

(Company No. 80104)

ROYAL SCOT LEASING LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

30 SEPTEMBER 1998

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ROYAL SCOT LEASING LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 1998

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ROYAL SCOT LEASING LIMITED

DIRECTORS AND OFFICERS

DIRECTORS

Thomas Carr
Adrian Colin Farnell
William Vaughan Latter
Jonathan Michael Sweetman

SECRETARY

John Albert Lea

REGISTERED OFFICE

42 St Andrew Square
Edinburgh
EH2 2YE

PRINCIPAL OFFICE

The Quadrangle
The Promenade
Cheltenham
Gloucestershire GL50 1PX

ROYAL SCOT LEASING LIMITED

DIRECTORS' REPORT

The Directors present their annual report, together with the audited financial statements for the year ended 30 September 1998.

RESULTS

The results for the year are set out on page 9. The Directors recommend that a final dividend of £2,768,060 be paid (1997 : £321,000). If this recommendation is approved at the Annual General Meeting, the accumulated loss for the year to 30 September 1998 will amount to £691,970.

BUSINESS REVIEW

The principal activity of the Company, which is a wholly owned subsidiary of Royal Bank Leasing Limited, is the provision of fixed asset finance usually involving individually structured facilities.

The Company will continue to operate in the fixed asset financing market.

DIRECTORS

The present Members of the Board of Directors are named on page 2.

At 30 September 1998, the Members of the Board of Directors were:-

Mr Thomas Carr
Mr Adrian Colin Farnell
Mr William Vaughan Latter
Mr Jonathan Michael Sweetman

During the year to 30 September 1998, no changes were made in the composition of the Board of Directors.

DIRECTORS' INTERESTS

No Director had any interest in the ordinary shares of the Company on 30 September 1998 nor on 1 October 1997.

The interests of the Directors at 30 September 1998 in the share or loan capital of the ultimate holding company, The Royal Bank of Scotland Group plc, or in the share or loan capital of its subsidiary companies are shown on page 5.

ROYAL SCOT LEASING LIMITED

YEAR 2000

The Directors recognise the importance of the Year 2000 issue and the consequences it may have for the Company and its suppliers and customers.

The Company has a continuous programme of systems maintenance and development which includes addressing the problems posed by Year 2000. The costs of addressing the Year 2000 issue are therefore absorbed in the ongoing IT development expenditure of the Company.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

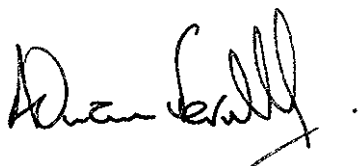
In the year ended 30 September 1999, the Company will adhere to the following payment policy in respect of all suppliers. The Company is committed to maintaining a sound commercial relationship with its suppliers. The Company's policy for trade creditors arising on purchases of equipment for the purpose of letting under lease agreements is to pay in accordance with the contractual and legal obligations of each of those agreements. For other trade creditors, it is the Company's policy to negotiate and agree terms and conditions with its suppliers, which includes the giving of an undertaking by the Company to pay suppliers within 30 days of receipt of a correctly prepared invoice submitted in accordance with the terms of the contract.

The proportion which the amount owed to other trade creditors at 30 September 1998 bears to the amounts invoiced by suppliers during the year then ended equated to nil days proportion of 365 days.

AUDITORS

Messrs Coopers & Lybrand resigned as Auditors of the company on 29 July 1998 and were replaced by Messrs PricewaterhouseCoopers who have indicated their willingness to continue in office and resolutions to re-appoint them and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board.



A C Farnell
Director
CHELTENHAM

18 November 1998

ROYAL SCOT LEASING LIMITED

DIRECTORS' INTERESTS IN THE SHARE OR LOAN CAPITAL OF THE ROYAL BANK OF SCOTLAND GROUP plc AND SUBSIDIARY COMPANIES

The following Directors were beneficially interested in the 25p ordinary shares of The Royal Bank of Scotland Group plc, the ultimate holding company.

	At 1 October 1997 (or date of appointment if later)	At 30 September 1998
	<u>Shares</u>	<u>Shares</u>
T Carr	3,635	4,465
A C Farnell	2,849	4,556
W V Latter	2,396	3,227
J M Sweetman	9,920	11,687

Options to subscribe for 25p ordinary shares of The Royal Bank of Scotland Group plc granted to and exercised by Directors during the year to 30 September 1998 are included in the table below:-

	At 1 October 1997 (or date of appointment if later)	<u>Options</u> <u>Number</u>	<u>Granted</u> <u>Price</u> £	<u>Options</u> <u>Number</u>	<u>Exercised</u> <u>Price</u> £	At 30 September 1998
T Carr	3,142	-	-	455	2.120	2,687
A C Farnell	3,633	292	7.99	-	-	3,925
W V Latter	4,885	-	-	-	-	4,885
J M Sweetman	5,817	5,000	10.065	2,961	2.120	8,641
		785	7.99			

No other Director had an interest in any of the preference shares of The Royal Bank of Scotland Group plc during the year to 30 September 1998.

