FILE NAME: Cape Asbestos (CAPE)

DATE: 1986

DOC#: CAPE188

DOCUMENT DESCRIPTION: Charter Consolidated Profit and Loss Account [Legal - Tibbs Case Exhibit 86]

CHARTER CHARTER CONSOLIDATED P.L.C. AND ITS SUBSIDIARY COMPANIES

Consolidated profit and loss account

Year ended 31 March 1986

Note		1986 £000	1985 £000
2	Turnover	567,089	754,528
2, 5	Operating profit	14,400	13,336
3(i)	Dividends and interest received	11,539	8,611
	Surplus on realizations	4,148	3,978
3(ii)	Share of retained profits of related companies	6,987	6,888
	Revenue from investments	22,674	19,477
5	Other interest receivable and similar income	8,971	7,709
	Revenue	46,045	40,522
	Administration of central activities	5,001	5,500
	Prospecting	887	846
	Group profit before interest	40,157	34,176
4	Interest payable and similar charges	11,403	17,656
5	**Profit on ordinary activities before taxation**	28,754	16,520
6	Taxation on profit on ordinary activities	8,967	7,474
	Profit on ordinary activities after taxation	19,787	9,046
	Interest of outside shareholders in subsidiaries	(36)	(1,496)
	Profit sharing scheme	47	–
		11	(1,496)
	Profit attributable to shareholders	19,776	10,542
10	**Earnings per share 18.8p** (1985 – 10.0p)		
11	Dividends paid and proposed	12,095	11,568
		7,681	(1,026)
12	Extraordinary charges	(9,191)	(52,874)
25	**Deficit for the year**	(1,510)	(53,900)

Notes: (i) Profit for the financial year after extraordinary charges totalled £10,585,000 (1985 – loss £42,332,000).

(ii) The movements on reserves are set out in note 25 on page 45.

The information on pages 34 to 53 forms part of these accounts.

CHARTER

CHARTER CONSOLIDATED P.L.C. AND ITS SUBSIDIARY COMPANIES

Consolidated balance sheet

31 March 1986

Note		1986 £000	1986 £000	1985 £000	1985 £000
	Fixed assets				
13	Intangible assets		8,490		10,695
13	Tangible assets		119,884		126,600
14	Investments				
	Valuation £204,642,000 (1985 – £150,209,000)		94,104		88,186
			222,478		225,481
	Current assets				
16	Stocks	136,424		157,782	
17	Debtors	130,087		160,880	
15	Assets under finance leases to third parties	21,615		22,668	
18	Investments at valuation	24,976		27,224	
	Short term loans and deposits	34,503		43,391	
	Cash at bank and in hand	6,329		5,970	
			353,934		417,915
	Creditors: due within one year				
19	Creditors	(119,426)		(136,330)	
20	Taxation	(20,320)		(31,277)	
21	Deposit accounts	(3,283)		(3,764)	
22	Short term borrowings	(14,190)		(45,067)	
			(157,219)		(216,438)
	Net current assets		196,715		201,477
	Total assets less current liabilities		419,193		426,958
	Creditors: due after one year				
26	Long term borrowings		(80,562)		(72,981)
27	Other long term creditors		(2,235)		(517)
28	**Provisions for liabilities and charges**		(38,010)		(39,129)
			298,386		314,331
	Capital and reserves				
24	Called up share capital		2,105		2,105
25	Share premium account		12,526		12,513
25	Revaluation reserves		25,181		25,602
25	Other reserves		120,149		129,268
25	Profit and loss account		114,039		113,987
	Total capital and reserves		274,000		283,475
	Interest of outside shareholders in subsidiaries		24,386		30,856
			298,386		314,331

Approved by the board of directors on 3 July 1986

J. N. CLARKE }
F. J. A. HOWARD } DIRECTORS

The information on pages 34 to 53 forms part of these accounts.

CHARTER CONSOLIDATED P.L.C.

CHARTER

Balance sheet

31 March 1986

Note		1986 £000	1986 £000	1985 £000	1985 £000
	Fixed assets				
14(ii)	Investment in subsidiaries at cost less provision		70,155		96,788
	Current assets				
	Corporation tax recoverable	13,689		7,255	
	Amount due from a subsidiary	3,000		8,750	
	Cash at bank	2		2	
		16,691		16,007	
	Creditors: due within one year				
	Amount due to a subsidiary	(1,710)		(7,561)	
	Proposed final dividend	(8,151)		(7,624)	
	Other creditors	(97)		(107)	
		(9,958)		(15,292)	
	Net current assets		6,733		715
	Total assets less current liabilities		76,888		97,503
	Creditors: due after one year				
27(ii)	Amount due to a subsidiary		(61,796)		(83,000)
			15,092		14,503
	Capital and reserves				
24	Called up share capital		2,105		2,105
25	Share premium account		543		530
25	Profit and loss account		12,444		11,868
			15,092		14,503

Approved by the board of directors on 3 July 1986

J. N. CLARKE } DIRECTORS
E.J. A. HOWARD }

The information on pages 34 to 53 forms part of these accounts.

CHARTER

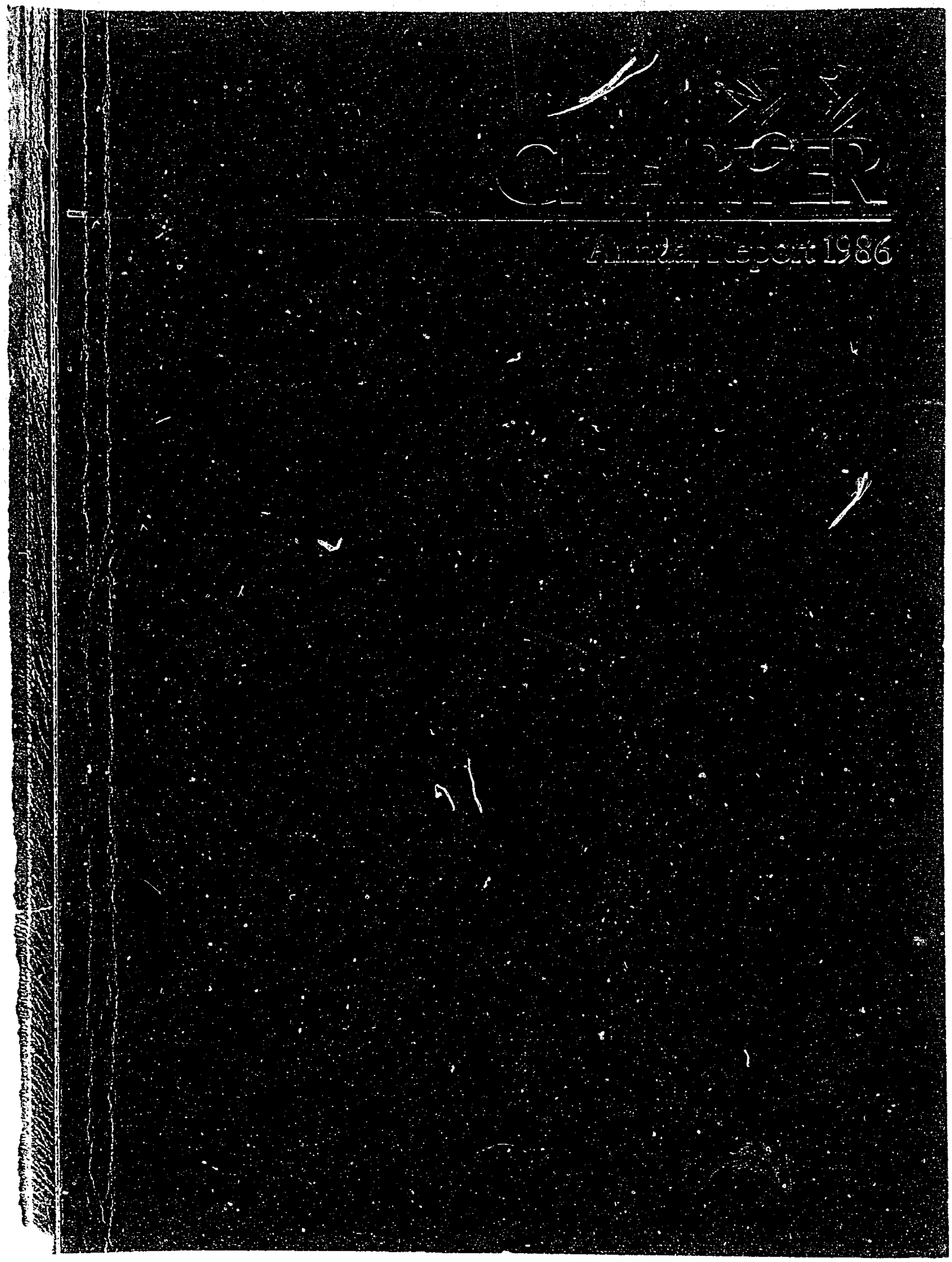
CHARTER CONSOLIDATED P.L.C. AND ITS SUBSIDIARY COMPANIES

Source and application of funds

Year ended 31 March 1986

Note		1986 £000	1986 £000	1985 £000	1985 £000
	OPERATING CASH FLOW				
	Profit before interest payable and taxation		40,157		34,176
	Share of retained profits of related companies		(6,987)		(6,888)
	Provisions against current asset investments		1,357		21
	Operating cash flow from revenue sources		34,527		27,309
	Funds applied to maintenance of operations:				
29(i)	Working capital	8,058		(5,172)	
	Fixed assets (intangible and tangible)				
	Purchases for normal replacements and enhancements less capital expenditure grants	(21,844)		(31,923)	
	Book value of disposals	4,098		12,796	
	Depreciation	21,612		31,754	
		3,866		12,627	
29(iii)	Cost of current asset investments – net sales	2,250	14,174	4,209	11,664
			48,701		38,973
	Operating cash flow				
	Taxation paid	(9,581)		(7,263)	
	Interest payable and similar charges	(11,403)		(17,656)	
	Dividends paid	(11,568)	(32,552)	(11,568)	(36,487)
	Cash flow after taxation and service of capital		16,149		2,486
	Extraordinary items before taxation and minority interest, less provisions and other items		(11,368)		10,429
	OVERALL CASH FLOW FOR THE YEAR		4,781		12,915
	CAPITAL RECEIPTS LESS NEW INVESTMENT				
29(ii)	Disposal of subsidiaries	1,505		16,464	
29(iii)	Fixed asset investments – net purchases	(5,642)		(10,493)	
	Decrease in assets under finance leases	1,053		(443)	
	Proceeds from sale of subsidiaries	16,603		–	
	Fixed assets (intangible and tangible) acquired for expansion	(9,221)		(8,375)	
	Capital subscribed by minority shareholders	3,272		–	
	Tax paid on prior year investment disposals	(8,686)	(1,116)	–	(2,847)
	Net cash inflow		3,665		10,068
	REPRESENTED BY				
29(iv)	Increase in liquid funds		21,256		(35,785)
	Increase in long term borrowings		(17,591)		45,853
			3,665		10,068

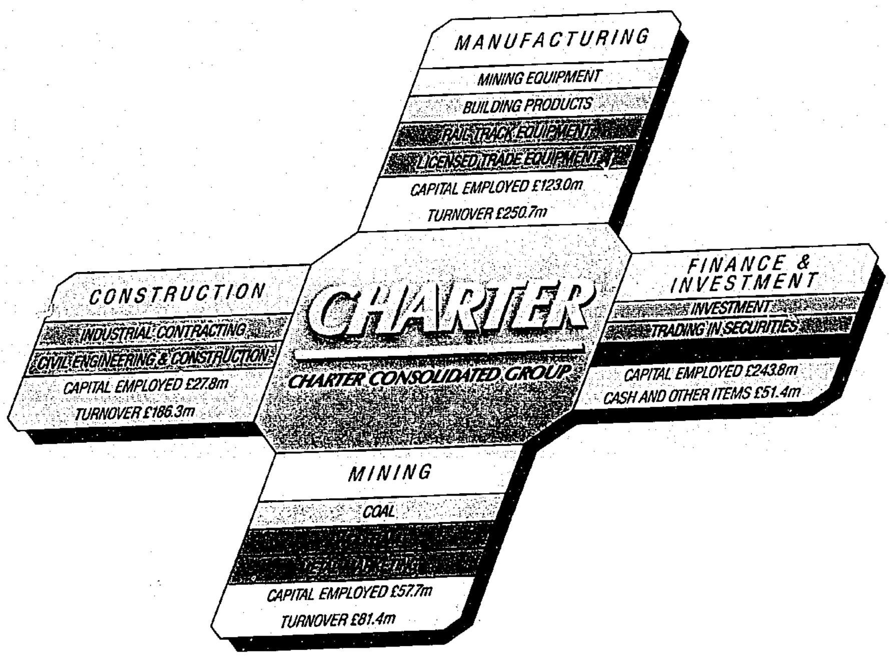
The information on pages 34 to 53 forms part of these accounts.


CHARTER
Annual Report 1986

CHARTER Charter Consolidated P.L.C.

Annual report and accounts
for the year ended 31 March 1986

CHARTER



Charter Consolidated is the parent company of a British group engaged in manufacturing, construction, mining, and finance and investment.

Charter has undergone a major change in recent years. The business has been extensively reshaped and much of the capital employed is now in operating companies.

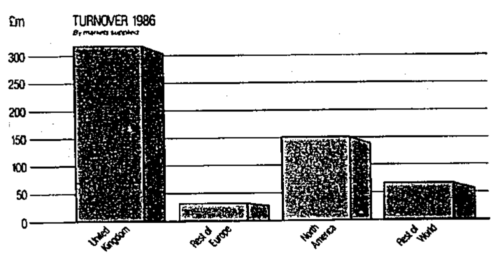
The strategy is to maximize return on capital. In further developing the business, emphasis will continue to be placed on companies having a strong market position, a competitive technology base, and thus the potential for sustained earnings growth.

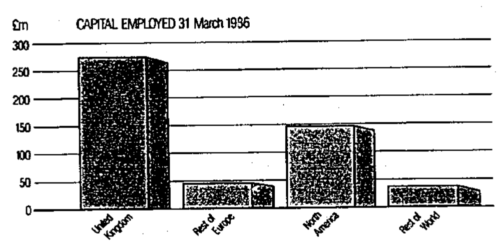
Besides the operating companies, the group has interests in the marketing, refining, and fabrication of precious metals, the manufacture of automotive and industrial catalysts, in natural resources, and in financial services.

The group employs 15,178 people, 9,881 of them in the United Kingdom and most of the others in western Europe and North America.

CHARTER Financial summary

	1986 £ million	1985 £ million
Turnover of operating susidiaries	**567.1**	754.5
Profit before taxation	**28.8**	16.5
Attributable earnings	**19.8**	10.5
Extraordinary charges	**(9.2)**	(52.9)
Capital employed*	**503.7**	494.4
Net assets*	**384.5**	345.5
* including appreciation of investments		
Earnings per share	**18.8p**	10.0p
Dividends per share	**11.5p**	11.0p
Net assets per share	**366p**	329p





CHARTER Notice of meeting

NOTICE IS HEREBY GIVEN that the twenty-first annual general meeting of members of Charter Consolidated P.L.C. will be held in the Caxton suite at the London International Press Centre, 76 Shoe Lane, London EC4A 3JB (New Street Square entrance), on Tuesday 5 August 1986 at 12 noon for the following purposes:

1. To consider the accounts and the report of the directors for the year to 31 March 1986

2. To declare a final dividend

3. To reappoint as directors Mr G. W. H. Relly, Mr P. C. D. Burnell, and Sir Robert Hunt

4. To reappoint Coopers & Lybrand as auditors and authorize the board to fix their remuneration

5. To consider the following resolution which will be proposed as an ordinary resolution:

'That, pursuant to section 80 of the Companies Act 1985, the directors of the company be hereby authorized for a period of five years ending on 4 August 1991 to allot all or any of the 29,658,226 unissued shares of the company, and to grant any right to subscribe for, or to convert any security into, shares in the company, to such persons, at such times, and upon such terms and conditions as the directors may determine'

6. To consider the following resolution which will be proposed as an ordinary resolution:

'That the directors be authorized for a period of five years ending on 4 August 1991 to approve contributions by the company for political purposes (as defined in the Companies Act 1985) where they are judged to be in the interest of the company and its shareholders, up to a maximum amount of £25,000 per annum'.

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the company. A form of proxy accompanies this notice.

by order of the board
E. G. RUDLAND
secretary

Registered office:
40 Holborn Viaduct
London EC1P 1AJ

10 July 1986

NOTES

1. To be valid the form of proxy must reach the company's registrars in the United Kingdom, Hill Samuel Registrars Limited, 6 Greencoat Place, London SW1P 1PL, not less than 48 hours before the meeting.

2. Holders of share warrants to bearer who wish to attend in person or by proxy or to vote at the meeting must comply with the relevant conditions governing share warrants to bearer, copies of which are available from the registered office of the company and the office of its registrars in the United Kingdom and from the company's overseas paying agents.

3. A director's service contract is available for inspection at the registered office of the company during usual business hours until the date of the meeting and may be inspected at the place of the meeting for at least 15 minutes prior to and during the meeting.

IMPORTANT DATES

1986	**Annual general meeting**	**Tuesday 5 August**
	Final dividend paid	**Thursday 7 August**
	Interim dividend and half yearly report published	**Wednesday 10 December**
1987	**Interim dividend paid**	**Thursday 8 January**

CHARTER Directorate

Chairman

J. O. Hambro, MC

Deputy chairman and chief executive

*J. N. Clarke

Directors

P. C. D. Burnell
J. W. Herbert *Industry*
*G. A. Higham *Industry*
M. B. Hofmeyr
*F. J. A. Howard *Finance*
Sir Robert Hunt, CBE
A. E. Oppenheimer
N. F. Oppenheimer
*A. J. W. Owston *Mining*
G. W. H. Relly
J. G. Richardson
J. Ogilvie Thompson

*members of executive committee

Alternate directors

R. J. Armitage
J. V. Cleasby
M. J. Statham

Secretary

E. G. Rudland

Statement by the chairman and the chief executive

Jocelyn Hambro, chairman of Charter, and Neil Clarke, chief executive

Achievements of the year

For the year ended 31 March 1986 the group's profits improved significantly. Profit before interest and taxation increased by 18 per cent to £40.2 million. The action taken to reduce debt together with the improvement of the pound against the United States dollar contributed to a sharp reduction in interest charges. Profit before tax improved by 74 per cent to £28.8 million. The profit attributable to shareholders and earnings per share increased by 88 per cent.

