

# Slater, Walker Securities Limited

## Report of the directors

### Activities of the Company and its Subsidiaries

### Group Results and Turnover

1974  
£'000

10,446  
837  
14  
825  
7,893  
2,832  
(137)  
621  
23,331  
2,194  
21,137

—  
293  
(1,967)  
2,494  
21,957

(7,475)  
14,482

11,913  
605  
74  
678  
(226)  
1,438  
14,482

### Dividend on Ordinary and Preference Shares

The directors present their annual report and the audited accounts for the year ended 31st December, 1976. In particular, your attention is drawn to Note 1 and to the related qualification of the auditors.

The Company is a holding company, whose principal operating subsidiaries and their activities are set out in Note 17.

The consolidated profit and loss account is set out on page 27 and shows the Group results for the year ended 31st December, 1975.

An analysis by activity of the results before exceptional and extraordinary items and taxation is given below:—

	1975 £'000
Investment banking and other financial activities	
Commercial banking	5,963
Corporate finance	566
Underwriting fees	6
Investment management	1,473
Investment dealing—net loss	(2,046)
Investment income	1,650
Instalment credit	—
Investment banking profit of associated companies	—
	<u>7,618</u>
Less: Overhead expenses	<u>2,251</u>
	5,367
Insurance—dividend receivable (gross)	125
Investment trusts	—
Property	(2,454)
Commercial and industrial activities	(8)
	<u>3,030</u>
Less: Expenses of holding company including interest on unsecured loan stocks	<u>(7,384)</u>
	<u>(4,354)</u>

Details of the substantial exceptional and extraordinary items and of taxation, which must also be taken into account, are shown in the notes to the accounts.

A geographical analysis of the above results is as follows:—

United Kingdom and Channel Islands	(4,215)
Africa	—
Australia	1
Europe	(238)
Far East	(19)
North America	117
	<u>(4,354)</u>

The turnover for the Group during the year was **£19,803,533** (1974: £19,328,792) comprising dividends, interest other than bank interest, rental income and dealing profits. Neither the Company nor any of its subsidiaries exported any goods from the United Kingdom during the year.

The interim ordinary dividend of 2.695p per share announced on 19th August, 1975 was subsequently cancelled on 22nd December, 1975. No final ordinary dividend is proposed.

Preference dividends were paid on 31st May, 1975 and 1st December, 1975. It is not proposed to pay, at this time, the preference dividend due on 31st May, 1976, nor any supplemental dividend as referred to in Note 6(c). As the supplemental dividend is now technically more than six months in arrear, preference shareholders are entitled to attend and vote at the adjourned Annual General Meeting.

# Slater, Walker Securities Limited

## Report of the directors continued

### Directors and Directors' Interests

Mr. A. J. H. Buckley and Mr. J. D. Slater resigned from the Board on 6th October, 1975, and 24th October, 1975, respectively. Mr. J. K. O'Donnell resigned on 26th January, 1976.

Of the directors listed on page 20, Mr. B. Banks, Mr. M. J. Booth, Mr. C. D. MacInnes, Mr. I. H. Wasserman and Mr. R. E. Whitten were directors throughout 1975. Sir James Goldsmith, Mr. C. E. A. Hambro, Mr. P. D. Hill-Wood, Mr. I. G. Kennington, Mr. D. Leca and Lord Rothschild were appointed on 24th October, 1975. Mr. D. J. Thomason was appointed on 26th January, 1976.

In accordance with the Articles of Association, Sir James Goldsmith, Mr. C. E. A. Hambro, Mr. P. D. Hill-Wood, Mr. I. G. Kennington, Lord Rothschild and Mr. D. J. Thomason hold office until the conclusion of the forthcoming adjourned Annual General Meeting and, being eligible, offer themselves for re-election. The directors retiring are Mr. B. Banks and Mr. C. D. MacInnes who, being eligible, offer themselves for re-election. Mr. D. Leca, having recently attained the age of 70 years, is due to retire at the conclusion of the Meeting. A resolution to re-elect Mr. Leca, of which the Company has received Special Notice, will be proposed at the Meeting.