In addition, during that period, none of the Directors held a beneficial interest in the loan capital of The Royal Bank of Scotland Group plc or in the share or loan capital of any of the other subsidiaries of The Royal Bank of Scotland Group plc.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ACCOUNTING POLICIES

The financial statements on pages 9 to 16 are prepared on the basis of the principal accounting policies adopted by the Company described below and applicable Accounting Standards. Accounting policies have been applied consistently.

1 ACCOUNTING CONVENTION

The financial statements of the Company are prepared under the historical cost convention. In accordance with Schedule 4 of the Companies Act 1985, the Directors have adapted the prescribed formats of the financial statements as required by the special nature of the business.

2 GROSS EARNINGS UNDER FINANCE LEASES

Gross earnings under finance leases are recognised according to the actuarial after tax method whereby pre tax and post tax profits are allocated to accounting periods so as to give a constant periodic rate of return on the net cash investment. In order to preserve the recognition of after tax profits in accordance with the actuarial after tax method, tax equalisation adjustments are made on those transactions which include permanent tax differences resulting from income and expenses subject to non standard rates of tax.

3 HIRE PURCHASE INCOME

Total gross earnings under hire purchase contracts are allocated to accounting periods to give a constant periodic rate of return on the net cash investment.

4 FOREIGN CURRENCY

Assets or liabilities denominated in foreign currency are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currency are translated at an average rate for the period. Exchange differences arising on trading activities are included in operating profit.

5 DEFERRED TAXATION

Certain items of income and expenditure are accounted for in different periods for financial reporting purposes and for taxation purposes. Deferred taxation is provided on the liability method in respect of timing differences which are expected to result in a taxation liability in the foreseeable future.

6 AMOUNTS RECEIVABLE UNDER FINANCE LEASES

Finance lease receivables are stated in the balance sheet at the amount of the net investment in the leases.

7 HIRE PURCHASE RECEIVABLES

Hire purchase receivables are stated at rentals receivable less unexpired finance income.

ACCOUNTING POLICIES (Continued)

8 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

All companies in which the Company owns a participating interest on a long term basis and in which, in the opinion of the directors, it also exercises a significant influence in the management, are treated as associated companies. The investments are stated at cost less amounts written down in the balance sheet.

9 CASH FLOW STATEMENT

As a wholly owned subsidiary of The Royal Bank of Scotland Group plc which publishes a cash flow statement, the Company is not required to produce a cash flow statement as prescribed in paragraph 8(c) of Financial Reporting Standard 1, 'Cash Flow Statements'.

ROYAL SCOT LEASING LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 30 September 1998

	Note	CONTINUING OPERATIONS	
		1997	1997
		£'000	£'000
Gross earnings under leases	3	1,380	2,629
Exceptional reduction in earnings under leases	4	(29)	(125)
Exceptional profit on disposal of current asset investment	5	1,356	-
Other income	6	6,472	4,880
		<u>9,179</u>	<u>7,384</u>
Finance charges	6	(6,791)	(4,181)
Operating income/(expenses)	6	<u>139</u>	<u>(2,627)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	2,527	576
Taxation charge before exceptional item	7	(704)	(142)
Exceptional taxation credit	7	253	400
Taxation (charge)/credit on profit on ordinary activities		<u>(451)</u>	<u>258</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,076	834
Proposed final dividend for the year		<u>(2,768)</u>	<u>(321)</u>
RESULT FOR THE YEAR	15	<u>(692)</u>	<u>513</u>

There is no difference between the profit on ordinary activities before taxation and the accumulated loss for the year stated above and their historical cost equivalents.

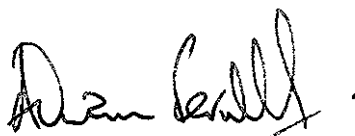
The Company has no recognised gains and losses other than those included in the profits shown above and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 11 to 16 form part of these financial statements.