An increased final dividend of 7.75p per share is recommended to give a total dividend of 11.5p.

The better profits of Charter reflect continued progress in reshaping the group, reducing the level of borrowing, and seeking higher returns on capital. Progress has been made in all three areas during the past year and, although more needs to be done (and is in hand) in civil engineering, the advances made by the operating companies in the manufacturing sector, where the bulk of our operating capital is now invested, are encouraging.

The group debt has been reduced by £44 million since 31 March 1984 and at 31 March 1986 stood at £95 million.

Operations

The operations of the Charter group are centred on manufacturing industry, mining, civil engineering and construction, and finance and investment.

Manufacturing industry

Our operating subsidiaries engaged in manufacturing industry achieved a significant profit recovery in the year. Operating profits rose from £8.7 million to £19.9 million. The improvement was more marked after taking into account the benefits of the sale or closure of underperforming operations. The profits of the continuing businesses were £22.4 million, compared with £13.8 million last year.

Anderson Strathclyde improved steadily during the year as the home market returned to more normal conditions following the ending of the NCB/NUM dispute. In export markets a good level of business continued with China, now the world's largest coal producer and a most important customer, where shearers from the Anderson range of coal cutting equipment are widely used. The success in exports is founded on continued product development, the long established reputation for excellence in shearers now being complemented by the company's advanced roadheading equipment.

The results of Cape Industries' building products division and of Pandrol International were satisfactory in demanding conditions, reflecting the good market position and product excellence of both companies. Pandrol maintained the profitability of its worldwide rail fastening business, initiating new plants in Indonesia and Italy. Pandrol has also continued its investment to increase the fleet of high performance rail grinding trains operated by the Speno joint venture in the United States, and the benefits of this capital expenditure should be seen more fully in the current year.

Each of our principal manufacturing companies – Anderson Strathclyde, Cape's building products division, and Pandrol – has a strong market position founded on products having an advanced and competitive technology. We intend to continue the emphasis placed on these criteria in the future development of our manufacturing business.

Mining

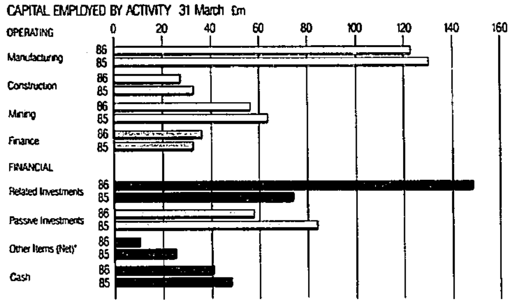
The group's mining operations include Beralt's wolfram mine in Portugal, and opencast coal contracting for British Coal in the United Kingdom, and in Indiana in the United States.

In Portugal the mining operations achieved excellent improvements in grade and metallurgical recoveries leading to record production. The demand for Beralt's high purity concentrates, particularly for electrical components, remained firm. Market prices through the year were increasingly affected by the disruption caused by excessive dumping of tungsten, both in concentrates and beneficiated products, by Chinese exporters, which significantly reduced profitability compared with the previous year. Action is being taken at Beralt to reduce the unit cost of production further in order to meet these adverse market conditions. Beralt is a long life, high quality orebody with a premium product which will ensure a good return in a less abnormal market.

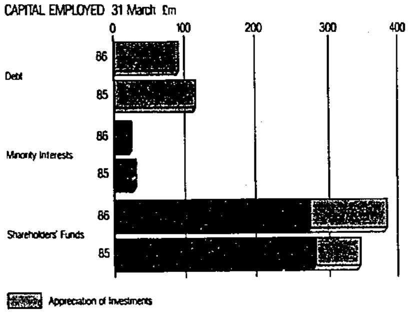
In coal contracting the results of the United Kingdom operations, despite an increased level of production, were affected by the extremely wet weather and by continuing difficult ground conditions at two sites. These are the subject of claims negotiations with British Coal.

In Indiana, the operations of Shand Mining Inc. (SMI) service long-term contracts with electricity utilities. Demand was down compared with the previous year's very buoyant conditions leading to some downward pressure on prices. SMI successfully opened up its new contract operations in Greene County, and overall produced satisfactory results.

CAPITAL EMPLOYED BY ACTIVITY 31 March £m



CAPITAL EMPLOYED 31 March £m



Civil engineering and construction

The results of Shand Limited were bad. The progress made in many parts of this group was obscured by the necessity to make significant provision against the cost to completion of a contract to construct a series of dams in Oman and by losses in regional building operations in Scotland and the south of England.

The civil engineering and construction industry is depressed both in the United Kingdom and now in the Gulf where Shand have operated successfully for some years. Tendering is extremely competitive and margins fine.

At Shand we have taken steps throughout the group to reduce central overhead and operating costs, to close unprofitable units, to sell small operations, and to strengthen management and controls. This should ensure an improvement in the current year.

Finance and investment

Charter's interests centre on trading in securities, leasing and cash management where we act as banker for the group, and on the major longer term investment holdings.

Securities trading, after a poor first half, achieved very good results in the stronger market conditions of the last six months. We refer elsewhere to the performance of two major investments, Johnson Matthey and Rowe & Pitman. The market value of our holding in Malaysia Mining Corporation (MMC) has been affected by the collapse of the tin market and of prices. The tin dredging operations of MMC are in essence low cost producers but recovery in prices will depend on the speed with which excess stocks of tin are absorbed by the consuming countries.

Overall the asset backing and cash generation of our central finance and investment interests will contribute to the resources available for further development of our operating businesses, both organically and by acquisition.

Major events

The process of sale, closure, or reconstruction of underperforming business units has continued during the year. The results of National Mine Service Company (NMS) have been poor since early 1983, stemming from the performance of the mining machinery division. Since Anderson Strathclyde acquired its 51 per cent interest, much had been done to reduce costs and improve the product range, but it was concluded that the division was unlikely to produce, in the foreseeable future, the returns we require. We refer later to the agreement now reached for the sale of this division.

The major reconstruction of the business of Cape Industries was completed during the year, leading to debt reduction of £24 million, and to the concentration of the company around its core businesses of fire protection and specialized building products, and insulation services. The strong market position of the building products group was demonstrated by a further increase in profits despite depressed demand. The programme of vigorous rationalization in the insulation contracting group continued with the disposal of unprofitable businesses and the restructuring of management.

MKR Holdings completed the sale of the small Paterex unit through a management buyout and the rationalization of Gaskell and Chambers.

The costs of rationalization are reflected in the charge to extraordinary items of £9.2 million which reflects mainly provisions for losses on the disposal of the NMS mining machinery division of £5.8 million and our share of £2.3 million of similar charges incurred by Johnson Matthey.

We are pleased to report excellent progress in the continuing recovery at Johnson Matthey. The strategic assessment of the company's business made early in 1985 has been applied during the last year, leading to a significant rationalization of non-performing operations and a reorganization of the company around its core business of catalysts, precious metals refining and marketing, and the chemical and fabricated applications of precious metals technology. The programme to reduce the amount of working capital, particularly in precious metals, produced a further material reduction in debt and in interest charges, and provided the foundation for the agreement of medium term financing arrangements. The profit after taxation increased by 79 per cent to £21.6 million and the company has resumed the payment of dividends. The costs of rationalization are reflected in the charge to extraordinary items of £8.2 million. The progress of the company is reflected in the value of our investment which, at the time of writing, is £133 million. Immediately prior to the crisis at the end of September 1984 our holding was valued at £89 million and the day afterwards at as little as £24 million, to which should be added our further investment of £20 million as underwriter of the rescue package and in support of the later refinancing.

We have concluded two significant transactions since the end of the financial year. In May 1986 we placed the greater part of our holding in Mercury International Group, realizing proceeds of £48.3 million and a profit before tax of £15.1 million. The holding was derived from our participation in Rowe & Pitman which produced excellent profits during the two years of our partnership. The merger of Rowe & Pitman, Akroyd & Smithers, Mullens & Co., and Mercury Securities to form Mercury International Group was completed in April 1986. In June agreement was reached between NMS, a subsidiary of Anderson Strathclyde, and Baker International Corporation for the sale by NMS of the assets of its mining machinery division. This division, whose main product line is continuous miners for the underground coal and potash industries, has been loss making for some years and its future had been closely assessed. The sale, which is conditional on the receipt of the appropriate consents from United States government agencies, will release substantial funds, and in turn markedly reduce long term debt. NMS will continue with its profitable distribution and hydraulics divisions.

Directorate and staff

Sandy Shand, who had been a member of the board since 1981 and the chairman of Alexander Shand Holdings for many years, retired from the board on 31 March 1986. We wish him well in his retirement.

The Charter group employs 15,000 people throughout the world, primarily in the United Kingdom, the rest of Europe, and North America. We would like to congratulate Malcolm Heald, formerly a member of Charter's staff and now financial controller of Shand Limited, who has been selected by the Confederation of British Industry as one of a group of young British managers charged with the task of 'drawing the chart which industry will use to navigate into the next century'.

On behalf of shareholders and the board we express our thanks to all employees who have worked with energy and determination to improve performance in a busy and demanding year.

Outlook

Last year was one of considerable progress and, despite the continuation of very competitive trading conditions, the action taken to improve profitability should provide further growth in earnings in the current year.

J.O. HAMBRO
chairman

J.N. CLARKE
chief executive

London
3 July 1986

CHARTER Report of the directors

Review of results

Profits of Charter Consolidated showed a sharp improvement in the year to 31 March 1986. Revenue increased and interest charges were much lower. Profit before tax, up 74 per cent, rose to £28.8 million from £16.5 million. After taxation at a lower effective rate profit after tax more than doubled to £19.8 million from last year's £9.0 million and earnings per share were 18.8p compared with 10p.

Operating profits for the year were £14.4 million compared with £13.3 million for the period to 31 March 1985 which included £1.8 million in respect of the results for an additional three months for certain businesses. The year saw a strong recovery in operating profits at Anderson Strathclyde and improvement in the results of other manufacturing companies. However, these gains were partly offset by increased losses from civil engineering and construction activities, by lower profits from contract coal mining, and by a move into loss at Beralt's wolfram mine in Portugal.

Dividends and interest received rose by £2.9 million to £11.5 million. Excellent results from Rowe & Pitman and much improved dividend income from Johnson Matthey were offset in part by lower dividends from the reduced shareholding in Minerals and Resources Corporation (MINORCO) and from other sources. Profits from trading in securities increased but the overall surplus on realizations was much the same at £4.1 million.

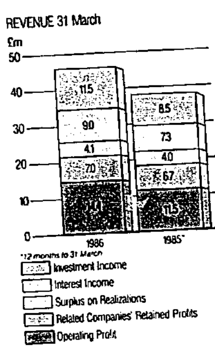
The company's share of profits retained by related companies was little changed, the improvement in results at Johnson Matthey being matched by the cost of a full year's payment of dividends on preference capital issued in 1984 and of a resumption of ordinary dividend payments.

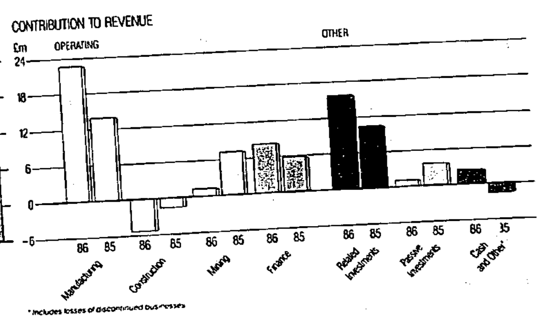
Total revenue of the group rose from £40.5 million to £46.0 million. Interest paid on borrowings was reduced by £6.3 million to £11.4 million, reflecting a further reduction in group debt from £118 million to £95 million, the absence of the extra quarter included in last year's results in respect of certain companies, and the reduction in interest rates that has occurred notably in respect of United States dollars, in which a large part of group debt is denominated. A further reduction in administrative costs was made at head office. Overall, profit before tax increased by 74 per cent from £16.5 million to £28.8 million.

The charge for taxation at £9.0 million was proportionately less this year, returning to a more normal level. The share of profits attributable to minority shareholders of Cape Industries and Beralt Tin and Wolfram was offset by the relevant share of losses of National Mine Service Company (NMS). Earnings attributable to shareholders of Charter improved by 88 per cent from £10.5 million to £19.8 million.

Extraordinary items

Companies of the group further concentrated their business on profitable core activities. Several smaller and loss-making businesses were sold. Losses and costs associated with these transactions and provision of £5.8 million relating to the conditional agreement reached since the





year end for the sale of the mining machinery division of NMS amounted to £8.2 million. Against this there were credits arising from provisions no longer required and from minor disposals of investments totalling £1.3 million. Charter's share of extraordinary items of Johnson Matthey was £2.3 million, bringing the group charge for extraordinary items to £9.2 million.

Litigation

Charter has continued to defend itself in a number of asbestos-related actions in the United States in which it has been named on the basis that it is allegedly liable for the acts of Cape Industries. The directors have been advised that Charter should be able successfully to defend the actions brought against it but that uncertainty must exist as to the eventual outcome of the trials of any such actions. It is not practicable to estimate in any particular case the amount of any damages which might ensue if liability were imposed on Charter. Based on advice, the directors believe that the aggregate of any such liability is unlikely to have a material effect on Charter's financial position and have accordingly concluded that it is not appropriate to make any provision in respect of such actions. The position is more fully set out in note 23 on the accounts on page 44.

Major developments

As reported last year, in April 1985 Charter subscribed its 67.3 per cent share of a placing by Cape Industries of £10 million 8.4 per cent convertible preference shares and in August subscribed £5 million variable rate unsecured subordinated loan stock of Johnson Matthey carrying a warrant to subscribe for one million ordinary shares in that company.

On 12 April 1986, shortly after the year end, the merger of Rowe & Pitman, Akroyd & Smithers, Mullens & Co., and Mercury Securities was implemented. In terms of the arrangements Charter exchanged its interest in Rowe & Pitman for shares in Mercury International Group (MIG) and subscribed £17.7 million for additional shares. On 14 May 1986 the majority of this interest was sold in the market for a total consideration of £48.3 million, giving rise to an extraordinary profit before tax of £15.1 million. A holding of convertible preference shares of MIG has been retained which, on a fully diluted basis, would represent an interest of 0.5 per cent in the capital of that company.

On 5 June 1986 NMS announced agreement with Baker International Corporation for the sale by NMS of the business of its mining machinery division subject to clearance by the United States Federal Trade Commission. The proceeds of this sale will substantially eliminate the long term debt of NMS which will continue to own and operate its distribution and hydraulics divisions serving the United States and international mining industries.

A large reduction in debt was accomplished at Cape Industries mainly as a result of its placing of convertible preference shares and the implementation of agreements made in the preceding year to dispose of certain operations and assets. This was the principal factor leading to a further fall in consolidated debt from £118 million to £95 million at 31 March 1986. Of this total, the equivalent of £39 million relates to borrowings by Cape Industries and NMS which are partly owned and make their own financing arrangements.

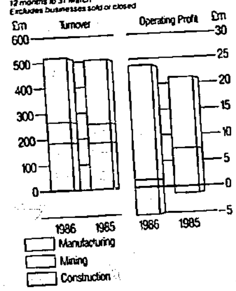
Group debt includes borrowings in United States currency of US$90 million, equivalent to £61 million, of which US$29 million relates to NMS, the balance being maintained to finance short term and dollar assets subject to amortization. Group cash and short term deposits fell by £9 million to £41 million at 31 March 1986. Since the year end cash resources have been augmented by some £30 million net arising from the subscription for and sale of shares in MIG.

Dividends

The directors have decided to recommend a final dividend of 7.75p which with the interim dividend of 3.75p per share paid on 9 January 1986 makes 11.5p carrying a tax credit of 4.77263p per share. After providing for the cost of these dividends of £12.1 million and for the net extraordinary charges of £9.2 million there was a deficit of £1.5 million met from reserves.

To assist comparison, all the 1985 turnover and operating profit figures shown in this directors' report are for the 12 months to 31 March 1985 and exclude the results for the three months to 31 March 1984 of those subsidiaries which changed their year ends from 31 December to 31 March.