As a result of the contraction in the Group's activities, Mr. M. J. Booth and Mr. I. H. Wasserman will be resigning from the Board at the conclusion of the adjourned Annual General Meeting.

The directors and their immediate families were interested, beneficially unless otherwise stated, in the following shares and options of the Company at 31st December, 1975. Their interests at 1st January, 1975 or date of appointment, if later, are shown in brackets.

	Ordinary shares fully paid	Options to subscribe for ordinary shares	Ordinary shares partly paid	Ordinary shares fully paid with restricted rights (Note 6 (d))
Sir James Goldsmith	2,000,000( —)	—( —)	—( —)	—( —)
B. Banks	5,025( 5,025)	18,688(18,688)	20,000(20,000)	6,666(6,666)
M. J. Booth	5,000( 5,000)	—( —)	—(20,000)	—(6,666)
C. D. MacInnes	10,250(10,250)	5,700( 5,700)	13,600(13,600)	4,533(4,533)
J. K. O'Donnell	10,000(10,000)	—( —)	14,300(18,300)	4,766(6,100)
I. H. Wasserman	1,000(13,333)	—( —)	—(20,000)	—(6,666)
R. E. Whitten	3,000( 3,000)	22,100(22,100)	9,200( 9,200)	3,066(3,066)

The reduction in certain directors' interests in partly paid ordinary shares and fully paid ordinary shares with restricted rights arose from disposals following the amendment to the executive share incentive scheme referred to under Share and Loan Capital later in this report. None of these disposals by directors was made until after the publication of the interim statement on 19th August, 1975. The only other reduction was the disposal by Mr. I. H. Wasserman of fully paid ordinary shares of which the Company was notified in accordance with the provisions of the Companies Act 1967 on 5th September, 1975.

Mr. C. E. A. Hambro, Mr. P. D. Hill-Wood, Mr. I. G. Kennington, Mr. D. Leca and Lord Rothschild had no interest in the shares and options of the Company either at the time of their appointment or at 31st December, 1975. At the time of his appointment, Mr. D. J. Thomason had no interest in the shares and options of the Company. Mr. C. D. MacInnes's interest includes a non-beneficial interest in 3,750 (3,750) ordinary shares fully paid and in addition he has a non-beneficial interest in £1,872 (£1,872) 9½ per cent. Partly Convertible Unsecured Loan Stock 1984. The directors and their immediate families had no other interests, beneficial or non-beneficial, in the share capital, options, unsecured loan stocks or warrants of the Company or of any of its subsidiaries at 1st January, 1975 and 31st December, 1975.

There have been no changes in the interests shown above between 31st December, 1975 and 1st September, 1976, the date of this report.

# Slater, Walker Securities Limited

## Report of the directors continued

### Material Interests of Directors in Contracts

An amendment to The Stock Exchange Listing Agreement issued in July, 1976, extends the category of contracts of significance requiring disclosure, to loans in which a director is interested where the aggregate amount outstanding during the year was £100,000 or more. The following such loans, made by Slater, Walker Limited, the banking subsidiary, were outstanding at 31st December, 1975:—

Name	Nature of Loan	Amount	Highest During Year
A. J. H. Buckloy	Personal Loans	£772,840	£783,555
J. K. O'Donnell	House Mortgage Loan Personal Loans	£88,537 £225,757	£89,780 £225,757
J. D. Slater	House Mortgage Loan	£118,149	£119,799
I. H. Wasserman	House Mortgage Loan Personal Loan	£58,637 £94,642	£59,495 £97,543

These loans are also referred to in Section C of the summary of the Accountants' Report.

House mortgage loans carried interest at the Building Societies Association recommended rate (11 per cent.) and the personal loans carried interest at 2 per cent. above National Westminster Bank Limited's base rate throughout 1975. Since 31st December, 1975, certain directors have left or, as stated above, are leaving the Board and variations to the terms of some of the loans have been agreed.