BALANCE SHEET
At 30 September 1998

	Note	£'000	1997 £'000
INVESTMENT IN ASSOCIATED UNDERTAKING	8	-	-
CURRENT ASSETS			
Finance lease and hire purchase receivables due within one year	9	11,125	9,979
Finance lease and hire purchase receivables due after more than one year	9	108,411	115,205
Debtors	10	<u>993</u>	<u>1,579</u>
		120,529	126,763
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	11	<u>(12,544)</u>	<u>(11,880)</u>
NET CURRENT ASSETS		<u>107,985</u>	<u>114,883</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		107,985	114,883
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE Y	11	(92,858)	(99,607)
PROVISIONS FOR LIABILITIES AND CHARGES	12	(7,664)	(7,118)
DEFERRED INCOME	13	<u>-</u>	<u>(3)</u>
TOTAL NET ASSETS		<u>7,463</u>	<u>8,155</u>
CAPITAL AND RESERVES			
Called up share capital	14	10	10
Reserves	15	<u>7,453</u>	<u>8,145</u>
EQUITY SHAREHOLDERS' FUNDS	16	<u>7,463</u>	<u>8,155</u>

On behalf of the Board:



Director

The notes on pages 11 to 16 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

1 ULTIMATE HOLDING COMPANY

The Company is a wholly owned subsidiary of Royal Bank Leasing Limited. The Company's ultimate holding company and hence its controlling party is The Royal Bank of Scotland Group plc. Copies of the group financial statements of The Royal Bank of Scotland Group plc may be obtained from the Company Secretary's office, The Royal Bank of Scotland Group plc, 42 St. Andrews Square, Edinburgh, EH2 2YE.

2	TURNOVER	1997 £'000	1997 £'000
	Capital cost of assets financed:		
	Hire purchase	<u>7,736</u>	<u>66,258</u>

3 GROSS EARNINGS UNDER LEASES

Finance leases:

Rentals receivable	4,432	4,549
Amortisation	<u>(3,052)</u>	<u>(1,920)</u>
	<u>1,380</u>	<u>2,629</u>

4 EXCEPTIONAL CHARGE

The exceptional charge is due to the reduction in the rate of corporation tax from 31% to 30% that will occur on 1 April 1999. Tax variation clauses in the leases which are included to maintain the post tax rate of return, result in lower future gross rentals. The resultant reduction in pre tax profit has been provided for in the current year; it is offset by a reduction in the taxation charge.

5 EXCEPTIONAL PROFIT ON DISPOSAL OF CURRENT ASSET INVESTMENT

During the year, the company acquired 7.96% of the ordinary share capital of Ruby Aircraft Leasing & Trading Limited from its holding company Royal Bank Leasing Limited at a cost of £59,700. It subsequently disposed of the investment for £1,445,666 resulting in a profit of £1,355,518 after expenses.

6	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1997 £'000	1997 £'000
	Includes the following:		
	Other income:		
	Hire purchase income	6,371	4,604
	Regional development grants	3	2
	Other income	<u>98</u>	<u>274</u>
		<u>6,472</u>	<u>4,880</u>
	Finance charge:		
	Interest payable to group undertakings	<u>6,791</u>	<u>4,181</u>

NOTES ON THE FINANCIAL STATEMENTS

6	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION - continued	1997
	£'000	£'000
Operating income/(expenses):		
Bad debt recoveries/(charge)	625	(650)
Fees and commissions	(19)	(1,527)
Management charge	(466)	(449)
Other	(1)	(1)
	<u>139</u>	<u>(2,627)</u>

The directors and employees are employed and remunerated by Royal Bank Leasing Limited. Costs incurred in respect of their services to the Company are included in the management charge as shown below:

	£	£
Directors' emoluments	46,492	43,093
Auditors' remuneration - for audit services	8,410	8,080
Staff costs	<u>256,619</u>	<u>196,686</u>

7	TAXATION	£'000	£'000
Group relief:			
- current year receivable	(98)	(750)	
- prior year payable	3	3	
Taxation equalisation	332	(12)	
Deferred taxation:			
- current year	469	904	
- prior year	(2)	(3)	
Exceptional credit:			
- tax rate change	(253)	(400)	
	<u>451</u>	<u>(258)</u>	

The tax charge for the current year has been based on an average Corporation Tax rate of 31% (1997 - 32%)
No tax arises on the profit on disposal of the investment as the gains arising have been covered by capital losses brought forward.

NOTES ON THE FINANCIAL STATEMENTS

8 INVESTMENT IN ASSOCIATED UNDERTAKING

On 21 November 1997 the Company acquired 32.8% of the ordinary share capital and 83.3% of the preference share capital of Nevis Range Development Company plc as part of a capital reconstruction. The capital reconstruction involved the conversion to equity of part of the outstanding amount due under a lease granted by the Company in 1989. The principal activity of Nevis Range Development Company plc is the operating of ski-ing, tourism and recreational facilities.

The ordinary shares carry a non cumulative preferential right to dividends at 15% of pre tax profits and the preference shares carry no dividend and are redeemable at £1 in five instalments from 2010 to 2014. Because the Company does not participate in the commercial or financial policy of Nevis Range Development Company plc, it is not regarded as an associated company.