TURNOVER & OPERATING PROFIT
12 months to 31 March
Excludes businesses sold or closed



Report of the directors
continued

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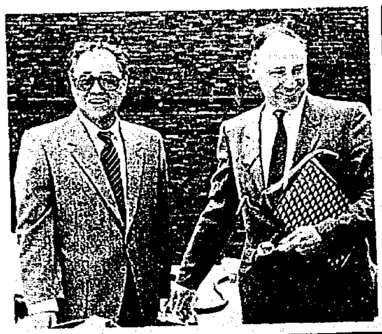
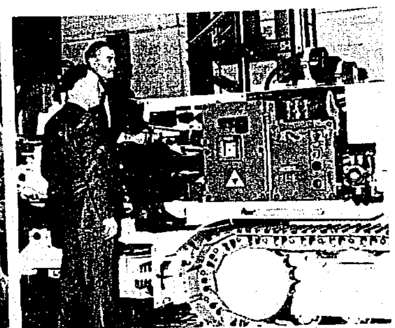
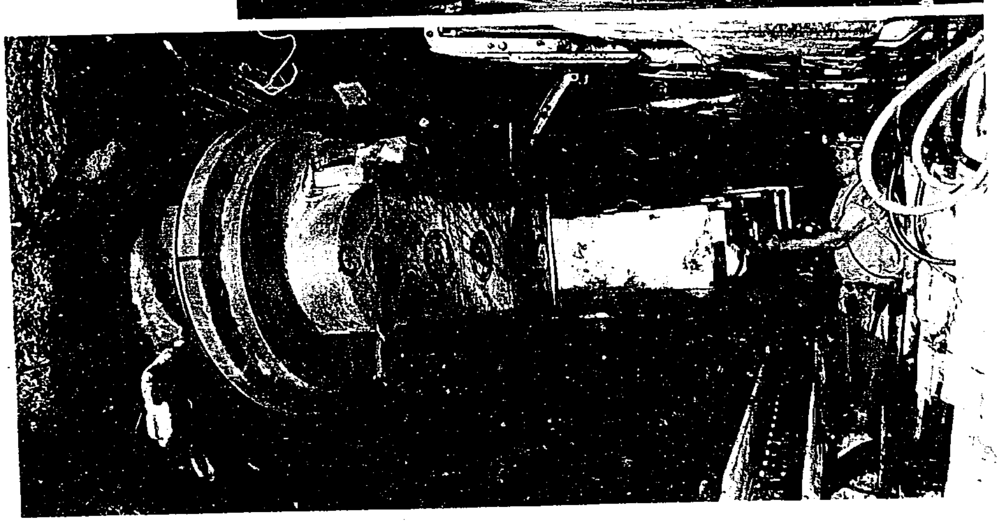
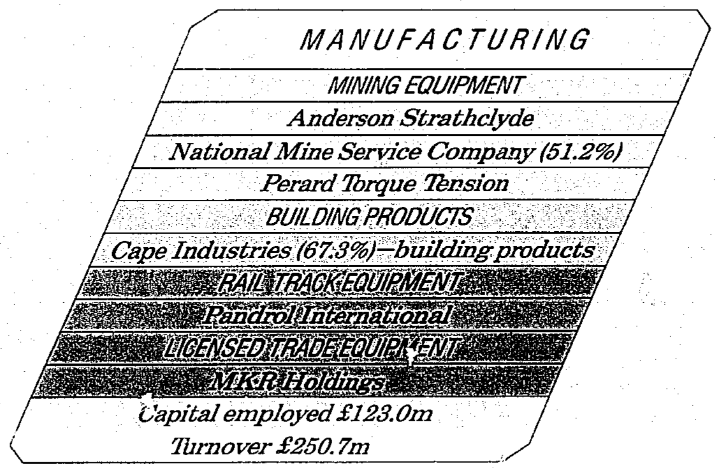


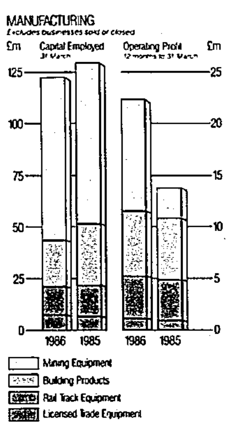




MANUFACTURING



SUMMARY OF RESULTS £ million	Turnover 1986	Turnover 1985	Operating profit/(loss) 1986	Operating profit/(loss) 1985	Capital employed 1986	Capital employed 1985
Mining equipment						
Anderson Strathclyde	**97.8**	82.9	**9.2**	2.2	**57.4**	52.4
National Mine Service	**41.0**	51.0	**2.0**	2.1	**18.0**	22.1
Anderson Strathclyde group	**138.8**	133.9	**11.2**	4.3	**75.4**	74.5
Perard Torque Tension	**8.2**	6.2	**(0.2)**	(1.4)	**3.6**	4.1
	147.0	140.1	**11.0**	2.9	**79.0**	78.6
Building products (Cape)	**55.3**	55.8	**6.2**	5.9	**22.3**	29.8
Rail track equipment (Pandrol)	**34.3**	36.8	**4.1**	4.0	**13.7**	14.7
Licensed trade equipment (MKR)	**14.1**	14.7	**1.1**	1.0	**8.0**	7.0
	250.7	247.4	**22.4**	13.8	**123.0**	130.1
Discontinued businesses	**39.1**	101.3	**(2.5)**	(5.1)	**23.3**	54.3
TOTAL	**289.8**	348.7	**19.9**	8.7	**146.3**	184.4



MINING EQUIPMENT

Anderson Strathclyde PLC

Chief executive: J. M. Little

Anderson Strathclyde is one of the largest manufacturers of underground coal mining equipment in the world and a market leader in the production of power loaders of advanced design for longwall mining. The company also produces other mining and tunnelling equipment, including armoured face conveyors, belt conveyors, and roadheaders. It operates in the United Kingdom and through subsidiaries in a number of major coal producing countries.

Sales by Anderson Strathclyde and its wholly owned subsidiaries for the year to 31 March 1986 were £97.8 million (1985 – £82.9 million) and operating profit was £9.2 million (1985 – £2.2 million).

With the ending of the mineworkers' strike in the United Kingdom the year was one of marked recovery for the company. Sales increased in home and export markets and, despite an uneven pattern of demand which adversely affected production costs, profits improved sharply.

The coal face equipment division was again the major contributor to profits and maintained its position as a leading supplier. Extensive programmes for product development and productivity improvement continued.

The engineering division achieved a much improved performance with the tunnelling equipment unit particularly successful in gaining widespread acceptance for its new roadheader, the RH25. The Hoy division, which manufactures cutting tools, also had a satisfactory year.

Reorganization within the National Coal Board (now British Coal) involved a number of pit closures, but demand for capital goods and spares improved and Anderson Strathclyde met British Coal's growing requirement for repair work.

Export sales reached a record level despite mixed conditions in overseas markets. In the United States demand was modest and prices and conditions of sale remained very competitive. South African and Australian markets were both depressed although there was some improvement in the latter towards the end of the year.

China is a most important market for the company and the Chinese prime minister Mr Zhao Ziyang was welcomed at the Motherwell factory during the year. The technology transfer agreement for shearers is operating well and negotiations for a similar agreement for roadheaders are now taking place.

A further advance in profits is in prospect for the current year.

National Mine Service Company

President and chief executive officer: H. F. Gerhard

National Mine Service Company (NMS), a 51.2 per cent owned subsidiary of Anderson Strathclyde, manufactures and supplies products and services to the coal and potash mining industries. Its principal products are continuous miners, shuttle cars, and locomotives used in the room and pillar system of mining. The company distributes a wide range of mining equipment, spares, and supplies.

Including discontinued businesses, sales by NMS for the year to 31 March 1986 were US$115.5 million (1985 – US$108.1 million) and the operating loss US$0.2 million (1985 – US$0.2 million profit). Although both the distribution and hydraulics divisions remained profitable the mining machinery division continued to sustain losses.

Demand for mining machinery of the type supplied by the company remains at a historically low level. A modest recovery in the market apparent in the earlier part of the year was not maintained and conditions worsened in the second half. No short term improvement seems likely.

In view of this a decision was taken to sell the assets of the mining machinery division and agreement has been reached with Baker International Corporation. The sale is conditional upon receiving consent from the United States authorities. The proceeds of the sale will be used to substantially reduce debt.

Perard Torque Tension Limited

Managing director: W. L. Pavry

Perard Torque Tension produces drilling equipment for hard rock mining and a range of coal face equipment. The company made a marked recovery after the substantial losses of the previous two years. Perard was successful in winning a major portion of the roof bolting contract from British Coal whose wider acceptance of this method of strata control emphasizes its importance.

The company continues to develop its comprehensive range of drilling equipment and there are good prospects both at home and abroad for a further improvement in sales. This increase, together with a cost reduction programme which will lead to significant savings, is expected to result in a return to profit in the current year.

BUILDING PRODUCTS

Cape Industries PLC – Cape Building Products Limited

Managing director: T. M. McKain

Cape Building Products manufactures high performance products covering fire protection, external cladding and internal linings for the construction industry internationally, and specialist products and systems for the marine, offshore oil, power generating, molten metal, and electrical engineering industries. The company has eight manufacturing plants in the United Kingdom and has been restructured into four specialist operating divisions – Cape Boards, Cape Industrial Products, Cape Durasteel, and Cape Metal Products.

The company had another good year. Operating profit rose to £6.2 million (1985 – £5.9 million), despite static sales of £55.3 million (1985 – £55.8 million). Sales to the United Kingdom building and construction market were affected by poor weather conditions including the severe winter, but this was offset by an increase in exports.

The boards division was the most affected by the adverse weather conditions in the United Kingdom. This, together with continuing overcapacity in the market, reduced profitability. Major investment programmes were completed at the Uxbridge, Bowburn, and Germiston factories to modernize plant and to eliminate asbestos fibre. The successful introduction of a full range of asbestos-free products follows several years of research and development and investment in plant and equipment. The full benefit from these investments will flow through to profits in 1986/87. Work to improve and refine these new technologies continues. The company successfully developed and marketed a new range of suspended ceilings, and additional capital investment will be made to meet the good demand for these products.

Sales and profits in the industrial products division were well ahead of the previous year, especially for export markets. The metal products division continued to improve profitability despite lower sales, and further investment to improve the product range has been initiated. The Durasteel division sales were affected by reduced demand from the power generating and offshore oil sectors, but the division secured a further share of the industrial and commercial markets which will ensure a substantial workload for the coming year.

The United Kingdom building and construction market will remain stable, with continued pressure on public sector spending. The company will seek growth for its specialist products through further exports.

RAIL TRACK EQUIPMENT

Pandrol International Limited

Managing director: J. A. Pool

Pandrol is the world leader in the manufacture and supply of resilient rail fastenings to railways, mines, and industry.

Group sales were £34.3 million (1985 – £36.8 million) and operating profits £4.1 million (1985 – £4.0 million).

With manufacturing operations in ten countries, Pandrol sells to 40 national railways. Important new markets secured this year were Italy and Yugoslavia, and major export orders were won in Sweden, Singapore, New Zealand, Iraq, and Jordan. Manufacturing facilities have been established in Indonesia and are being built in Italy.

The company's position as a market leader is sustained by a research and development programme concentrating on new equipment and techniques for the production of high performance rail support systems. The company has developed equipment to measure accurately the dynamic performance of rail track. New component designs have been tested in-track in the United Kingdom and Canada. In conjunction with the Canadian National Railway and the Genstar-Costain Tie Company, Pandrol has developed a new concrete sleeper assembly which is scheduled for trials in Canada in the autumn.

In North America, Speno Rail Services Company operates the world's most advanced computer controlled rail grinding train, to be joined this autumn by a second and further enhanced unit.

In the current year the availability of substantial international contracts is expected to lead to increased profits for the fastening business, subject to the spending plans of government-controlled railways which form the majority of Pandrol's clients. Speno is likely to benefit from increased demand for its improved technology and from greater operating efficiency.

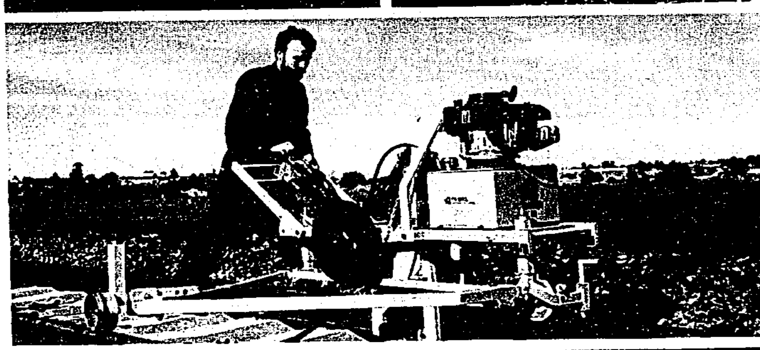
Top left: *MKR subsidiary Morgan Furniture supplied the furniture from its Charleston range for 'The Harrier', Peterborough, the Campaign for Real Ale's 'Best Pub of the Year 1985'.*

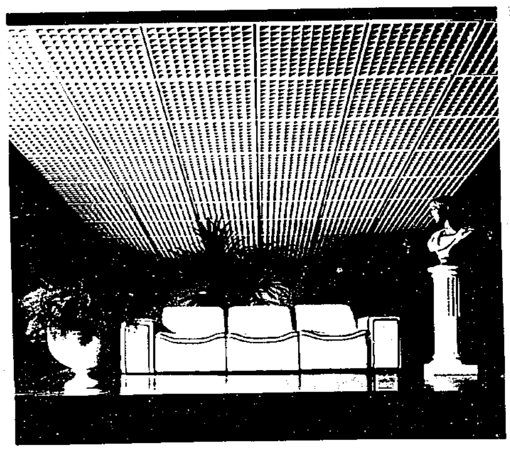
Top right: *A displacement transducer using the latest optical techniques for measuring the relative dynamic displacement of rails and sleepers in rail track, developed jointly by Pandrol International and Cambridge Consultants, is demonstrated to Pandrol chairman Jeffrey Herbert (left), development director Geoffrey Leeves (centre) and managing director John Peel.*

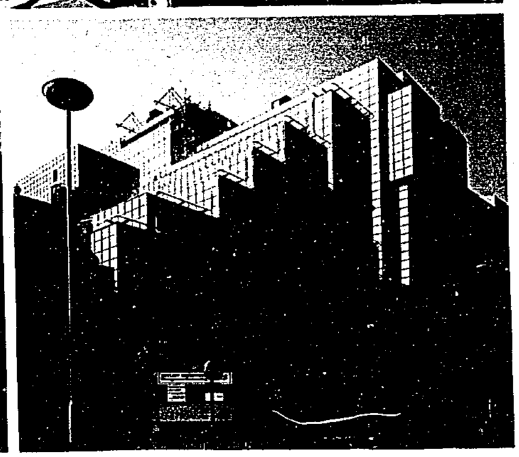
Centre: *The 'Pandrizer' MK A1, developed by Pandrol Australia and operated here by fitter/machinist Allan Billington, will install and extract clips at a rate of up to [illegible] sleepers an hour.*

Bottom left: *Cape Building Products has introduced a new range of open cell ceiling tiles manufactured from fibre reinforced gypsum. They are available in seven standard designs or customized to individual requirements.*

Bottom right: *At the new Billingsgate market commercial development in London, Cape Building Products supplied [illegible] square metres of [illegible] to give fire protection to over [illegible] steel columns.*







LICENSED TRADE EQUIPMENT

MKR Holdings Limited

Managing director: J. B. Andrew

The MKR group manufactures and markets a comprehensive range of products for the licensed, catering, and hotel trades. In Leicester drink cooling and storage cabinets are produced by MK Refrigeration, and Gaskell and Chambers manufactures spirit measures. MK Refrigeration (Ireland) serves the Irish market, and Morgan Furniture has a factory near Portsmouth.

The MKR group returned to profitability in 1985/86. Sales were £14.1 million for the year and operating profit £1.1 million, excluding Paterex. This specialist supplier to the aerospace and defence industries made a loss of £0.4 million and in February this year was the subject of a management buyout. Provision has been made for the losses associated with this divestment.

Marketing successes by MK Refrigeration this year included a further contract from Coca-Cola to supply refrigeration cabinets for use in retail outlets; from Budweiser beer for cooling units; and from the Whitbread group for Multicirc line coolers. Gaskell and Chambers were awarded a contract by Martini-Rossi to supply spirit measures for European markets, while Morgan Furniture supplied furniture for use in the Campaign for Real Ale's 'Best Pub of the Year 1985'.

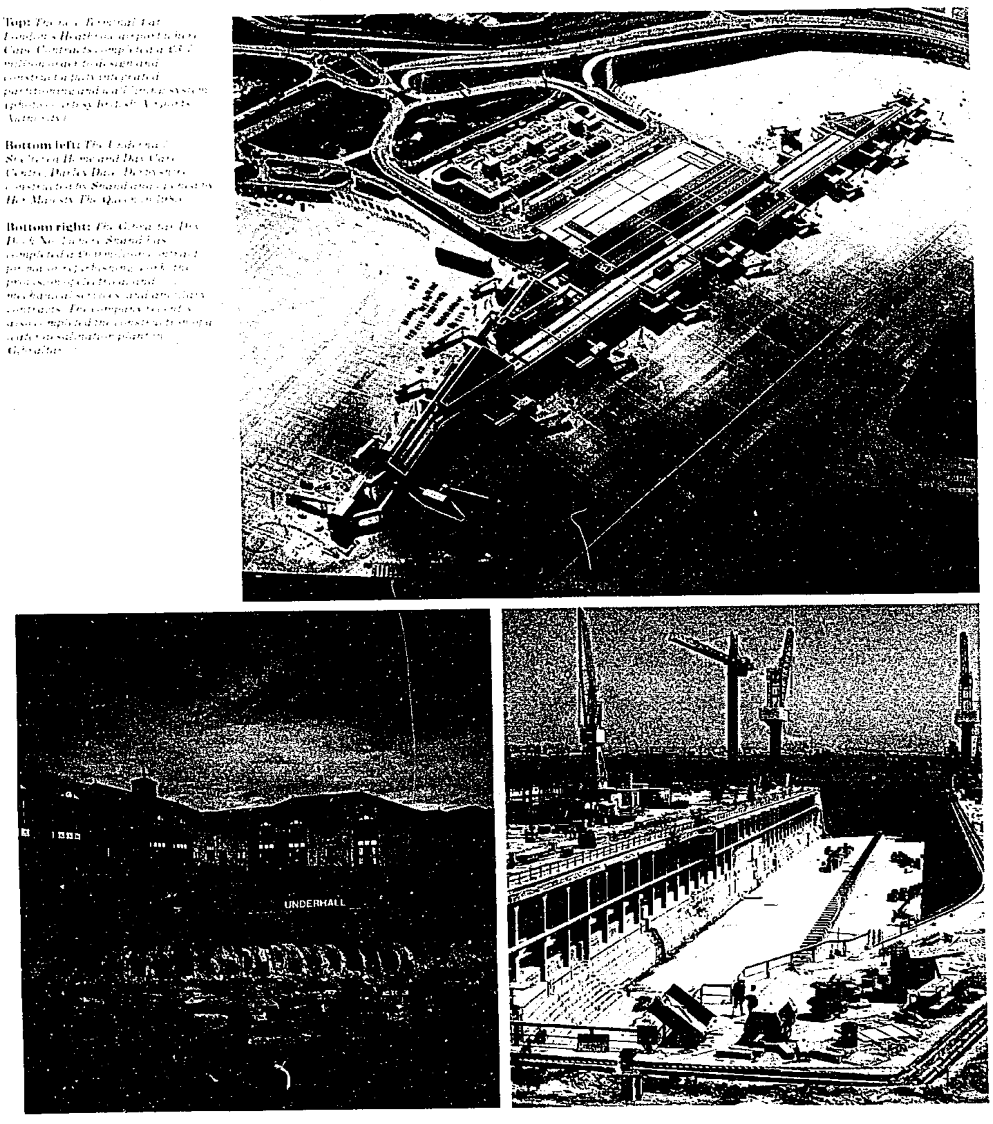
The development of improved and new products is a permanent feature of MKR's marketing strategy, and despite strong competition and stable market conditions results for the current year are expected to show some improvement over those of 1985/86.

