédit Commercial de France and BHF-BANK AG, however the volume of these transactions is not significant in relation to the volume of transactions carried out by the Group.

The directors consider that the transactions entered into by the Group and Crédit Commercial de France and BHF-BANK AG are at commercial rates in the normal course of the Group's activities.

Transactions with Directors and their close family members.

Certain Directors and senior managers of the Group hold units in CCIT (see note 19). These holdings constitute a 23.9% interest in CCIT. No material transactions were undertaken by Directors and their close family members with Charterhouse plc or its subsidiary undertakings.

Transactions with Associated Undertakings

The Group has investments in a number of funds in which a Group company is the General Partner and/or Manager. The principal transactions undertaken with the Funds are the provision of management services. The total fees receivable for the current year amounted to £8.5m (1996: £4.0m); of this amount £0.3m was outstanding at the year end (1996: nil). Where the investment performance of the Funds has been in excess of an agreed performance criteria, payments are received in the form of cash or shares by the Managers or General Partners. Profit from the sale of investments includes £20.5m (1996: £1.8m) in respect of the cash element of such consideration (net of any potential clawback).

37. SUBSIDIARY UNDERTAKINGS NOT CONSOLIDATED

The Group has investments in the following Funds in which a Group company is the general partner and/or manager:

	Year end	Beneficial Interest %	Principal place of business	Investment 1997 £m	Investment 1996 £m
Charterhouse European Partners	31 December	14.61	England	2.7	4.9
Charterhouse Second Venture Fund	5 April	4.08	England	0.3	0.4
The Charterhouse Buy-Out Fund	31 December	9.94	Jersey	-	-
The Second Charterhouse Buy-Out Fund	31 December	21.55	Jersey	4.1	7.6
Charterhouse Capital Partners V	31 December	26.62	England	41.8	51.1
Charterhouse Capital Partner VI	31 December	18.75	England	-	-
				48.9	64.0

If these Funds had been fully consolidated into the Group accounts based on the latest accounts received, there would not have been a material difference to profit after tax. Net current assets would have increased by £12.5m (1996: £11.1m), total assets less liabilities by £172.5m (1996: £205.5m) and minority interest by £170.1m (1996: £205.7m). The net effect of these adjustments would have increased shareholders' funds by £2.4m (1996 £0.2m).

The Group also has an indirect 64% holding in the ordinary share capital of CVS Leasing Limited, a leasing company whose principal place of business is in the United Kingdom. The cost of the investment in ordinary shares and loan stock was £521,000. As explained in accounting policy b, the Company is excluded from consolidation as the Group's interests are restricted by long term contractual agreements. The company's financial year end is 31 December. The company's first financial reporting period will be 31 December 1998.

38. PARENT UNDERTAKINGS

The Company's immediate parent undertaking and immediate controlling party is Charterhouse European Holding Limited, which is registered in England and Wales.

The parent undertaking of the largest group of which the Company is a member and for which group accounts are drawn up was European Corporate Finance Holding SA, the company regarded by the Directors as being the Company's ultimate parent company and ultimate controlling party as at 31 December 1997 which is incorporated in Luxembourg and which is directly jointly owned by BHF-BANK AG, incorporated in Germany, and Crédit Commercial de France SA, incorporated in France. Copies of the accounts of European Corporate Finance Holding SA are available from that company at 8 Avenue Marie-Thérèse, L2132, Luxembourg.

On 30 March 1998 Crédit Commercial de France SA purchased the 50 per cent equity interest held by BHF-BANK AG in European Corporate Finance Holding SA, as a result of which the company became a wholly owned subsidiary undertaking of Crédit Commercial de France SA.