Loans totalling £352,000 to companies controlled by Mr. J. D. Slater which were outstanding during the year have now been repaid in full. These loans were fully secured and carried a commercial rate of interest. Since the year end, Mr. J. K. O'Donnell's loans have been reduced by a net amount of £55,262.

In addition, there were loans outstanding, made in the normal course of business by the banking subsidiary, to companies associated with Sir James Goldsmith, which at the time of his appointment as a director of the Company totalled £5.4 million. These loans were fully secured and carried a commercial rate of interest. Immediately following his appointment, Sir James Goldsmith made arrangements for repayment of these loans and shortly thereafter they were repaid in advance of their maturity dates. The Group also held loan stocks in three companies, of which Sir James Goldsmith is a director, and in which he has interests, details of these are shown in the Appendices.

The Group has paid fees to Banque Occidentale pour l'industrie et le commerce S.A. ("BOIC"), Hambros Bank Limited ("Hambros"), and N. M. Rothschild & Sons Limited ("Rothschilds"). Sir James Goldsmith is a director of BOIC and Mr. P. D. Hill-Wood was also a director of BOIC until recently; Mr. C. E. A. Hambro, Mr. P. D. Hill-Wood and Mr. D. J. Thomason are directors of Hambros; Lord Rothschild and Mr. I. G. Kennington are directors of Rothschilds. None of these directors received emoluments from the Group during the year.

Save as aforesaid, no contracts of significance in relation to the Company's business, in which directors of the Company were materially interested, subsisted at any time during the financial year.

### Substantial Interests

The Company has not received any indication that any person is interested in 10% or more of the issued share capital of the Company.

### Share and Loan Capital

In April, 1975, the Board of Directors exercised their powers under Clause 12 of the Share Incentive Scheme (the "Scheme") and amended the Scheme so as to include a stop-loss provision. During the year 677,550 partly paid shares were paid up under the amended terms of the Scheme and the restrictions released on 225,825 fully paid shares with restricted rights (Note 6).

During the first half of the year the Company purchased loan stocks at prevailing market prices for cancellation (Note 8).

# Slater, Walker Securities Limited

## Report of the directors continued

Pursuant to offers and schemes, submitted to loan stockholders on 18th July, 1975, the Company issued £11,903,565 Nominal of a new 17½% Unsecured Loan Stock 1995, 1,157,216 ordinary shares of 25p each credited as fully paid and paid £710,016 in cash in consideration for the cancellation of:—

£1,983,573 nominal of 9½% Unsecured Loan Stock 1988/93

£4,387,005 nominal of 9½% Unsecured Loan Stock 1991/96

£8,227,866 nominal of 9% Unsecured Loan Stock 1991/96

£7,120,082 nominal of 9½% Unsecured Loan Stock 1997/2002

In the period up to 30th September, 1975, the Company purchased for cancellation £213,972 nominal of 9½% Partly Convertible Unsecured Loan Stock 1984 at prevailing market prices. This stock was not the subject of either an offer or a scheme.

In December, 1975, the Company redeemed the whole of the remaining issued £3,459,228 Nominal of 9½% Unsecured Loan Stock 1991/96 at £100 per cent.

### Reserves

Changes during the year are shown in Note 7.

### Fixed Assets

The directors consider that the aggregate current market value of the investment properties held for, or in the course of, development at 31st December, 1975, in their then existing uncompleted state, would have been substantially below book value. Your directors have not commissioned an independent professional valuation of the investment property portfolio on this basis as they are of the opinion that it would be irrelevant, there being no intention of selling these properties in their uncompleted state. However, as it seems probable that deficits will arise on the completion and disposal of these properties, a general provision of £8.25 million has been made. In addition the book values of properties disposed of since 31st December, 1975, have been adjusted to reflect the prices at which they were sold. The net book value of properties held as fixed assets, after making the provision and adjustments described, should not, in view of the uncertainties inherent in the property market at the present time, be regarded as the aggregate open market value because the directors feel unable to determine this with precision. Similar considerations apply to a loan guarantee given by the Company in connection with an overseas property development undertaken by a third party.