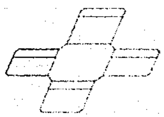
Report of the directors
continued

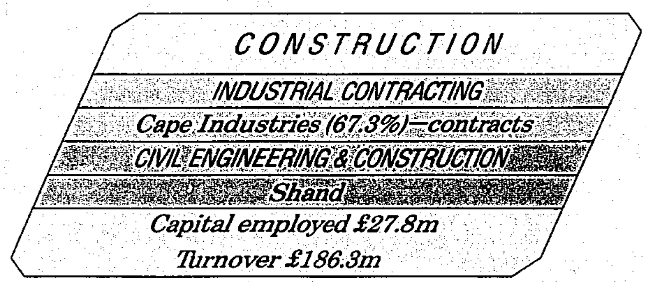
Top: *Terminal Four at London's Heathrow airport, where Crane Contracts completed a £5.7 million order to design and construct a fully integrated partitioning and wall linings system (photograph by British Airports Authority)*

Bottom left: *The Underhall Sheltered Home and Day Care Centre, Darley Dale, Derbyshire, constructed by Shand and opened by Her Majesty The Queen in 1985*

Bottom right: *The Gibraltar Dry Dock No. 1 where Shand has completed a [illegible] contract for major refurbishing work, the provision of electrical and mechanical services and ancillary contracts. The company recently also completed the construction of a water desalination plant in Gibraltar*







SUMMARY OF RESULTS £ million	Turnover 1986	Turnover 1985	Operating profit/(loss) 1986	Operating profit/(loss) 1985	Capital employed 1986	Capital employed 1985
Industrial contracting (Cape)	**81.9**	89.6	**0.3**	(0.2)	**15.7**	17.7
Civil engineering and construction (Shand)	**104.4**	93.7	**(5.6)**	(1.3)	**12.1**	16.1
	186.3	183.3	**(5.3)**	(1.5)	**27.8**	33.8
Discontinued businesses	**6.8**	21.3	**(0.3)**	(3.4)	**1.0**	1.2
TOTAL	**193.1**	204.6	**(5.6)**	(4.9)	**28.8**	35.0

INDUSTRIAL CONTRACTING

Cape Industries PLC – Cape Contracts

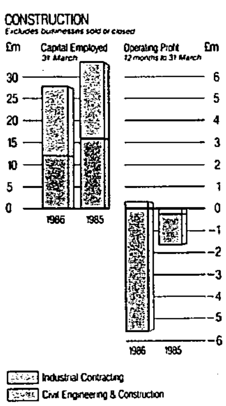
Managing director: J. P. Farrell

Cape Contracts is a major supplier of insulation services to the power, petrochemical, marine, and offshore construction industries. The group has maintained its market leadership in Britain while Cape Scaffolding has established a strong position in industrial contract scaffolding, particularly for power-station and petrochemical work.

The group had a difficult trading year with turnover at £81.9 million (1985 – £89.6 million) and operating profits of £0.3 million (1985 – £0.2 million loss). There was strong competition, particularly for offshore module work, while losses arose on disposal of unprofitable businesses and from provisions against contracts brought forward from the previous year.

Cape Contracts International obtained major supply contracts for insulation materials for a 600-megawatt boiler in Rihand, India, and for similar material to a power station in Iraq.

The group has rationalized its management structure to reduce overheads and to make the company more effective in its business. While further cost reductions may be necessary to reflect market conditions, prospects for the current year are for further recovery in profits.



CIVIL ENGINEERING AND CONSTRUCTION

Shand Limited – civil engineering and construction division

Managing director: S. McLoughlin

Shand companies are engaged internationally in building and civil engineering.

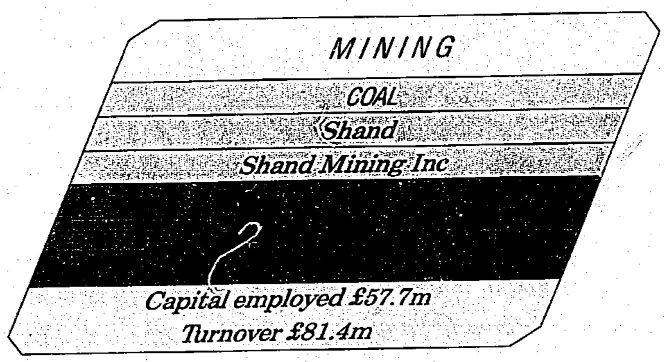
Group turnover for the year to 31 March 1986 was £104.4 million against £93.7 million for 1985, and there was an operating loss of £5.6 million (1985 – £1.3 million loss).

In civil engineering in the United Kingdom there was steady progress in a very competitive market. The mains and services division in particular had a good workload and should continue to improve profitability. Action has been completed to remedy the losses suffered during the year in regional building operations.

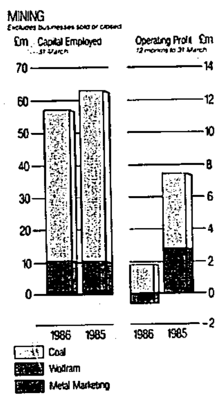
Overseas contracting has been marred by a decline in work in Saudi Arabia and the need to make significant provision against the outcome of a major dam project in Oman. New contracts have been secured in Cyprus, Gibraltar, and Eire.

Good results were achieved in property development. Private housing sales in Scotland experienced some buoyancy earlier in the year following the end of the miners' strike but have been affected by the drop in the oil price.

Action has been taken to streamline management and reduce overheads and to concentrate activity on the profitable areas of business. This should ensure a return to profitability in civil engineering and construction in the current year.



SUMMARY OF RESULTS £ million	Turnover 1986	Turnover 1985	Operating profit/(loss) 1986	Operating profit/(loss) 1985	Capital employed 1986	Capital employed 1985
Contract coal mining						
United Kingdom (Shand)	**33.7**	25.6	**(1.1)**	0.5	**19.2**	24.6
United States (SMI)	**39.5**	35.9	**3.0**	4.2	**28.2**	28.6
	73.2	61.5	**1.9**	4.7	**47.4**	53.2
Wolfram (Beralt)	**8.0**	11.2	**(0.6)**	2.4	**9.9**	9.6
Metal marketing	**0.2**	1.4	**–**	0.3	**0.4**	0.5
	81.4	74.1	**1.3**	7.4	**57.7**	63.3
Discontinued businesses	**–**	8.0	**–**	0.5	**–**	–
TOTAL	**81.4**	82.1	**1.3**	7.9	**57.7**	63.3



CONTRACT COAL MINING

Shand Limited – mining division

Managing director: S. McLoughlin

Shand operates four opencast sites as a contractor to British Coal, three in south Wales and one in Leicestershire. Coal is also produced from a small private tip reclamation site. Output for the year increased to 2.0 million tonnes compared with 1.8 million tonnes for the previous 12 months. Certain of the contracts are the subject of negotiation with British Coal for recovery against the cost of extra work.

Turnover for the 12 months of the mining division (including quarrying operations) was £33.7 million (1985 – £25.6 million) with an operating loss of £1.1 million (1985 – £0.5 million profit).

Trading results suffered because of increased costs arising from the extremely wet summer, and continuing ground instability at two of the sites. Tender activity during the year was low and no new coal contracts were obtained. However, there are encouraging signs in the current year of an increased level of activity.

Shand Mining Inc.

President: F. O. Clayton

Shand Mining Inc. (SMI) carries out opencast coal mining operations on contract and for its own account in Indiana in the United States.

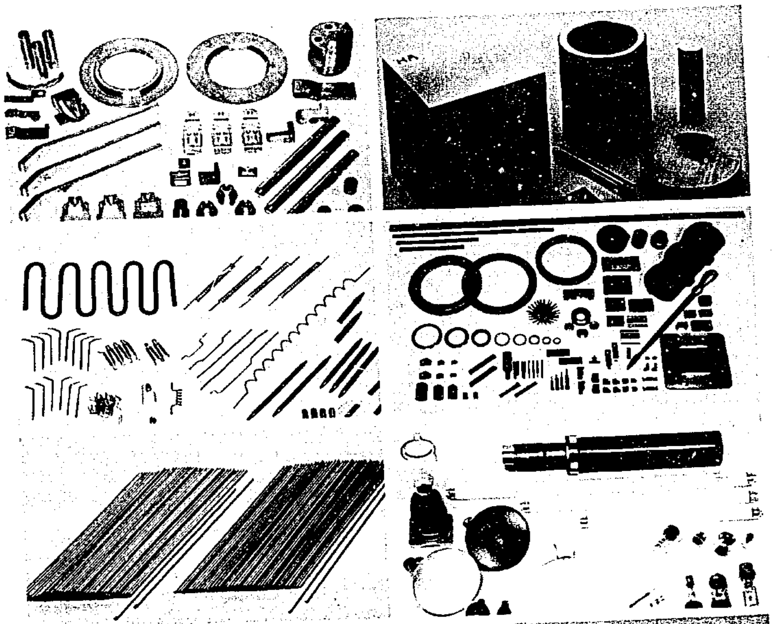
Turnover for the year was US$58.4 million (1985 – US$44.2 million) and the operating profit was US$4.4 million (1985 – US$5.1 million). The market for coal in Indiana has continued to be competitive with some downward pressure on coal prices, due

Top: *Tungsten metal products manufactured by Nippon Tungsten Co at Fukuoka, Japan, from wolfram concentrate produced by Beralt Tin & Wolfram in Portugal*
Clockwise from top left
Electrical contacts
Heavy metal tungsten alloys for counterweights and nuclear applications
Tungsten carbide wear parts for forming metal
Lamps using tungsten filaments
Tungsten rod and thoriated tungsten rod for inert gas welding
Filaments for lamps and heaters, and tungsten rods for electrodes

Bottom left: *Coalfield North, the major opencast coal mine in Leicestershire, operated by Shand under contract from British Coal. Close attention is paid to the environment and the site will be restored to full agricultural use. At the site, left to right are Peter Bevils, Shand divisional director, mining; Anthony Ouston, Charter executive director, mining; and Shand mining division chief executive Ciaran Forristal*

Bottom centre: *Miller Creek mine, in Greene County, Indiana, is a major coal contract operation of Shand Mining Inc*

Bottom right: *SMI's president, Fred Clayton, and director Bud Sargent, at the company's rail loading facility in Greene County where trains of up to 10,000 tons capacity are loaded for delivering coal to electricity utilities*



to overcapacity and high stock levels and to lower demand by the electricity utilities, partly as a result of unusually clement weather conditions. The company is well situated near the Indiana power stations and is able to compete effectively with supplies from outside the state.

The Apraw contract operations mined 1.1 million tons, including a high percentage of low-sulphur coal which commands a price premium for environmental reasons. Although the mine is approaching the end of its economic life, opportunities for its extension are being investigated. To supplement the reducing Apraw tonnage, an operation of 0.5 million tons a year was opened at Prairie Creek.

Further contract mining operations have been started in Greene County. During the year the rail siding and rail system connecting lines were completed together with the wash plant. Operations reached an annual production rate of 1.2 million tons and achieved excellent profitability.

WOLFRAM MINING

Beralt Tin and Wolfram Limited (75%)

(owns 80.5 per cent of Beralt Tin & Wolfram (Portugal) – General manager: A. Correia de Sa)

Beralt Tin & Wolfram (Portugal) operates the Panasqueira mine in northern Portugal, producing wolfram concentrate of a high degree of purity.

Summary of production

	Year to 31 March 1986	Year to 31 March 1985
Ore treated (tonnes)	**784,061**	694,535
Yield grade (kg/tonne)	**3.3**	3.1
Metallurgical recovery (%)	**79.9**	76.9
Wolfram concentrate (tonnes)	**2,619**	2,147
Tin concentrate (tonnes)	**71**	153
Copper concentrate (tonnes)	**898**	1,226

Turnover for the year was £8.0 million (1985 – £11.2 million) with an operating loss of £0.6 million (1985 – £2.4 million profit).

Good production levels were maintained during the year, with the majority of tonnage now being produced from the new deeper level of operations. Sales volumes were maintained at high levels but revenue came under increasing pressure due to the falling wolfram price and the strength of the Portuguese currency against the United States dollar.

The demand for wolfram has remained relatively firm, but market prices have been increasingly depressed by the excess supply of Chinese concentrates and beneficiated products. Beralt is one of the most competitive mines in the western world, with a high quality product. Action is being taken to further reduce the unit cost of production.

EXPLORATION

Charter is currently evaluating a silver deposit near Aracena in south-west Spain to determine the potential for bringing a small mine into production.

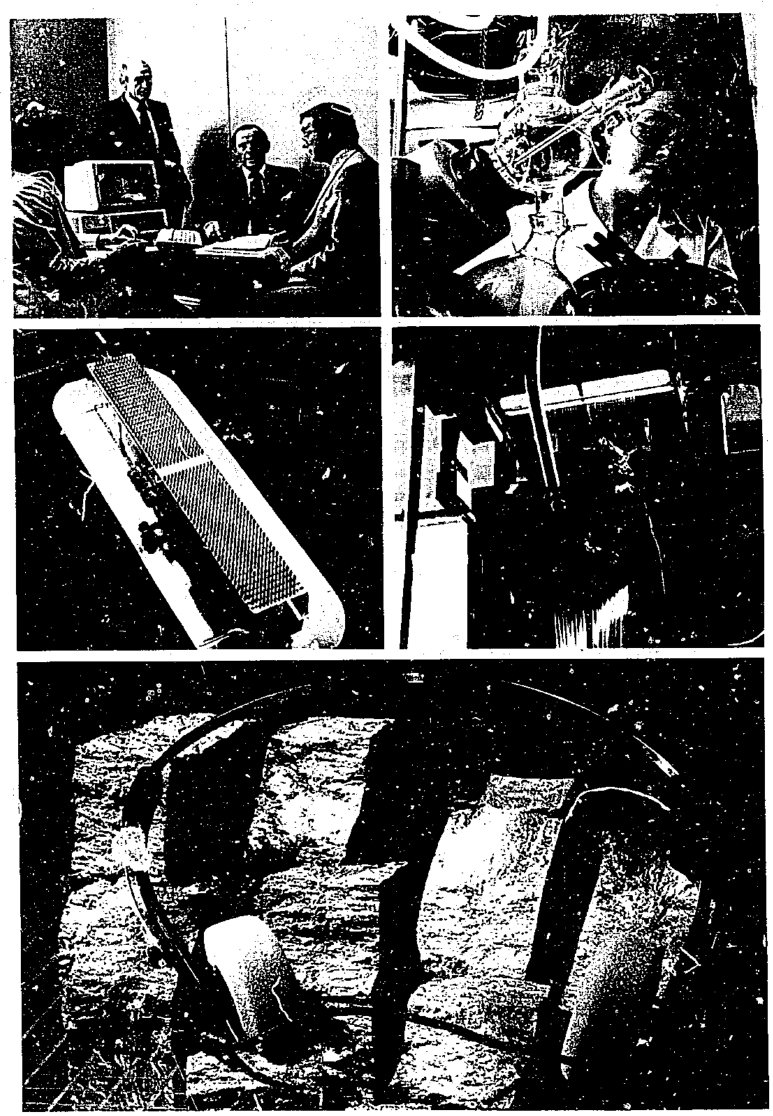
Report of the directors
continued

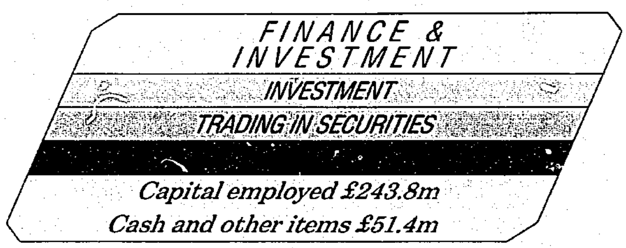
Top left: *At a meeting of Charter's investment management team are, from left to right: fund manager Sylvia Ross, investment manager Bernard Crean, Charter's executive director, finance, Francis Howard and investment manager John Statham*

Top right: *Precious metal-based chemical compounds for use by pharmaceutical companies in the manufacture of cancer treatment drugs are produced by Johnson Matthey under strictly controlled conditions*

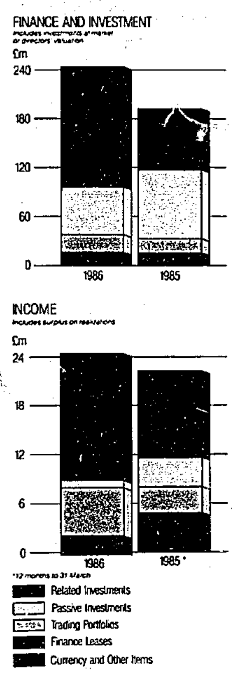
Centre: *Special platinum alloys developed by Johnson Matthey are used in the manufacture of bushings to withstand rigorous high temperature operating conditions in the extrusion of glass fibre (right)*

Bottom: *Rare Earth Products, a high technology subsidiary of Johnson Matthey, was awarded The Queen's Award for Export Achievement in 1986. Neodymium iron boron magnet alloy has applications in electronic products such as hi-fi headphones*





£ million	Investments (at market or directors' valuation) 1986	1985	Income (including surplus on realizations) 1986	1985
Related companies and partnership interest	**148.6**	74.8	**15.7**	10.4
Passive and other investments	**58.6**	84.3	**1.0**	3.7
Trading portfolios	**22.4**	18.3	**6.0**	3.1
Currency and other items	–	–	(0.1)	2.0
TOTAL INVESTMENTS	229.6	177.4	22.6	19.2
Finance leases (less deferred tax)	14.2	14.7	2.1	2.6
TOTAL	**243.8**	192.1	**24.7**	21.8



RELATED COMPANIES AND PARTNERSHIP INTEREST

Johnson Matthey Public Limited Company (27.9% – fully diluted 35.2%)

(Market valuation of Charter's interest: £114.3 million)

Johnson Matthey are specialists in advanced materials and precious metals technology. Principal activities include the manufacture of catalysts and pollution control systems; speciality chemicals, pharmaceutical compounds and intermediates, electronic components and equipment, and the fabrication of precious metals; the marketing and refining of precious metals; and the production of pigments, ceramic colours and transfers.