Nevis Range Development Company plc prepares Financial Statements to 31 October. The Financial Statements for the year ended 31 October 1997 show a loss attributable to shareholders of £317,743 and shareholders' funds of £1,151,541. The unaudited management accounts to 30 September 1998 show a pre tax loss of £120,284 and shareholders' funds of £2,438,182. For the purposes of these Financial Statements the equity of Nevis Range Development Company plc held by the Company has been ascribed nil value.

	£'000
At 1 October 1997	-
Addition	1,250
Write down of investment	<u>(1,250)</u>
At 30 September 1998	<u>-</u>

9 FINANCE LEASE AND HIRE PURCHASE RECEIVABLES

	£'000	1997 £'000
Amounts falling due within one year:		
Finance leases	2,186	2,165
Hire purchase receivables	<u>8,939</u>	<u>7,814</u>
	<u>11,125</u>	<u>9,979</u>
Amounts falling due after more than one year:		
Finance leases	34,172	36,636
Hire purchase receivables	<u>74,239</u>	<u>78,569</u>
	<u>108,411</u>	<u>115,205</u>

10 DEBTORS

Amounts falling due within one year:

Trade debtors	470	404
Amounts due by group undertakings	192	816
Other debtors	<u>331</u>	<u>359</u>
	<u>993</u>	<u>1,579</u>

NOTES ON THE FINANCIAL STATEMENTS

11	CREDITORS	1997 £'000	1997 £'000
	Amounts falling due within one year:		
	Payments on account	282	309
	Amounts due to group undertakings	11,955	10,911
	Other creditors	307	660
		<u>12,544</u>	<u>11,880</u>
	Amounts falling due not by instalments after more than one year:		
	Amounts due to group undertakings		
	Between one and two years	12,306	11,202
	Between two and five years	28,803	34,153
	After more than five years	51,749	54,252
		<u>92,858</u>	<u>99,607</u>

A right of set-off exists over the Company's bank account with The Royal Bank of Scotland plc against advances made to the Company's immediate holding company and its subsidiaries.

The rates of interest applicable to those amounts due after more than five years will be by reference to inter bank rates for periods of three, six and twelve months.

12 PROVISIONS FOR LIABILITIES AND CHARGES

Movements during the year:	Tax equalisation £'000	Deferred taxation £'000	Total £'000
At 1 October 1997	14	7,104	7,118
Charge to profit and loss account	332	467	799
Tax rate change	-	(253)	(253)
At 30 September 1998	<u>346</u>	<u>7,318</u>	<u>7,664</u>

Full provision has been made for the potential amount of deferred taxation shown below:

	1997 £'000	1997 £'000
Capital allowances on assets financed	7,626	7,620
Other short term timing differences	(308)	(516)
	<u>7,318</u>	<u>7,104</u>

ROYAL SCOT LEASING LIMITED

NOTES ON THE FINANCIAL STATEMENTS

13	DEFERRED INCOME	£'000	
	Regional development grants:		
	At 1 October 1997	3	
	Released to profit and loss account	<u>(3)</u>	
	At 30 September 1998	<u>-</u>	
14	SHARE CAPITAL		Ordinary shares of £1 each 1997
	Authorised	<u>1,000,000</u>	<u>1,000,000</u>
	Allotted, called up and fully paid	<u>10,000</u>	<u>10,000</u>
15	RESERVES	£'000	
	At 1 October 1997	8,145	
	Result for the year	<u>(692)</u>	
	At 30 September 1998	<u>7,453</u>	
16	RECONCILIATION OF SHAREHOLDERS' FUNDS	£'000	1997 £'000
	Profit for the financial year	2,076	834
	Dividend	<u>(2,768)</u>	<u>(321)</u>
	Net (reduction in)/addition to shareholders' funds	(692)	513
	Opening shareholders' funds	<u>8,155</u>	<u>7,642</u>
	Closing shareholders' funds	<u>7,463</u>	<u>8,155</u>

17 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemptions available to it in Financial Reporting Standard 8, 'Related Party Disclosures', not to disclose any transactions or balances with entities that are part of the Group or investees of the Group qualifying as related parties.

NOTES ON THE FINANCIAL STATEMENTS

18 APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 7 to 16 were approved by the Board of Directors on 18 November 1998.

REPORT OF THE AUDITORS

To the members of Royal Scot Leasing Limited

We have audited the financial statements on pages 7 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 8.

Respective responsibilities of directors and auditors.

As described on page 6 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

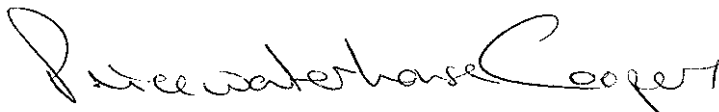
Basis of opinion.

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion.

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 30 September 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

Gloucester
18 November 1998