The directors have also considered the valuation of the Unit Trust Management Contracts in view of the misleading impression which could otherwise be created by the two purchased contracts being shown at cost, which in view of their recent acquisition approximates to market value, whilst continuing to include no value in respect of the more profitable contracts for the management of the original Slater, Walker Trusts. Accordingly all contracts have been revalued by the directors at 31st December, 1975, on an open market basis.

Changes during the year are shown in Note 10.

### Banking and Insurance Subsidiaries

The position of the Banking Division changed materially during the course of 1975. In considering the position of Slater, Walker Limited (the only remaining banking subsidiary) the arrangements with, and the obligations to, the Bank of England detailed in Note 1 to the accounts must be taken into account. As a result of these arrangements, and, in particular, the future obligations of Slater, Walker Limited to make payments to the Bank of England, the Board considers that a sale of Slater, Walker Limited at the present time could not be made at its underlying net asset value.

In the course of their review, the Board considered the amount at which the investment in the insurance subsidiaries was carried. After having taken steps to assist Slater, Walker Insurance Company Limited (see Note 12) they decided to make a round sum provision of £5 million against the original £11 million book carrying cost to reflect a permanent reduction in its long term value. However, your directors point out that if a sale of these subsidiaries were to be made today it would probably not realise the full £6 million aggregate written down value.

### Employees

The average number of persons employed in the United Kingdom during the year, by companies within the Group at 31st December, 1975, was 680 and their aggregate remuneration for the year was £2,830,000.

# Slater, Walker Securities Limited

## Report of the directors continued

### Political and Charitable Donations

Contributions made by the Group (for which the reconstituted Board is not responsible) were as follows:—

(a) For political purposes: (made between 1st January and 31st March, 1975)	Aims of Industry European Movement The Conservative Party The Economic League	£5,400 £1,000 £20,000 £5,400
(b) For charitable purposes: (made between 1st January and 24th October, 1975)		£26,998

These were the only contributions made during the year.

### Taxation

(a) The market valuation of Slater, Walker Securities Limited shares on 6th April, 1965, for the purpose of capital gains tax, after taking into account the one-for-three capitalisation issues of ordinary shares in April, 1966, February, 1968, June, 1969, and July, 1972, was:—

Ordinary shares of 25p each	27.39p
Cumulative Preference shares of £1 each	68.75p

(b) The Company does not fall within the close company provisions of the Income and Corporation Taxes Act 1970.

### Auditors

The auditors, Arthur Young McClelland Moores & Co., have expressed their willingness to continue in office in accordance with Section 159 (2) of the Companies Act, 1948.

By Order of the Board  
C. D. MACINNES  
Secretary  
1st September, 1976.

# Slater, Walker Securities Limited

## Report of the auditors

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### to the members of Slater, Walker Securities Limited

We have examined the accounts of Slater, Walker Securities Limited and its subsidiaries, which accounts have been prepared using the historical cost convention as modified by the revaluation of certain assets.

We draw your attention to the following matters referred to in the report of the directors and in the notes, on which we have reservations:—