Profit before taxation for the year ended 31 March 1986 increased by 50 per cent to £30.1 million, compared with £20.1 million for the equivalent period last year, and dividends of 2.5p per share have been paid or recommended. Borrowings of money and metal were reduced in the year by £159 million with net money debt reducing by £108 million and metal by £51 million.

The improved results for the year reflected the success of operating units in reducing working capital and a major rationalization of underperforming activities within core businesses. Good progress was maintained in strengthening the company's market position in catalytic systems for the reduction of pollution caused by automobiles and certain industrial activities. Speciality chemicals showed substantial growth and good profits. In biomedical products a new cancer drug, carboplatin, was launched. Sales of products for the electronics industries were depressed mainly in the United States due to weak market conditions. Precious metal fabrication activities made a higher contribution in the United Kingdom, where considerable rationalization has taken place. Although up in volume, sales of platinum group metals were little changed in sterling; the results of this activity, however, benefited from the sale of surplus stocks. While profits from refining showed a useful improvement in difficult trading conditions, the priority has been to reduce the levels of metal tied up in the refineries. Results for colours were depressed by weak markets. Ceramic transfers were level with the previous year.

Net extraordinary losses amounted to £8.2 million. Refinancing and restructuring costs totalling £10.2 million were incurred as the company continued to eliminate loss-making and inadequately performing activities. Refinery assets in New Jersey in the United States have been written down by US$15 million in recognition of their having been built on a scale incompatible with the secondary platinum refining industry. Johnson Matthey revised its accounting policy in relation to its metal holdings and, as a result, metal revaluation gains (net of tax) of £9.5 million have been credited to revaluation reserves and £12.1 million to extraordinary items.

The operating structure of the group has been reorganized into four new divisions – catalytic systems, materials technology, precious metals, and colours and printing – to enable greater emphasis to be placed on worldwide activities. A great deal has been done to concentrate the Johnson Matthey group on its strong core businesses; some further rationalization will be necessary. The group has achieved a strong recovery and should be well placed for the future.

Rowe & Pitman (29.9%)

The firm shared fully in the buoyant financial market conditions that were experienced during the year and notably the second half, including the high level of merger and acquisition activity. Record profits were earned during this last year of the partnership, of which Charter's share was £4.9 million.

On 12 April 1986, shortly after the year end, the merger of Rowe & Pitman, Akroyd & Smithers, Mullens & Co., and Mercury Securities was implemented. In terms of the arrangements Charter exchanged its interest in Rowe & Pitman for shares in Mercury International Group (MIG) and subscribed £17.7 million for additional shares. On 14 May 1986 the majority of this interest was sold in the market for an aggregate consideration of £48.3 million, giving rise to an extraordinary profit before tax of £15.1 million.

Charter has retained a holding of convertible preference shares equivalent to 0.5 per cent of the equity of MIG on a fully diluted basis as a continuing interest in the MIG group which, it believes, will benefit from the long term development of the London financial markets.

Covenant Industries Limited (33.9%)

Covenant Industries (COVIL) is the United Kingdom based parent of a group with manufacturing and trading operations in Africa.

Chemical and Allied Products in Nigeria (40 per cent owned by COVIL) had a successful year with profits up 40 per cent despite difficulties in obtaining import licences. Profits of Twiga Chemical Industries in Kenya (60 per cent owned) advanced. Dukon, COVIL's wholly owned paint manufacturer in Zambia, increased profits in 1985 in spite of difficult trading conditions.

Due to the receipt of accumulated dividends from Nigeria pre-tax profits of COVIL for the year to 30 September 1985 rose by £1 million to £1.7 million. A dividend was also received from Kenya.

Prospects for the current year are uncertain due to economic difficulties in the countries in which COVIL's companies operate.

FINANCIAL OPERATIONS

Capital employed in trading in securities increased during the year and the strong markets that prevailed in the second half-year in the United Kingdom and abroad led to an excellent result represented by realization surpluses and dividend income. The overall surplus on realization of investments was little changed at £4.1 million.

OTHER INVESTMENTS

Minerals and Resources Corporation Limited (3.8%)

(Market valuation of Charter's interest: £39.8 million)

Minerals and Resources Corporation (MINORCO) is an investment company with holdings in companies principally engaged in financial services, the marketing of commodities, the mining and marketing of precious and base metals and diamonds, industrial operations, and the coal and petroleum industries.

Earnings from operations for the year to 30 June 1985 were US$45.2 million (1984 – US$53.1 million), the reduction being due to lower interest received and to conversion of the company's sterling and rand dividends into a strong United States dollar, MINORCO's accounting currency. Increased dividends were received from Engelhard Corporation and the South American investments, while MINORCO's other investments maintained their rates of dividend distribution. MINORCO's share of the retained earnings of its investments, accounted for on an equity basis, fell by US$11.6 million to US$66.0 million. MINORCO's net earnings for the year were US$104.6 million (US$0.61 per share) compared with US$217.1 million (US$1.28 per share) in the previous year, and the dividend was unchanged at 22 cents per share.

In June 1985 MINORCO realized US$402 million from the sale of 10 million Phibro-Salomon shares, reducing its interest from 22 per cent to 14.5 per cent. In the six months to 31 December 1985, MINORCO acquired further investments in the United States for US$215 million in cash, including a major holding in Adobe Resources Corporation, an oil and gas producer.

MINORCO's earnings from operations for the six months to 31 December 1985 were US$41.1 million, the share of the retained earnings of its investments US$28.0 million, and its net earnings US$64.7 million (US$0.38 per share).

Malaysia Mining Corporation Berhad (13.8%)

(Market valuation of Charter's interest: £11.2 million)

Malaysia Mining Corporation (MMC) and its subsidiaries undertake mining operations in Malaysia, producing tin and by-products in concentrate form, and the marketing of tin metal and other minerals.

Through Ashton Mining MMC has a significant interest in the Argyle Diamond Mines joint venture, whose process plant is expected to be running at an annual diamond production capacity of approximately 25 million carats by the end of 1986.

MMC's group profit after tax and minority interests for the year to 31 January 1986 fell to M$17.3 million (1985 – M$35.4 million). The main factors were production cutbacks and restrictions on the sale of tin concentrate as a result of the tin export controls which were in force between 27 April 1982 and 1 April 1986. In the final quarter of MMC's financial year the tin metal price itself collapsed following the withdrawal of the Buffer Stock Manager from the market on 24 October 1985. The company paid an interim dividend of two sen a share but has announced that no final dividend will be recommended.

The MMC group has made extraordinary provisions of M$69 million (1985 – M$221 million) due principally to a diminution in the value of investments, liabilities arising from cessation of the business of overseas based trading subsidiaries, and abortive prospecting expenditure.

The tin dredging operations of MMC are low cost producers, but MMC's prospects depend almost entirely on a resolution of the tin crisis and how long it takes the world market to absorb the substantial stocks that overhang the market.

Anglo American Corporation Zimbabwe Limited (33.5%)

Anglo American Corporation Zimbabwe (AMZIM) holds a wide portfolio of interests in Zimbabwe including coal, nickel, and copper mining, ferrochrome, agriculture, maize and flour milling, forestry and timber processing, and finance.

The company achieved a profit after taxation of Z$7.2 million for the year to 30 June 1985 compared with Z$2.8 million the previous year.

Following the relaxation of exchange control regulations in Zimbabwe, AMZIM paid a dividend of Z$3.5 million in respect of the year ended 30 June 1985.

STATUTORY AND OTHER INFORMATION

Directorate

A list of the directors of the company appears on page 5. As reported last year, Mr J. W. Herbert joined the board on 9 April 1985. Mr A. T. B. Shand retired as a director on 31 March 1986 and Mr S. McLoughlin ceased to be an alternate director on that date. In accordance with the company's articles of association Mr G. W. H. Relly, Mr P. C. D. Burnell, and Sir Robert Hunt retire by rotation but offer themselves for reappointment; none of these directors has a service contract of more than one year's duration with the company or any of its subsidiaries.

The interests of the directors in the shares of the company and a subsidiary are shown on page 56.

No director had at any time during the financial year a material interest in any contract of significance as defined by The Stock Exchange.

Authority to allot shares

In accordance with the requirements of the Companies Act 1985 a resolution is being submitted to the forthcoming annual general meeting to extend for a further five years the authority approved by shareholders on 11 August 1981 for the directors to allot unissued shares.

Employees

Charter's policy is to encourage effective communication and consultation between employees and management. Each subsidiary develops its own consultative and communication procedures as part of its employment practices.

Charter and its subsidiary companies give full consideration to applications for employment made by disabled people, having regard to their aptitudes and abilities. Should employees become disabled during employment, and no longer be capable of performing the work for which they were engaged, they would be considered for any available alternative work within their capabilities. For the purposes of training, career development, and promotion, disabled employees are treated in the same way as other employees.

Charitable and political contributions

During the year the company and its subsidiaries made charitable contributions of £57,000. Shareholders are being asked at the forthcoming annual general meeting to authorize the directors for a period of five years to approve political contributions which in the opinion of the board are in the interests of the company and its shareholders, up to a maximum amount of £25,000 per annum.

Tangible fixed asssets

The book value of the tangible fixed assets decreased during the year from £126.6 million to £119.9 million. Details are shown in note 13 on the accounts on page 40. No professional valuation of land and buildings was undertaken during the year.

Substantial shareholding

On 10 June 1986 Minerals and Resources Corporation held 37,860,075 shares of 2p each representing 36.0 per cent of the share capital of the company. Anglo American Corporation of South Africa Limited and De Beers Consolidated Mines Limited were deemed under section 203(2)(b) of the Companies Act 1985 to be interested in that shareholding.

Taxation

The company is not a close company within the provisions of the Income and Corporation Taxes Act 1970, and this position has not changed since the end of the financial year.

For capital gains tax purposes, the market price of the company's shares on 6 April 1965 adjusted for the effect of restructuring of the group in 1979 was:

Registered shares – 68.73p

Shares represented by renounceable letters of allotment – 69.60p

Share warrants to bearer – 69.17p.

In calculating the indexation allowance for capital gains on shares held at 31 March 1982 the company's shares (whether registered or bearer) were then valued at 214.25p.

by order of the board
E. G. RUDLAND
secretary

Registered office:
40 Holborn Viaduct
London EC1P 1AJ

3 July 1986

CHARTER Report of the auditors

To the members of
Charter Consolidated P.L.C.

We have audited the accounts on pages 30 to 53 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group at 31 March 1986 and of the results and source and application of funds of the group for the year then ended and comply with the Companies Act 1985.

COOPERS & LYBRAND
Chartered Accountants

London, 3 July 1986

CHARTER CONSOLIDATED P.L.C. AND ITS SUBSIDIARY COMPANIES

CHARTER Consolidated profit and loss account

Year ended 31 March 1986

Note		1986 £000	1985 £000
2	Turnover	567,089	754,528
2, 5	Operating profit	14,400	13,336
3(i)	Dividends and interest received	11,539	8,611
	Surplus on realizations	4,148	3,978
3(ii)	Share of retained profits of related companies	6,987	6,888
	Revenue from investments	22,674	19,477
5	Other interest receivable and similar income	8,971	7,709
	Revenue	46,045	40,522
	Administration of central activities	5,001	5,500
	Prospecting	887	846
	Group profit before interest	40,157	34,176
4	Interest payable and similar charges	11,403	17,656
5	**Profit on ordinary activities before taxation**	28,754	16,520
6	Taxation on profit on ordinary activities	8,967	7,474
	Profit on ordinary activities after taxation	19,787	9,046
	Interest of outside shareholders in subsidiaries	(36)	(1,496)
	Profit sharing scheme	47	–
		11	(1,496)
	Profit attributable to shareholders	19,776	10,542
10	**Earnings per share 18.8p** (1985 – 10.0p)		
11	Dividends paid and proposed	12,095	11,568
		7,681	(1,026)
12	Extraordinary charges	(9,191)	(52,874)
25	**Deficit for the year**	(1,510)	(53,900)

Notes: (i) Profit for the financial year after extraordinary charges totalled £10,585,000 (1985 – loss £42,332,000).

(ii) The movements on reserves are set out in note 25 on page 45.

The information on pages 34 to 53 forms part of these accounts.

CHARTER

CHARTER CONSOLIDATED P.L.C. AND ITS SUBSIDIARY COMPANIES

Consolidated balance sheet

31 March 1986

Note		1986 £000	1986 £000	1985 £000	1985 £000
	Fixed assets				
13	Intangible assets		8,490		10,695
13	Tangible assets		119,884		126,600
14	Investments				
	Valuation £204,642,000 (1985 – £150,209,000)		94,104		88,186
			222,478		225,481
	Current assets				
16	Stocks	136,424		157,782	
17	Debtors	130,087		160,880	
15	Assets under finance leases to third parties	21,615		22,668	
18	Investments at valuation	24,976		27,224	
	Short term loans and deposits	34,503		43,391	
	Cash at bank and in hand	6,329		5,970	
			353,934		417,915
	Creditors: due within one year				
19	Creditors	(119,426)		(136,330)	
20	Taxation	(20,320)		(31,277)	
21	Deposit accounts	(3,283)		(3,764)	
22	Short term borrowings	(14,190)		(45,067)	
			(157,219)		(216,438)
	Net current assets		196,715		201,477
	Total assets less current liabilities		419,193		426,958
	Creditors: due after one year				
26	Long term borrowings		(80,562)		(72,981)
27	Other long term creditors		(2,235)		(517)
28	**Provisions for liabilities and charges**		(38,010)		(39,129)
			298,386		314,331
	Capital and reserves				
24	Called up share capital		2,105		2,105
25	Share premium account		12,526		12,513
25	Revaluation reserves		25,181		25,602
25	Other reserves		120,149		129,268
25	Profit and loss account		114,039		113,987
	Total capital and reserves		274,000		283,475
	Interest of outside shareholders in subsidiaries		24,386		30,856
			298,386		314,331

Approved by the board of directors on 3 July 1986

J. N. CLARKE } DIRECTORS
F. J. A. HOWARD

The information on pages 34 to 53 forms part of these accounts.

CHARTER

CHARTER CONSOLIDATED P.L.C.

Balance sheet

31 March 1986

Note		1986 £000	1986 £000	1985 £000	1985 £000
	Fixed assets				
14(ii)	Investment in subsidiaries at cost less provision		70,155		96,788
	Current assets				
	Corporation tax recoverable	13,689		7,255	
	Amount due from a subsidiary	3,000		8,750	
	Cash at bank	2		2	
		16,691		16,007	
	Creditors: due within one year				
	Amount due to a subsidiary	(1,710)		(7,561)	
	Proposed final dividend	(8,151)		(7,624)	
	Other creditors	(97)		(107)	
		(9,958)		(15,292)	
	Net current assets		6,733		715
	Total assets less current liabilities		76,888		97,503
	Creditors: due after one year				
27(ii)	Amount due to a subsidiary		(61,796)		(83,000)
			15,092		14,503
	Capital and reserves				
24	Called up share capital		2,105		2,105
25	Share premium account		543		530
25	Profit and loss account		12,444		11,868
			15,092		14,503

Approved by the board of directors on 3 July 1986

J. N. CLARKE } DIRECTORS
F. J. A. HOWARD }

The information on pages 34 to 53 forms part of these accounts.

CHARTER CONSOLIDATED P.L.C. AND ITS SUBSIDIARY COMPANIES

CHARTER Source and application of funds

Year ended 31 March 1986

Note		1986 £000	1986 £000	1985 £000	1985 £000
	OPERATING CASH FLOW				
	Profit before interest payable and taxation		40,157		34,176
	Share of retained profits of related companies		(6,987)		(6,888)
	Provisions against current asset investments		1,357		21
	Operating cash flow from revenue sources		34,527		27,309
	Funds applied to maintenance of operations:				
29(i)	Working capital	8,058		(5,172)	
	Fixed assets (intangible and tangible)				
	Purchases for normal replacements and enhancements less capital expenditure grants	(21,844)		(31,923)	
	Book value of disposals	4,098		12,796	
	Depreciation	21,612		31,754	
		3,866		12,627	
29(iii)	Cost of current asset investments – net sales	2,250	14,174	4,209	11,664
	Operating cash flow		48,701		38,973
	Taxation paid	(9,581)		(7,263)	
	Interest payable and similar charges	(11,403)		(17,656)	
	Dividends paid	(11,568)	(32,552)	(11,568)	(36,487)
	Cash flow after taxation and service of capital		16,149		2,486
	Extraordinary items before taxation and minority interest, less provisions and other items		(11,368)		10,429
	OVERALL CASH FLOW FOR THE YEAR		4,781		12,915
	CAPITAL RECEIPTS LESS NEW INVESTMENT				
29(ii)	Disposal of subsidiaries	1,505		16,464	
29(iii)	Fixed asset investments – net purchases	(5,642)		(10,493)	
	Decrease in assets under finance leases	1,053		(443)	
	Proceeds from sale of subsidiaries	16,603		–	
	Fixed assets (intangible and tangible) acquired for expansion	(9,221)		(8,375)	
	Capital subscribed by minority shareholders	3,272		–	
	Tax paid on prior year investment disposals	(8,686)	(1,116)	–	(2,847)
	Net cash inflow		3,665		10,068
	REPRESENTED BY				
29(iv)	Increase in liquid funds		21,256		(35,785)
	Increase in long term borrowings		(17,591)		45,853
			3,665		10,068

The information on pages 34 to 53 forms part of these accounts.

CHARTER Notes on the accounts

1. Accounting policies

Basis of consolidation

(i) The accounts are prepared on the historical cost basis of accounting, except for certain fixed and current assets included at valuation.

(ii) The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to their effective dates of acquisition or disposal. The premium or discount between the purchase consideration and the fair value of net assets acquired is dealt with through reserves, while the difference between sale consideration and book value of net assets at the date of disposal is shown as an extraordinary item.

Foreign currencies

Foreign currency assets and liabilities of United Kingdom companies and the accounts of overseas subsidiary and related companies are translated into sterling at the rates of exchange ruling at the dates of their respective balance sheets.

The differences arising from the translation of net equity interests in overseas subsidiary and related companies and of foreign currency borrowings used to finance these interests are dealt with through reserves. All other exchange differences are dealt with in the profit and loss account.

Income from investments

(i) Income from investments, including where applicable the imputed tax credit, is accounted for on a received basis with the exception that income from related companies and listed fixed interest stocks and bonds is accounted for on a receivable basis.

(ii) No account is taken of investment income which is held in the country of origin pending approval for remittance from that country.

Investments

(i) Current asset investments comprise portfolio investments which are included in the balance sheet at market value or directors' valuation. The aggregate of surpluses less deficits on valuation over cost, less the related deferred taxation provision, is dealt with through the revaluation reserves, except that any net aggregate deficit is taken to profit and loss account.

(ii) Fixed asset investments are included at cost less provision for any permanent loss in value.

(iii) Profits less losses arising on disposal of current asset investments are included in the profit and loss account as surplus on realizations of investments. Profits and losses from the disposal of fixed asset investments and provisions for permanent loss in value are dealt with as extraordinary items in the profit and loss account.

Turnover

Turnover is the invoiced value of sales and services of the operating subsidiaries of the group and excludes sales turnover taxes.

Depreciation

Fixed assets are written off evenly over their expected useful lives, with the exception that no depreciation is provided on non-mineral-bearing freehold land.

Depreciation and amortization are normally provided as follows:
Freehold buildings – 2 per cent per annum
Leasehold property – the period of the lease or 2 per cent per annum for leases in excess of 50 years
Plant, furniture, and fittings – 10 to 33 per cent per annum
Mining properties, leases, and rights – either by equal instalments over their expected useful lives or on a depletion basis comparing production with total ore reserves.

Technical development expenditure

Expenditure on research and development, patents, and trade marks is written off when incurred.

Deferred taxation

Provision is made for deferred taxation on the liability method to the extent that it is probable that a liability or asset will crystallize in the foreseeable future.

Stocks and work in progress

Stocks and work in progress, including short term contract work, are valued at the lower of cost and net realizable value, while long term contract work in progress is valued at cost plus attributable profit. Both short and long term contract values are reduced by foreseeable losses and progress payments received and receivable. Cost includes expenditure which is incurred in the normal course of business in bringing the product or service to its present location and condition. Net realizable value is the estimated selling price less all costs to be incurred.

Prospecting, exploration, and development expenditure

(i) Development of existing mines:
(a) General development expenditure is charged against operating profits.
(b) Expenditure on development of long term infrastructure for future mining is capitalized as a fixed asset under mining properties, leases, and rights.

(ii) General prospecting and exploration:
(a) Expenditure during the initial stages of exploration is written off in full to the profit and loss account.
(b) Further expenditure on prospects showing development potential is carried forward as an asset in the balance sheet pending the determination of commercial reserves. Should the exploration work be unsuccessful, such costs are written off as prospecting expenditure in the profit and loss account.

(iii) Development of new mines:
When it is decided to develop a prospect into a mine, the relevant expenditure under (ii)(b) above is transferred to fixed assets.

Related companies

The group accounts for related companies as follows:

(i) Dividends receivable from related companies and the group share of retained profits less losses for the year are accounted for separately in the profit and loss account. The accounts used to calculate the group share of retained profits less losses of related companies are normally the latest audited accounts available to the group.

(ii) Interests in related companies are included in the consolidated balance sheet as fixed asset investments and are stated at the group share of their assets less net discount on acquisition.

Finance leases and leased plant and machinery

(i) Finance leases:
Income receivable from finance leases is credited to the profit and loss account to give a constant periodic rate of return after taxation on the net cash investment. In compliance with SSAP 21, assets under finance leases are stated in the balance sheet as debtors at the total rentals receivable less profit allocated to future periods.

(ii) Leased plant and machinery:
Where assets are financed under leasing agreements that give rights approximating to ownership, the amount representing the outright purchase price of such assets (less capital expenditure grants) is capitalized under the heading of tangible fixed assets, and the corresponding leasing commitments are shown as obligations to the lessor. The relevant assets are depreciated in accordance with the group's depreciation policy. Net finance charges, calculated on the reducing balance method, are included in interest costs.

(iii) Operating leases:
The annual rentals of operating leases are charged to the profit and loss account.

2. Operating profit and administrative expenses

	1986 £000	1986 £000	1985 £000	1985 £000
Turnover		567,089		754,528
Cost of sales		488,767		634,406
Gross profit		78,322		120,122
Selling and distribution costs	24,417		45,382	
Administrative expenses	44,506		66,904	
Deduct: Relating to central activities, stated separately	5,001		5,500	
	39,505		61,404	
		63,922		106,786
Operating profit		14,400		13,336

NOTES

(i) The results for 1985 of the operating subsidiaries other than the Anderson Strathclyde group and the metal marketing companies were for the 15 months to 31 March 1985. The contributions to profits of the additional three months to 31 March 1984 were as follows:

	£000
Turnover	116,043
Operating profit	1,819
Profit before taxation	1,209
Profit after taxation	771
Profit attributable to shareholders	1,047

(ii) Operating profit for 1986 includes a surplus of £1.2 million arising in the year in respect of National Mine Service Company's pension plan.

3. Revenue from investments

	CURRENT ASSET INVESTMENTS 1986 £000	RELATED COMPANIES 1986 £000	OTHER FIXED ASSET INVESTMENTS 1986 £000	TOTAL 1986 £000	TOTAL 1985 £000
(i) Dividends and interest received:					
Listed investments	877	3,004	1,852	5,733	5,407
Unlisted investments	3	5,757	46	5,806	3,204
	880	8,761	1,898	11,539	8,611

	1986 £000	1985 £000
(ii) Share of results of related companies:		
Profits on ordinary activities before taxation	15,748	10,679
Deduct: Dividends declared	8,761	3,791
Retained profits before taxation	6,987	6,888
Taxation	2,447	3,154
Retained profits after taxation	4,540	3,734
Extraordinary charges (see note 12)	(2,268)	(49,387)
Net surplus/(deficit) for the year	2,272	(45,653)

Principal related companies are listed on pages 50 and 51.

4. Interest payable and similar charges

	1986 £000	1985 £000
Loans repayable after more than five years	5,328	7,934
Loans wholly repayable within five years	5,689	9,280
Finance leases	116	209
Amounts deposited with the group	270	233
	11,403	17,656

5. Profit on ordinary activities before taxation

	1986 £000	1985 £000
Profit is stated after charging or crediting the following items:		
Charges:		
Auditors' remuneration	963	1,184
Directors' emoluments (see note 7)	430	381
Depreciation of intangible fixed assets	1,824	3,335
Depreciation of tangible fixed assets	19,788	26,496
Operating lease rentals		
– hire of plant and machinery	18,137	15,174
– other operating leases	532	594
Credits:		
Rents receivable	302	386
Income from finance leases included under other interest receivable and similar income	2,065	2,566

6. Taxation on profit on ordinary activities

	1986 £000	1985 £000
GROUP COMPANIES on profit for the year		
United Kingdom:		
Corporation tax (see note below)	7,772	4,412
Deferred taxation	(2,540)	(2,014)
Double taxation relief	(1,053)	(2,071)
Advance corporation tax written off by subsidiary	175	2
Taxation on franked investment income	820	321
	5,174	650
Overseas:		
Taxation	1,222	3,706
Deferred taxation	160	515
	6,556	4,871
Adjustments in respect of previous years	(36)	(551)
RELATED COMPANIES	2,447	3,154
	8,967	7,474

NOTE

The rate of United Kingdom corporation tax is 40 per cent. The rate for the comparative figures was 45 per cent for companies accounting for the 12 months to 31 March 1985 and 46 per cent for companies accounting for the 15 months to 31 March 1985.

CHARTER Notes on the accounts
continued

7. Directors' emoluments

	1986 £000	1985 £000
Directors of the parent company:		
Fees	55	58
Salaries and other remuneration, including pension contributions	453	408
Pension payable to widow of a former director	3	3
	511	469
Deduct: Fees received from other companies and refunded to the group	81	88
Net cost to the group	430	381

	1986	1985
Amounts paid to directors:		
Chairman	£15,000	£15,000
Highest paid director	£107,508	£98,653
Others: £75,001–£80,000	1	–
£60,001–£65,000	2	2
£55,001–£60,000	1	2
up to £5,000	9	9

NOTE
Six directors have agreed to waive emoluments due to them from Charter Consolidated P.L.C. and its subsidiary companies. Fees waived by these directors during the year amounted to £32,000 (1985: five directors – £34,000).

8. Employees (including executive directors)

	1986 £000	1985 £000
AGGREGATE AMOUNTS PAYABLE (see note below)		
Wages and salaries	158,227	218,504
Social security costs	16,375	23,341
Other pension costs	9,204	10,982
	183,806	252,827

	1986	1985
AVERAGE NUMBER OF PERSONS EMPLOYED BY THE GROUP		
– BY CATEGORY		
Manufacturing	7,420	11,253
Construction	6,303	6,807
Mining	2,507	3,077
Corporate	235	285
	16,465	21,422
– GEOGRAPHICALLY		
United Kingdom	11,081	15,260
Overseas	5,384	6,162
	16,465	21,422

NOTE
The aggregate amounts payable in 1985 were for the 15 months to 31 March 1985 except for the Anderson Strathclyde group and Charter Consolidated Services which were for the 12 months to 31 March 1985.

9. Pension funding

Pension schemes for head office employees and employees of the United Kingdom operating subsidiaries are administered by trustees, and the assets of the schemes are invested independently of the finances of the group. The schemes are funded by annual contributions over the period of employment at rates based on advice from the actuaries to the schemes; these provide for future pension entitlements in respect of past service, based on regular actuarial valuations. The actuaries have confirmed that at the last valuation dates of the respective schemes they were adequately funded to meet the benefits provided under the rules of such schemes. Pensions for employees of overseas subsidiaries are provided in accordance with local requirements and practices.

10. Earnings per share

Earnings per share is calculated on earnings of £19,776,000 (1985–£10,542,000) and on 105,174,065 (1985–105,165,943) shares as if the 2,500 (1985–500) partly paid shares which became fully paid during the year had been fully paid for the whole year; the 1,101 (1985–220) shares subject to restricted rights which ceased to be restricted during the year had been free of restriction for the whole year; and the 4,521 (1985–11,169) options to subscribe for fully paid shares exercised during the year had been exercised for the whole year.

11. Dividends paid and proposed

	1986 £000	1985 £000
Interim dividend of 3.75p (1985–3.75p) per share paid on 9 January 1986	3,944	3,944
Proposed final dividend of 7.75p (1985–7.25p) per share	8,151	7,624
	12,095	11,568

12. Extraordinary items

	1986 £000	1985 £000
Income:		
Investment disposals and provisions no longer required	799	25,146
Charges:		
Disposal and rationalization costs of operating subsidiaries	(8,444)	(22,327)
Provision against investment	(583)	–
Legal costs in respect of asbestos-related litigation	–	(8,174)
Other items	(199)	(156)
	(9,226)	(30,657)
Extraordinary loss before taxation	(8,427)	(5,511)
Taxation	1,504	2,024
Extraordinary charges after taxation and before related companies	(6,923)	(3,487)
Related companies:		
Johnson Matthey	(2,268)	(49,241)
Other	–	(146)
	(2,268)	(49,387)
	(9,191)	(52,874)

NOTE

Disposal and rationalization costs for the year to 31 March 1986 include £5.8 million, net of minority interest, as provision for losses associated with the decision to dispose of the assets of the mining machinery division of National Mine Service Company. Since the year end an agreement has been reached for the sale of substantially all of that division's assets. Formal closure of the agreement is dependent on satisfactory compliance with the requirements of United States government agencies and certain other conditions. The charge includes provision for losses on disposal of the assets, closure costs, and trading losses from 1 April 1986 up to the date on which the sale is expected to become effective.

CHARTER Notes on the accounts
continued

13. Intangible and tangible fixed assets

	INTANGIBLE ASSETS	TANGIBLE ASSETS			
	EXPLORATION AND MINING RIGHTS	LAND AND BUILDINGS	MINING PROPERTIES LEASES AND MINERAL RESERVES	PLANT FURNITURE AND FITTINGS (INCLUDING LEASED)	TOTAL TANGIBLE ASSETS
	£000	£000	£000	£000	£000
COST OR VALUATION					
At 31 March 1985	16,312	53,997	5,796	171,911	231,704
Capital expenditure grants at 31 March 1985	–	(440)	–	(4,519)	(4,959)
Restated	16,312	53,557	5,796	167,392	226,745
Currency realignment	(2,732)	(4,219)	(602)	(10,107)	(14,928)
Additions at cost	1,431	1,793	2,080	25,761	29,634
Disposal of subsidiaries	–	–	–	(2,317)	(2,317)
Disposals	(36)	(782)	–	(9,599)	(10,381)
Revaluations and reallocations	–	267	18	(110)	175
At 31 March 1986	14,975	50,616	7,292	171,020	228,928
DEPRECIATION					
At 31 March 1985	5,617	13,590	677	85,878	100,145
Currency realignment	(949)	(992)	(38)	(4,575)	(5,605)
Charge to profit and loss account	1,824	1,386	577	17,825	19,788
Charge to extraordinary items (see note (vi) below)	29	2,205	–	44	2,249
Disposal of subsidiaries	–	–	–	(1,540)	(1,540)
Disposals	(36)	(307)	–	(5,976)	(6,283)
Revaluations and reallocations	–	203	19	68	290
At 31 March 1986	6,485	16,085	1,235	91,724	109,044
NET BOOK AMOUNTS					
At 31 March 1986	8,490	34,531	6,057	79,296	119,884
At 31 March 1985	10,695	39,967	5,119	81,514	126,600
NOTES					
(i) Fixed assets are included on the following bases:					
At cost	14,975	37,120	7,292	162,333	206,745
At valuation – 1964	–	151	–	304	455
1974	–	3,869	–	–	3,869
1975	–	4,675	–	–	4,675
1976	–	904	–	–	904
1978	–	1,150	–	–	1,150
1979	–	468	–	–	468
1984	–	2,279	–	8,383	10,662
	14,975	50,616	7,292	171,020	228,928
(ii) Fixed assets include the following in respect of assets held under finance leases: Net book amounts at 31 March 1986	–	371	–	11,716	12,087
Depreciation charge for the year	–	3	–	1,681	1,684

(iii) Capital expenditure of subsidiaries:

	1986 £000	1985 £000
Committed	3,869	4,227
Authorized but not committed	2,648	6,342
	6,517	10,569

(iv) The net book value of the group's land and buildings includes £1.1 million (1985–£1.2 million) for long leasehold properties and £0.7 million (1985–£0.4 million) for short leasehold properties.

(v) Historical cost figures for land and buildings, namely the original cost of all land and buildings and related depreciation, are:

	1986 £000	1985 £000
Historical cost	47,428	50,102
Aggregate depreciation	13,139	17,175
Net book value	34,289	32,927

(vi) The charge to extraordinary items relates to the disposal and rationalization of operating subsidiaries.

14. Fixed asset investments

	RELATED COMPANIES	OTHER INVESTMENTS	TOTAL
	£000	£000	£000
At 31 March 1985	64,574	23,612	88,186
Purchases/advances	5,621	491	6,112
Share of net surplus for the year (see note 3)	2,272	-	2,272
Disposals	(1,772)	(225)	(1,997)
Reserve movements including currency realignment	(726)	(737)	(1,463)
Reallocation	-	994	994
At 31 March 1986	69,969	24,135	94,104

	RELATED COMPANIES		OTHER INVESTMENTS		TOTAL	TOTAL
	1986	1985	1986	1985	1986	1985
	£000	£000	£000	£000	£000	£000
Listed in Great Britain	43,373	40,931	19,851	20,095	63,224	61,026
Unlisted	26,596	23,643	4,284	3,517	30,880	27,160
	69,969	64,574	24,135	23,612	94,104	88,186
Related companies comprise:						
Share of net assets	81,272	76,020				
Discount (net) on acquisition	(11,303)	(11,446)				
	69,969	64,574				
AT MARKET OR DIRECTORS' VALUATION (see note (i) below)						
Listed in Great Britain	108,468	49,432	51,701	72,687	160,169	122,119
Unlisted	40,126	24,454	4,347	3,636	44,473	28,090
	148,594	73,886	56,048	76,323	204,642	150,209

NOTES

(i) In the event of the realization of fixed asset investments at market or directors' valuation there would be a taxation liability of approximately £27 million (1985 – £13 million).

(ii) Parent company

	Cost	Provision for diminution in value	Net book amount
	£000	£000	£000
Investment in subsidiaries comprises:			
Balance at 31 March 1985	101,288	4,500	96,788
Purchase	1,417	-	1,417
Disposal	(28,050)	-	(28,050)
Balance at 31 March 1986	74,655	4,500	70,155

(iii) The investment in related companies includes Charter's 29.9 per cent equity share of Rowe & Pitman (see note 7 on page 51).