1. As explained in Note 1 the consolidated balance sheet includes £21,705,547 in respect of the consolidated net assets of the banking subsidiaries attributable to the Group's shareholding interest but in the separate balance sheet of the Company no value has been attributed to this interest. Full details are also set out in this Note of the guarantee of the banking subsidiaries' loan portfolios. Were it not for the existence of this guarantee a very substantial provision for doubtful debts would, in our opinion, have been necessary and the amount at which the investment in banking subsidiaries is shown in the consolidated balance sheet would have required restatement by an equivalent amount. However, in our opinion, the investment in Slater, Walker Limited (which has disposed of its banking subsidiaries since the year-end for amounts approximating their net assets) is, with the support of the guarantee, not without value in the event of a disposal, and the omission of this investment from the Company's own balance sheet has resulted in the capital and reserves of the Company being understated.
2. As explained in the report of the directors no independent professional valuation has been obtained of the Group's properties, the great majority of which are in the course of development, or of the overseas property to which the guarantee referred to in the directors' report applies. Accordingly we are unable to satisfy ourselves that the provisions made on the basis described in the report of the directors are sufficient to reduce the value at which the properties are stated in the accounts to that which will be realised on completion of the developments after deducting all costs to completion and, in so far as the overseas property loan guarantee is concerned, to provide for all potential losses thereunder.
3. As explained in the report of the directors the amount at which the insurance subsidiaries are stated in the balance sheets has been reduced by a provision of £5 million because the directors consider that a permanent impairment has occurred in the value of these holdings. We are unable to satisfy ourselves as to the adequacy of this provision.
4. As indicated in the report of the directors and in Note 10 the directors have revalued the Unit Trust Management Contracts at £5 million on an open market basis. We are not able to determine whether this amount is appropriate.

In our opinion, subject to these reservations, the accounts set out on pages 27 to 45 together give, under the conventions stated and so far as concerns members of Slater, Walker Securities Limited, a true and fair view of the state of affairs at 31st December, 1976, and of the results for the year ended on that date and comply with the Companies Acts 1948 and 1967.

Arthur Young McClelland Moores & Co.  
Chartered Accountants

London  
1st September, 1976

# Slater, Walker Securities Limited

## Consolidated Profit and Loss Account for the year ended 31st December, 1975

1974			Note	£	£
£	£				
10,608,213		Profit/(loss) of the Company and its subsidiaries	3(b)		(4,354,485)
—		Exceptional items	3(c)		(3,893,527)
3,873,712		Share of profit of associated companies			—
14,481,925					(8,248,012)
5,709,427		Taxation	4		2,400,543
8,772,498					(10,648,555)
(68,530)		Minority interests			5,450
8,703,968		Profit/(loss) before extraordinary items			(10,643,105)
(38,926,124)		Extraordinary items	3(d)		(31,699,202)
(30,222,156)		Net loss for the year	1		(42,342,307)
		Dividends:			
	158,931	Preference	6(c)	152,309	
	1,782,879	Ordinary: Interim		—	
	2,042,306	Final		—	
3,984,116					152,309
(34,206,272)					(42,494,616)
33,578,229		Transfer from Reserves	2(i)(v)		3,299,951
29,688,113		Undistributed profit brought forward			29,060,070
£29,060,070		Deficit (1974 undistributed profit) carried forward	3(f)		(£10,134,595)
		Loss (1974 earnings) per ordinary share of 25p	5		
11.75p		Basic			(14.66p)
11.82p		Fully diluted			See Note 5

The notes on pages 32-45 form part of these accounts.

1974	£		Note	£	£
21,637,623		Share Capital	6		22,093,685
22,816,112		Share Premium Account	7		23,252,003
7,409,012		Reserves	7		5,443,056
29,060,070		Profit and Loss Account			(10,134,595)
80,922,717		Total Capital and Reserves	See note below		40,654,149
42,750,864		Unsecured Loan Stocks	8		26,864,703
76,982,039		Other Loans	9		72,549,053
664,741		Minority Interests			773,155
2,115		Corporation Tax			—
		<b>Current Liabilities</b>			
22,992,321		Creditors and short term loans		15,631,838	
		Secured: £449,884 (1974: £2,000)			
2,055,745		Current taxation		2,259,763	
7,960,610		Bank loans and overdrafts		1,608,875	
3,825,185		Ordinary dividend		—	
36,833,861					19,500,476
<u>£238,363,737</u>					<u>£160,341,546</u>

**Note:** The total of Capital and Reserves includes £21,705,547 net tangible assets and £11,438,740 Group net deposit being the amounts of the Group's interests in its banking subsidiaries which are affected by the arrangements referred to in Note 1.