15. Assets under finance leases to third parties

	1986	1985
	£000	£000
Amounts falling due within one year	1,615	1,296
Amounts falling due after one year	20,000	21,372
	21,615	22,668

NOTES

(i) Additions to assets under finance leases during the year amounted to £190,000 (1985 – £899,000).

(ii) The aggregate lease rentals received during the year amounted to £3,296,000 (1985 – £3,022,000).

CHARTER Notes on the accounts

continued

16. Stocks

	1986 £000	1985 £000
At cost:		
Contract work in progress	210,641	235,246
Deduct: Progress payments received and receivable	180,876	203,002
	29,765	32,244
Raw materials, components, and consumable stores	63,674	78,541
Work in progress	31,596	34,552
Finished goods including mineral concentrates	11,389	12,445
	136,424	157,782

NOTE

The estimated value of total group stocks on a replacement cost basis was £145,940,000 (1985–£164,285,000).

17. Debtors

	OPERATING SUBSIDIARIES 1986 £000	FINANCE INVESTMENT AND SERVICE SUBSIDIARIES 1986 £000	TOTAL 1986 £000	TOTAL 1985 £000
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Trade debtors	90,149	2,059	92,208	99,213
Amounts owed by related companies	364	5,952	6,316	926
Amount due on sale of subsidiaries and businesses	–	–	–	16,603
Other debtors	8,802	10,747	19,549	31,555
Prepayments and accrued income	1,993	4,043	6,036	6,482
	101,308	22,801	124,109	154,779
AMOUNTS FALLING DUE AFTER ONE YEAR				
Amount owed by related companies	473	–	473	–
Amount due in 1990 on sale of subsidiaries and businesses	5,250	–	5,250	5,250
Other debtors (see note (ii) below)	205	12	217	773
Prepayments and accrued income	–	38	38	78
	5,928	50	5,978	6,101
	107,236	22,851	130,087	160,880

NOTES

(i) An interest free loan of £1,744 was made to J.W. Herbert on 9 April 1985. The loan was repaid in 12 equal instalments by 31 March 1986.

(ii) Loans of £224,954 to two officers were outstanding at 31 March 1986.

18. Current asset investments

	1986 AT COST LESS AMOUNTS WRITTEN OFF £000	1986 AT VALUATION £000	1985 AT COST LESS AMOUNTS WRITTEN OFF £000	1985 AT VALUATION £000
Listed in Great Britain	9,452	10,976	12,023	13,102
Listed outside Great Britain	11,072	12,184	10,633	10,775
	20,524	23,160	22,656	23,877
Unlisted	1,565	1,816	4,035	3,347
	22,089	24,976	26,691	27,224

19. Creditors: due within one year

	OPERATING SUBSIDIARIES 1986 £000	FINANCE INVESTMENT AND SERVICE SUBSIDIARIES 1986 £000	TOTAL 1986 £000	TOTAL 1985 £000
Trade creditors	61,548	2,407	63,955	69,588
Payments received on account	5,931	-	5,931	7,989
Other creditors (see note 20)	19,131	1,009	20,140	26,141
Accruals and deferred income	18,611	2,638	21,249	24,988
Dividend payable	-	8,151	8,151	7,624
	105,221	14,205	119,426	136,330

20. Taxation

	1986 £000	1985 £000
Corporation tax	18,581	25,592
Overseas tax	1,739	5,685
	20,320	31,277
Included in other creditors (see note 19): Social security and other taxation	7,888	12,584
	28,208	43,861

21. Deposit accounts

Amounts deposited by related companies total £422,000 (1985–£339,000).

22. Short term borrowings

	1986 £000	1985 £000
Bank loans and overdrafts	12,364	36,994
Obligations under finance leases	1,826	8,073
	14,190	45,067

NOTE

Bank loans and overdrafts include £5,526,000 (1985–£33,608,000) which is secured on assets of subsidiaries.

23. Contingent liabilities

	1986 £000	1985 £000
Guarantees in respect of borrowings by third parties and other obligations of £9,708,000 less counter-guarantees of £4,021,000	5,687	2,781
Underwriting commitments	12,254	755
Bills receivable discounted	443	605
Other items	322	717
	18,706	4,858

In addition the group has contingent liabilities entered into in the normal course of business from which no liability is expected to arise.

The parent company has given guarantees totalling £42,135,000 (1985–£21,968,000) including £36,118,000 (1985–£16,057,000) relating to subsidiary companies' borrowings.

Continued overleaf

CHARTER Notes on the accounts
continued

23. *Contingent liabilities continued*

NOTES

(i) In 1980 Charter took credit for tax relief in respect of losses incurred on its investment in Cleveland Potash. Further losses on that investment were incurred in 1981 for which no tax relief has yet been claimed. The Inland Revenue have refused Charter's claim for tax relief in respect of the 1980 losses, and consequently the claim has been subject to an appeal before the Special Commissioners in May 1986 and their decision is not yet available. If the appeal is upheld, then, taking both years into account, a credit will arise. If it is refused, the additional tax liability should not exceed £4.0 million.

(ii) Charter owns, through a subsidiary, 67.3 per cent of Cape Industries PLC (Cape). Certain companies in the Cape group continue to be named, along with other asbestos fibre and asbestos products suppliers, as defendants in a significant number of legal actions in the United States. The plaintiffs in such actions are claiming substantial damages as a result of the use of their products. In addition, the Cape group has retained obligations in respect of claims made or which may be made within a limited period against companies disposed of within its former mining division. Cape has received legal advice in the United Kingdom that such actions would fail in principle if brought in the United Kingdom and that, if no defence is mounted or response made to such actions in the United States, judgements obtained in the United States against companies within the Cape group would not be enforceable in the United Kingdom. In actions instituted in Illinois, Pennsylvania, and Texas, none of which has been defended or responded to in any manner, plaintiffs have obtained against Cape group companies default judgements totalling in aggregate approximately US$78 million. Attempts to enforce the Illinois judgements against Cape in the United States have been unsuccessful but these attempts are continuing. Cape and one of its subsidiaries are currently contesting actions being brought in the United Kingdom High Court to enforce the Texas judgements totalling approximately US$15 million. The directors of Cape have stated that they believe, in the light of legal advice that they have received, that the above-mentioned matters are unlikely to have any material effect on the Cape group's financial position. Having regard to this, the directors of Charter believe that such matters, in so far as they relate to the Cape group, are unlikely to have any material effect on Charter's position, and accordingly no provision in respect of them has been made.

Charter has also been named as defendant in a number of asbestos-related actions in the United States on the basis that it is allegedly liable for the acts of Cape. Charter contests the existence of any such liability. This issue has yet to be adjudicated at trial. The directors have been advised that Charter should be able successfully to defend the actions brought against it but that uncertainty must exist as to the eventual outcome of the trials of any such actions. It is not practicable to estimate in any particular case the amount of any damages which might ensue if liability were imposed on Charter. Based on advice, the directors believe that the aggregate of any such liability is unlikely to have a material effect on Charter's financial position. In these circumstances the directors have concluded that it is not appropriate to make any provison in respect of such actions.

24. Share capital

	1986 SHARES OF 2p EACH	1986 £	1985 SHARES OF 2p EACH	1985 £
Authorized:	135,000,000	2,700,000	135,000,000	2,700,000
Issued:				
Fully paid shares	105,174,065	2,103,481	105,165,943	2,103,319
Partly paid shares (1p paid) (see note (i) below)	107,200	1,072	109,700	1,097
Fully paid shares with restricted rights (see note (ii) below)	47,213	944	48,314	966
Total issued share capital		2,105,497		2,105,382

NOTES

(i) The partly paid shares were issued under the company's share incentive scheme adopted in 1970. No further shares will be issued under that scheme.

(ii) The fully paid shares with restricted rights were allotted to the holders of the company's partly paid shares in terms of a scheme of arrangement of 22 October 1979 and are subject to the same restrictions as the partly paid shares to which they relate until those partly paid shares become fully paid. During the year 2,500 partly paid shares were fully paid up and as a result 1,101 fully paid shares with restricted rights became free of restriction.

(iii) The total number of shares over which there were options outstanding at 31 March 1986 was 263,561.

25. Reserves

	SHARE PREMIUM ACCOUNT	REVALUATION RESERVES	OTHER RESERVES	PROFIT AND LOSS ACCOUNT	TOTAL
	£000	£000	£000	£000	£000
GROUP					
Reserves at 31 March 1985	12,513	25,602	129,268	113,987	281,370
Deficit for the year	–	–	–	(1,510)	(1,510)
Net effect of translation of currencies (see note (iii) below)	–	(95)	(3,830)	(6,252)	(10,177)
Cape Industries PLC					
Cancellation of share premium account as confirmed by the High Court in June 1985	–	–	(10,448)	10,448	–
Transfer between reserves categories in accordance with the undertakings given to the High Court	–	(1,876)	4,084	(2,208)	–
Movement on current asset investments included at valuation (after deferred taxation of £804,000)	–	1,550	–	–	1,550
Premium on shares issued by the company	13	–	–	–	13
Transfers between reserves	–	–	781	(781)	–
Related companies	–	–	(20)	382	362
Other items	–	–	314	(27)	287
Reserves at 31 March 1986	12,526	25,181	120,149	114,039	271,895
Charter Consolidated P.L.C. and its subsidiaries	12,526	13,062	118,723	150,194	294,505
Related companies	–	12,119	1,426	(36,155)	(22,610)
COMPANY					
Reserves at 31 March 1985	530	–	–	11,868	12,398
Surplus for the year	–	–	–	576	576
Premium on shares issued	13	–	–	–	13
Reserves at 31 March 1986	543	–	–	12,444	12,987

NOTES

(i) The group's other reserves at 31 March 1986 include non-distributable reserves of £63,362,000.

(ii) In the event of certain overseas subsidiaries and related companies distributing reserves or profits, an additional liability to United Kingdom and overseas taxation would arise.

(iii) Included in the net effect of translation of currencies is a credit of £5,629,000 (1985 – charge £4,631,000) in relation to foreign currency borrowings.

26. Long term borrowings

	1986 £000	1985 £000
DEBENTURE LOANS		
Financial subsidiaries:		
7½ per cent guaranteed bonds of FF47,470,000 repayable 1987 (see note (ii) (a) below)	4,040	4,082
Operating subsidiaries:		
10 per cent secured loan stock 1986/91 (increased from 7¼ per cent from 10 April 1985)	3,459	3,459
8 per cent unsecured loan stock 1986/91	2,403	2,403
Unsecured loan 1984/90 (see note (ii) (b) below)	704	1,072
12⅜ per cent promissory notes 1986/95	7,297	9,757
8½ per cent promissory notes 1984/95	5,270	7,032
6 per cent industrial revenue bonds 1988	507	915
US$ mortgage notes 1993 at 6.6 per cent to 12.5 per cent (see note (ii) (c) below)	800	1,017
Industrial revenue bonds (see note (ii) (d) below)	651	–
Land purchase contracts (see note (ii) (e) below)	210	–
	25,341	29,737
BANK LOANS AND OVERDRAFTS (see notes (i) and (iii) below)		
Secured (see note (ii) (f) below)	5,568	830
Unsecured (see note (ii) (g) below)	40,699	34,940
	46,267	35,770
Amounts owed to related company (variable interest; repayable in sterling between one and two years)	1,700	1,000
OTHER CREDITORS		
Obligations under finance leases (see note (i) below)	7,254	6,474
TOTAL LONG TERM BORROWINGS	80,562	72,981
Short term borrowings (see note 22)	14,190	45,067
TOTAL BORROWINGS	94,752	118,048

NOTES

	BANK LOANS AND OVERDRAFTS £000	OTHER BORROWINGS £000	FINANCE LEASES £000	TOTAL £000
(i) Repayments are due as follows:				
Between one and two years	18,583	7,985	1,738	28,306
Between two and five years	26,897	8,245	3,922	39,064
Over five years otherwise than by instalments	–	3,459	–	3,459
Over five years by instalments	787	7,352	1,594	9,733
	46,267	27,041	7,254	80,562

(ii) (a) The bonds are listed on The Stock Exchange in London. Charter Consolidated P.L.C. has guaranteed the bonds as regards repayment of principal, including premium if any, and payment of interest.

(b) The loan carries interest at 65 per cent of the United States prime rate.

(c) The notes are secured by plant.

(d) The loan carries interest at 75 per cent of the United States prime rate.

(e) The loan carries interest at 1 per cent over the United States prime rate.

(f) The bank loans are secured on assets of subsidiaries and carry variable interest rates.

(g) The unsecured bank loans and overdrafts carry interest at ⅜ per cent to ⅝ per cent over the London Interbank Eurocurrency Rate.

(iii) Bank loans are repayable in the following currencies:

	1986 £000	1985 £000
Sterling	4,747	852
United States dollars	38,832	33,081
Other	2,688	1,837
	46,267	35,770

27. Other long term creditors

	Operating subsidiaries 1986 £000	Finance investment and service subsidiaries 1986 £000	Total 1986 £000	Total 1985 £000
Accruals and deferred income	996	80	1,076	517
Other creditors	1,159	–	1,159	–
	2,155	80	2,235	517

NOTES

(i) From 1 April 1986 capital expenditure grants in respect of tangible fixed assets have been deducted from the cost of the relevant fixed assets (see note 13). The 1985 comparatives have been altered to reflect this change.

(ii) £61,796,000 due by the parent company to a subsidiary is interest free and has no fixed repayment term.

28. Provisions for liabilities and charges

	Deferred taxation £000	Closure costs and guarantees £000	Other (see note (iii) below) £000	Total £000
At 31 March 1985	13,613	13,214	12,302	39,129
Utilized in year	4,680	(2,718)	(3,107)	(1,145)
Provided/(released) in year (net)	(5,793)	3,710	2,120	37
Amounts relating to subsidiaries sold	(11)	–	–	(11)
	(1,124)	992	(987)	(1,119)
At 31 March 1986	12,489	14,206	11,315	38,010

The provision made in the accounts for deferred taxation and the full potential liability are set out below:

	1986 Provision made £000	1986 Full potential liability £000	1985 Provision made £000	1985 Full potential liability £000
Excess of the book value of assets including finance leases qualifying for taxation allowances over their written down value for taxation purposes	18,178	23,293	19,730	24,999
Difference between book and taxation value of investments	60	(13,129)	102	(11,079)
Excess of valuation over book cost of current asset investments	974	974	332	332
Legal costs provided for future years in respect of asbestos-related litigation (see note 12)	(1,688)	(1,688)	(2,356)	(2,356)
Taxation on trading losses of operating subsidiaries, carried forward	(384)	(3,389)	(642)	(3,246)
Other timing differences	(1,322)	716	85	1,123
Advance corporation tax (see note (ii) below)	(3,329)	(3,329)	(3,638)	(3,638)
	12,489	3,448	13,613	6,135

NOTES

(i) No account has been taken of potential or deferred taxation relief on provisions of £4,526,000 raised in 1980 in respect of Cleveland Potash for certain guarantees and Charter's maximum liability for closure costs.

(ii) Advance corporation tax of £3,329,000 (1985 – £3,267,000) is included in taxation recoverable in the parent company's balance sheet.

(iii) Other provisions at 31 March 1986 include legal costs of £4,831,000 in respect of continuing asbestos-related actions in the United States and unfunded pension commitments for certain operating subsidiaries of £1,167,000.

(iv) Closure costs and guarantees at 31 March 1986 include £5.2 million in respect of provision made for closure costs and future losses of the mining machinery division of National Mine Service Company (see note 12).

29. Source and application of funds

	1986 £000	1985 £000
(i) Analysis of working capital:		
Decrease in stocks and work in progress	20,577	(6,911)
Decrease in debtors	13,636	(29,047)
Decrease in creditors	(12,392)	19,846
Currency variations	(13,763)	10,940
	8,058	(5,172)
(ii) Net assets on disposal of subsidiaries:		
Fixed assets	777	38,006
Goodwill/reserve movements	(282)	(5,494)
Stocks and work in progress	781	18,992
Debtors	533	14,847
Creditors	(325)	(21,439)
Taxation	–	(1,494)
Capital expenditure grants	–	(626)
Liquid funds	–	(1,032)
Minority interests	–	(2,855)
Long term borrowings	–	(2,104)
Investments	–	1,578
Other items	21	(62)
	1,505	38,317
Outstanding proceeds receivable	–	(21,853)
	1,505	16,464
(iii) Investments:		
Fixed assets–purchases	(6,118)	(33,865)
–book value of realizations	476	23,372
	(5,642)	(10,493)
Current assets–net realizations at book value	2,250	4,209
	(3,392)	(6,284)
(iv) Decrease in liquid funds:		
Decrease in short term loans, deposits, and cash	(7,341)	(18,913)
Decrease in deposit accounts	481	(2,143)
Decrease in short term borrowings	28,116	(14,729)
	21,256	(35,785)

CHARTER Principal interests

including principal subsidiary and related companies

SUBSIDIARIES

Company	Country of incorporation or registration	Group interest in equity capital (per cent)	Nature of business
Manufacturing industry			
Anderson Strathclyde PLC	Scotland	100	Mining equipment
National Mine Service Company *(a subsidiary of Anderson Strathclyde PLC)*	United States	51.2	Mining equipment
Perard Torque Tension Limited	England	100	Mining equipment
Cape Industries PLC – building products *(note 4)*	England	67.3	Building products
MKR Holdings Limited	England	100	Licensed trade equipment
Pandrol International Limited	England	100	Rail track equipment
Speno Rail Services Company *(partnership 50 per cent owned by Pandrol International Limited)*	United States	50	Rail maintenance services
Construction industry			
Cape Industries PLC – contracts *(note 4)*	England	67.3	Industrial contracting
Shand Limited – civil engineering and construction divisions	England	100	Civil engineering and construction
Alexander Morrison (Builders) Limited *(a subsidiary of Shand Limited)*	Scotland	80	Civil engineering and construction
Mining industry			
Anmercosa Sales Limited	England	100	Marketing of metals
Beralt Tin & Wolfram (Portugal) S.A.R.L. *(a subsidiary of Beralt Tin and Wolfram Limited)*	Portugal	60.4	Wolfram mining
Shand Limited – mining division	England	100	Contract coal mining and quarrying
Shand Mining Inc.	United States	100	Coal mining

Continued overleaf

CHARTER Principal interests

including principal subsidiary and related companies continued

	Company	Country of incorporation or registration	Group interest in equity capital (per cent)	Nature of business
SUBSIDIARIES *continued*	**Finance, investment, and service**			
	Abercorn Investments Limited*	England	100	Finance and general investment
	Barnato (U.K.) Limited*	England	100	General investment
	Central Mining Finance Limited	England	100	Mining finance
	The Central Mining & Investment Corporation Limited*	England	100	Mining and construction investment
	Charter Consolidated Finance Limited	England	100	Finance
	Charter Consolidated Investments Limited*	England	100	Manufacturing and construction investment
	Charter Consolidated Services Limited*	England	100	Administration and technical services
	Charter Industries Limited*	England	100	Manufacturing investment

*shares held directly by Charter Consolidated P.L.C.

	Company	Country of incorporation or registration	Group interest in equity capital (per cent)	Nature of business
INVESTMENTS	**Related companies and partnership interest** *(note 1)*			
	Covenant Industries Limited *(note 1)*	England	33.9	Marketing and manufacturing of chemicals in Africa
	Johnson Matthey Public Limited Company *(note 6)*	England	27.9	Refining, fabrication, and marketing of precious metals
	Rowe & Pitman *(note 7)*		29.9	Stockbroking
	Other investments			
	Anglo American Corporation Zimbabwe Limited *(note 5)*	Zimbabwe	33.5	Mining and industrial finance and investment
	Botswana RST Limited	Botswana	4.5	Nickel and copper mining
	Cleveland Potash Limited *(note 3)*	England	50.0	Potash mining
	Malaysia Mining Corporation Berhad	Malaysia	13.8	Tin mining, marketing, and smelting; plantation and diamond interests
	Minerals and Resources Corporation Limited	Bermuda	3.8	International mining finance and investment

NOTES

1. The accounting date for inclusion of related companies' results is 31 March, with the exception of Covenant Industries for which the accounting date is 30 September. The issued share capital of Covenant Industries at 30 September 1985 was £91,824.

2. The Pandrol International group holds a 40 per cent interest in the equity capital of Elastic Rail Spike Company (Proprietary) Limited, incorporated in South Africa, whose business is rail track equipment and whose issued share capital at 30 June 1985 was R400,000.

3. Charter does not account for any profits or losses of Cleveland Potash as the entitlement to its equity share of profits is deferred until certain preferential loans have been repaid and the obligation to finance losses is restricted to specific provisions made in previous years.

4. Charter also holds 6,729,105 8.4 per cent cumulative convertible redeemable preference shares of £1 each (representing 67.3 per cent of such shares issued) and 100 per cent of the 3½ per cent cumulative preference shares of Cape Industries.

5. No account is taken of the group share of the results of Anglo American Corporation Zimbabwe (AMZIM) as Charter is not in a position to exercise significant influence over the affairs of that company. The issued share capital and reserves of AMZIM at 30 June 1985 were Z$56,709,212 and Z$24,079,000 respectively, totalling Z$80,788,212, and its profit after taxation for the year to that date was Z$7,238,000.

6. Charter also holds 14,794,174 8 per cent convertible cumulative preference shares of £1 each and a warrant to subscribe for 1,000,000 ordinary shares of £1 each of Johnson Matthey. On full conversion of these preference shares and exercise of the warrant, Charter's equity interest would increase to 35.2 per cent assuming full conversion by the other holders of convertible preference shares and full exercise of subscription rights by the other holders of warrants. The issued ordinary share capital, convertible preference share capital, and debt securities of Johnson Matthey at 31 March 1986 were £133,590,870, £25,048,781, and £7,500,000 respectively.

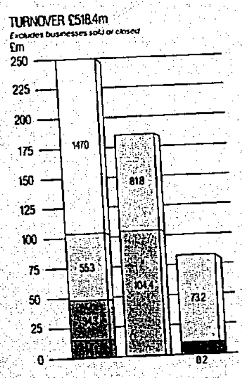
7. On 12 April 1986, pursuant to the merger of Rowe & Pitman, Akroyd & Smithers, Mullens & Co., and Mercury Securities to form Mercury International Group (MIG), Charter received, as consideration for its interest in Rowe & Pitman and an additional investment of £17.7 million, ordinary and convertible preference shares in MIG representing an equity interest of 8.8 per cent on a fully converted basis. On 14 May 1986 Charter sold the majority of its shares, retaining convertible preference shares equivalent to 0.5 per cent of MIG on a fully converted basis.

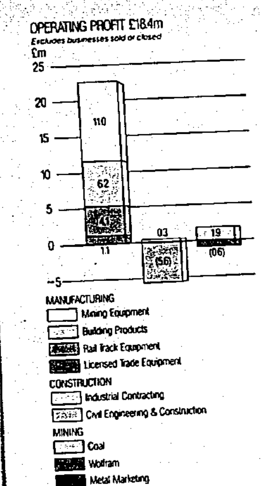
8. The accounts of the following subsidiary companies and partnership interest are not audited by Coopers & Lybrand:
   Beralt Tin & Wolfram (Portugal)
   Cape Industries group companies
   National Mine Service Company
   Rowe & Pitman.

9. The principal country of operation is the same as the country of incorporation or registration except where indicated under the nature of business.

CHARTER Analysis of revenue and assets

BY PRODUCT CATEGORY

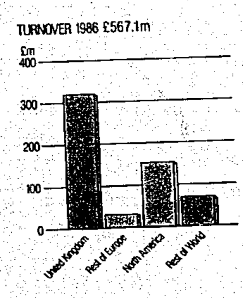




Turnover and operating profit

	Turnover 1986 £000	Turnover 1985 (12 months to 31 March) £000	Operating profit 1986 £000	Operating profit 1985 (12 months to 31 March) £000
MANUFACTURING				
Mining equipment	146,967	140,102	11,015	2,889
Building products	55,304	55,805	6,255	5,943
Rail track equipment	34,272	36,826	4,110	4,009
Licensed trade equipment	14,141	14,661	1,057	982
	250,684	247,394	22,437	13,823
CONSTRUCTION AND RELATED ACTIVITIES				
Industrial contracting	81,845	89,554	300	(175)
Civil engineering and construction	104,412	93,769	(5,644)	(1,371)
	186,257	183,323	(5,344)	(1,546)
MINING				
Contract coal mining	73,173	61,583	1,896	4,671
Wolfram mining	8,054	11,165	(618)	2,477
Metal marketing	221	1,379	(4)	259
	81,448	74,127	1,274	7,407
	518,389	504,844	18,367	19,684
FINANCIAL AND ADMINISTRATIVE SERVICES	2,794	3,005	267	474
COMPENSATION FOR INDUSTRIAL DISEASE (CAPE)	–	–	(1,450)	(600)
	521,183	507,849	17,184	19,558
DISCONTINUED BUSINESSES				
Manufacturing	39,059	101,330	(2,541)	(5,129)
Construction and related activities	6,847	21,260	(243)	(3,387)
Mining	–	8,046	–	475
	45,906	130,636	(2,784)	(8,041)
RESULTS FOR THE 12 MONTH PERIODS	567,089	638,485	14,400	11,517
Results for the three months to 31 March 1984 for subsidiaries which changed their year ends	–	116,043	–	1,819
	567,089	754,528	14,400	13,336

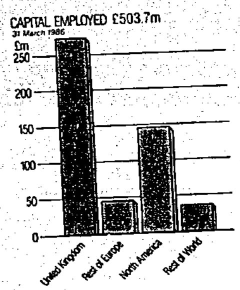
GEOGRAPHICAL



Turnover of operating subsidiaries

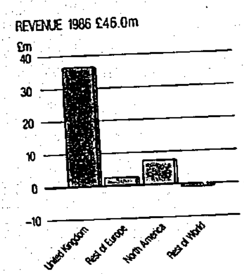
(by markets supplied)

	1986 £000	1986 Per cent	1985 £000	1985 Per cent
United Kingdom	317,986	56.1	433,296	57.4
Rest of Europe	31,715	5.6	61,213	8.1
North America	150,521	26.5	171,931	22.8
Rest of World	66,867	11.8	88,088	11.7
	567,089	100.0	754,528	100.0



Group capital employed

	1986 £000	1986 Per cent	1985 £000	1985 Per cent
United Kingdom	274,472	54.5	252,653	51.1
Rest of Europe	44,920	8.9	42,457	8.6
North America	147,141	29.2	139,303	28.2
Rest of World	37,143	7.4	59,989	12.1
	503,676	100.0	494,402	100.0



Group revenue

	1986 £000	1986 Per cent	1985 £000	1985 Per cent
United Kingdom	36,382	79.0	22,625	55.8
Rest of Europe	2,410	5.2	5,823	14.4
North America	7,368	16.0	7,931	19.6
Rest of World	(115)	(0.2)	4,143	10.2
	46,045	100.0	40,522	100.0

NOTE

The analyses of group capital employed and group revenue take into consideration direct interests and where possible major indirect interests in the areas concerned and are therefore only approximate.

CHARTER CONSOLIDATED P.L.C. AND ITS SUBSIDIARY COMPANIES

CHARTER Seven year financial record

	1986 £900	1985 £000
BALANCE SHEET		
Fixed assets	128,374	142,254
Investments at valuation	204,642	150,209
Subsidiaries not consolidated	–	–
Current assets (from 1983 – includes current assets at valuation; from 1985 – includes assets under finance leases)	353,934	417,915
Creditors and provisions excluding short and long term borrowings	(183,274)	(215,976)
Capital employed	503,676	494,402
Borrowings		
Long term	(80,562)	(72,981)
Short term	(14,190)	(45,067)
Interest of outside shareholders in subsidiaries	(24,386)	(30,856)
Net assets	384,538	345,498
Net assets per share	366p	329p
Shareholders' funds	274,000	283,475
Appreciation of investments (see note 3) (from 1983 – fixed asset investments)	110,538	62,023
Net assets	384,538	345,498
PROFIT AND LOSS ACCOUNT		
Turnover	567,089	754,528
Operating profit	14,400	13,336
Revenue	46,045	40,522
Profit before taxation	28,754	16,520
Taxation	8,967	7,474
Profit after taxation	19,787	9,046
Outside shareholders' interest	11	(1,496)
Earnings attributable	19,776	10,542
Dividends	12,095	11,568
Retained profits	7,681	(1,026)
Earnings per share	18.80p	10.02p
Dividends per share	11.50p	11.00p
Extraordinary items		
Charter	(6,923)	(3,487)
Related companies	(2,268)	(49,387)
	(9,191)	(52,874)

1984 £000	1983 £000	1982 £000	1981 £000	1980 £000
218,866	221,663	141,456	86,080	68,449
261,597	356,255	313,588	392,471	242,175
–	–	–	24,926	–
401,452	415,630	205,983	197,517	174,241
(223,881)	(225,890)	(139,326)	(138,395)	(104,517)
658,034	767,658	521,701	562,599	379,948
(108,708)	(115,852)	(26,251)	(18,893)	(23,126)
(30,338)	(28,489)	(18,153)	(23,015)	(9,605)
(43,800)	(85,163)	(30,172)	(23,680)	(22,944)
475,188	538,154	447,125	497,011	324,273
452p	512p	426p	473p	309p
339,969	315,515	319,743	290,767	224,809
135,219	222,639	127,382	206,244	99,464
475,188	538,154	447,125	497,011	324,273
614,052	414,890	356,939	291,582	266,379
16,298	15,160	13,490	13,615	19,790
59,378	61,384	69,633	61,429	62,044
37,012	45,902	56,291	50,473	50,754
12,380	9,219	16,566	16,403	19,157
24,632	36,683	39,725	34,070	31,597
(1,761)	1,792	2,098	1,476	3,659
26,393	34,891	37,627	32,594	27,938
11,567	11,560	11,558	10,497	8,760
14,826	23,331	26,069	22,097	19,178
25.10p	33.20p	35.81p	31.05p	26.63p
11.00p	11.00p	11.00p	10.00p	8.35p
14,045	(4,991)	(5,645)	43,785	56,835
(7,292)	2,648	77	5,551	195
6,753	(2,343)	(5,568)	49,336	57,030

NOTES

1. The profit and loss account for 1985 includes a 15 month period for certain operating subsidiaries (see note 2 on the accounts on page 36).
2. The classification of the headings under net assets was revised in 1984 to comply with the requirements of the Companies Act 1981. The figures from 1980 to 1982 are not directly comparable due to the classification of portfolio investments as current assets in the later years. Net assets from 1983 onwards are shown after providing for taxation on the appreciation of current asset investments not previously provided for.
3. No account has been taken of taxation on appreciation of investments other than as stated above (see note (i) to note 14 on the accounts on page 41).
4. In 1980 major changes in Charter's investments together with a capital reduction of £53.3 million took place under a scheme of arrangement, as a result of which Charter shareholders received one quarter of a share in Minerals and Resources Corporation worth 55p at the time for each Charter share held.

CHARTER Share ownership

Analysis of Charter's share capital at 31 March 1986

CATEGORY	Percentage	Number of registered shareholders
Individuals	10.8	16,223
Insurance companies	4.2	46
Pension funds and trustees	2.2	95
Banks and nominee companies	39.6	1,233
Other companies	38.2	194
Others	3.8	300
Total registered	98.8	18,091
Represented by share warrants to bearer	1.2	
	100.0	

GEOGRAPHICAL	Percentage	Number of registered shareholders
United Kingdom	56.9	15,979
Rest of Europe	5.0	947
Bermuda	36.0	3
Rest of world	0.9	1,162
Total registered	98.8	18,091
Represented by share warrants to bearer	1.2	
	100.0	

Interests of directors in Charter and a subsidiary company

	CHARTER							
	AT 31 MARCH 1986				AT 1 APRIL 1985			
DIRECTOR OR ALTERNATE	Fully paid shares of 2p each	Options to subscribe for fully paid shares[1]	Partly paid shares (1p paid)[2]	Fully paid shares with restricted rights[3]	Fully paid shares of 2p each	Options to subscribe for fully paid shares[1]	Partly paid shares (1p paid)[2]	Fully paid shares with restricted rights[3]
R. J. Armitage	1,589[1]	12,306	7,500	3,304	1,589[4]	12,306	7,500	3,304
P. C. D. Burnell	100	nil	7,500	3,304	100	nil	7,500	3,304
J. N. Clarke	1,781[4]	27,162	7,500	3,304	1,781[4]	27,162	7,500	3,304
J. V. Cleasby	nil	nil	nil	nil	nil	nil	nil	nil
J. O. Hambro	1,131	nil	nil	nil	1,131	nil	nil	nil
	1,745[5]				1,745[5]			
J. W. Herbert	100	nil	nil	nil	nil[6]	nil	nil	nil
G. A. Higham	1,791[4]	20,051	nil	nil	1,791[4]	20,051	nil	nil
M. B. Hofmeyr	100[5]	nil	nil	nil	100[5]	nil	nil	nil
F. J. A. Howard	1,681[4]	20,051	nil	nil	1,681[4]	20,051	nil	nil
Sir Robert Hunt	nil	nil	nil	nil	nil	nil	nil	nil
A. E. Oppenheimer	100	nil	nil	nil	100	nil	nil	nil
N. F. Oppenheimer	100[5]	nil	nil	nil	100[5]	nil	nil	nil
A. J. W. Owston	1,781[4]	20,051	nil	nil	1,781[4]	20,051	nil	nil
G. W. H. Relly	500	nil	nil	nil	500	nil	nil	nil
	100[5]				100[5]			
J. G. Richardson	1,378[4]	16,019	5,000	2,203	1,378[4]	16,019	5,000	2,203
M. J. Statham	1,539[4]	9,739	nil	nil	1,539[4]	9,739	nil	nil
J. Ogilvie Thompson	100[5]	nil	nil	nil	100[5]	nil	nil	nil

NOTES

[1] granted under share option schemes adopted on 17 July 1973 and 9 August 1983

[2] issued under share incentive scheme adopted on 14 July 1970

[3] allotted to holders of partly paid shares under scheme of arrangement of 22 October 1979 and subject to same restrictions as partly paid shares to which they relate

[4] includes shares appropriated under profit sharing scheme adopted on 11 August 1981

[5] non-beneficial

[6] at date of appointment on 9 April 1985

There was no change in any of the above-mentioned interests between 31 March 1986 and 10 June 1986, being one month prior to the date of the notice of annual general meeting.

Mr J. W. Herbert had a beneficial interest in 1,100 ordinary shares of 25p each in Cape Industries at 31 March 1986 (nil at 9 April 1985, the date of his appointment as a Charter director). Mr G. A. Higham had a beneficial interest in 312 ordinary shares of Cape Industries at 31 March 1986 (312 shares at 1 April 1985) and in 104 8.4 per cent cumulative convertible redeemable preference shares of £1 each of that company at 31 March 1986 (nil at 1 April 1985).

CHARTER Management

ADMINISTRATION

R. J. Armitage MANAGER
Services

H. E. O. Ellison
Public relations

N. G. McNair Scott MANAGER
Development planning and new business

R. D. McVean MANAGER
Personnel

L. L. C. Smets
Chief economist

FINANCE

D. C. Bowden MANAGER
Group financial control

B. J. Crean
Investment

R. H. T. Dawkins
Group chief accountant

M. J. Statham
Investment

MINING

M. W. Bown
Administration

R. G. Burn
Chief geologist

J. V. Cleasby
Consulting engineer; head of technical department

J. McCormack
Chief metallurgist

J. S. de W. Waller
Metal marketing

FILMED

JUL 1986

MIRAC