The notes on pages 32-45 form part of this financial statement.



# s Limited and subsidiaries

et at 31st December, 1975

1974					
£	£		Note	£	£
61,521,058		<b>Fixed Assets</b>	10		<b>57,560,308</b>
		<b>Banking Subsidiaries</b>	1 & 11		
	17,873,171	Consolidated net assets		<b>21,705,547</b>	
	37,908,285	Add: Net amount due from banking subsidiaries		<b>11,438,740</b>	
55,781,456					<b>33,144,287</b>
11,000,000		<b>Insurance Subsidiaries</b>	12		<b>6,000,000</b>
34,078,134		<b>Associated Companies</b>			—
		<b>Investments</b>			
	1,812,814	Quoted in United Kingdom: Market Value <b>£5,095,445</b> (1974: £740,833)		<b>5,505,479</b>	
	10,856,689	Quoted outside United Kingdom: Market Value <b>£1,089,138</b> (1974: £10,159,424)		<b>1,088,151</b>	
	7,464,723	Unquoted: Directors' Valuation <b>£8,831,018</b> (1974: £7,422,373)		<b>8,831,018</b>	
20,134,226					<b>15,424,648</b>
		<b>Current Assets</b>			
	26,086,453	Debtors		<b>26,660,744</b>	
	1,773,301	Taxation recoverable		<b>2,258,111</b>	
	17,227,823	Properties held for resale		<b>11,962,898</b>	
	9,305,267	Investments: Market/Directors' Valuation <b>£3,905,702</b> (1974: £9,322,779)	13	<b>3,838,866</b>	
	1,456,019	Bank balances and cash		<b>3,491,684</b>	
55,848,863					<b>48,212,303</b>
		JAMES GOLDSMITH	} Directors		
		R. E. WHITTEN			
<b>£238,363,737</b>					<b>£160,341,546</b>

46 form part of these accounts.

The notes on pages 32-45 form p

1974			Note	£	£
£	£				
2,873,644		<b>Fixed Assets</b>	10		<b>2,348,850</b>
		<b>Subsidiary Companies</b>			
	45,165,500	Shares at cost less amounts written off (1974 at cost)	1	<b>16,137,840</b>	
	59,628,320	Amounts due from subsidiaries (other than banking subsidiaries) less amounts written off		<b>112,516,466</b>	
	37,908,285	Net amount due from banking subsidiaries	11	<b>11,438,740</b>	
	<u>142,702,105</u>			<b>140,093,046</b>	
	2,125,223	Less: Amounts due to subsidiaries		<b>80,637,154</b>	
140,576,882					<b>59,455,892</b>
		<b>Associated Company</b>			
	400,000	(Market Value 1974: £230,000)			—
		<b>Current Assets</b>			
	1,277,696	Debtors		<b>1,609,230</b>	
	1,821,287	Advance Corporation Tax recoverable		<b>133,374</b>	
3,098,983					<b>1,742,604</b>
		<b>JAMES GOLDSMITH</b>			
		<b>R. E. WHITTEN</b>	<b>Directors</b>		
<u><u>£146,949,509</u></u>					<u><u>£63,547,346</u></u>

# Slater, Walker Securities Limited

## Notes on the Accounts

### 1. GUARANTEE OF BANKING SUBSIDIARIES' LOAN PORTFOLIOS

By an agreement dated 11th December, 1975, ("the Guarantee") the Bank of England guaranteed and indemnified Slater, Walker Limited and its banking subsidiaries against losses on advances and contingent liabilities up to a maximum principal amount of £40 million together with future interest accruing on such advances.

In consideration of the Guarantee, the guarantor is entitled to receive all the profits of Slater, Walker Limited from 1st January, 1976, until such time as the profits thus ceded amount to 125 per cent. of the total amount drawn under the Guarantee and not subsequently recovered by the guarantor. All such payments are contingent on future profits being earned by Slater, Walker Limited.

In addition, the Company has undertaken to preclude or limit the payment of dividends on its ordinary share capital to such an extent and for such a period as may be acceptable to the guarantor. The Company has further undertaken, as soon as practicable, to inject £10 million additional capital into Slater, Walker Limited by way of new shares or an interest-free subordinated loan. This injection of £10 million will be in partial satisfaction of an earlier obligation under a facility letter dated 27th November, 1975, from the Bank of England to convert up to £25 million of Group deposits, with Slater, Walker Limited, into equity capital. The subscription of the remaining £15 million of equity capital is expressed to be conditional on such action being consistent with the responsibility of the directors. The Company has undertaken to procure the due performance by Slater, Walker Limited of its obligations under the Guarantee. Under the terms of the facility letter the Company has given a guarantee to the Bank of England of all sums due by Slater, Walker Limited under the facility. This guarantee is subordinated to all other creditors of the Company. The Guarantee given by the Bank of England was designed to preclude the need for provisions which would otherwise have been required in the accounts of Slater, Walker Limited in addition to the then existing provision for doubtful debts of £9.6 million. At 31st December, 1975 no calls had been made under the Guarantee although it is likely that the Guarantee will be required in full in which event payments totalling in excess of £50 million would be payable by Slater, Walker Limited to the Bank of England out of its future pre-tax profits as and when earned. Whilst these arrangements should result in there being no requirement for additional doubtful debt provisions it is not expected that, in the foreseeable future, any earnings will accrue to the Group from Slater, Walker Limited.

In these circumstances, the consolidated balance sheet includes £21,705,547, being the consolidated net assets of the banking subsidiaries attributable to the Group's shareholding interest. The accounts of the banking subsidiaries are summarised in Note 11. In the separate balance sheet of the Company no amount has been attributed to the value of the investment in the banking subsidiaries.

### 2. ACCOUNTING POLICIES

#### (a) Basis of Consolidation

The consolidated accounts, which have been prepared on a going concern basis, include the audited accounts of the Company and all its subsidiaries, other than three wholly-owned insurance companies.

The loss before taxation includes the results of subsidiaries acquired during the year from the effective dates of their acquisition. Only dividends received are included in respect of companies which ceased to be subsidiaries during the year. The excess of cost of shares in subsidiaries acquired over their attributable net tangible assets is debited to reserves.

Prior to 1975 the Group's interest in associated companies was incorporated in the consolidated accounts on the basis set out below (see (b) and (i) (i)).

#### (b) Associated Companies (applies only to the comparative figures for 1974 since no investments of this type were held at 31st December, 1975 (see (i) (i) below).

(i) The share of profits of associated companies relates only to companies other than subsidiaries in which the Group holds not less than 20% of the equity as a long-term investment and exercises a significant influence in their management.

(ii) The Group's investments in associated companies are stated at their cost, less amounts written off, plus attributable post acquisition retained profits and reserves. The Group's share of profits of associated companies is included in the consolidated profit and loss account.

#### (c) Banking Subsidiaries

The directors are of the opinion that in view of the matters referred to in Note 1 it would be misleading to continue to consolidate fully the net assets of Slater, Walker Limited and its subsidiaries, the accounts of which are prepared on the basis authorised for banking companies. Accordingly the net assets have been included in the consolidated balance sheet in a single amount. The consolidated profit and loss account includes the results of the banking subsidiaries as in previous years. No value has been attributed to the investment in Slater, Walker Limited in the balance sheet of the Company at 31st December, 1975.

# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 2. ACCOUNTING POLICIES continued

#### (d) Insurance Subsidiaries

The directors are of the opinion that the business of these three wholly-owned subsidiaries is so different from that of the rest of the Group that it would not be meaningful to include them in the consolidated accounts. These subsidiaries are accordingly included in the consolidated balance sheet at cost less amounts written off.

The accounts of these subsidiaries are prepared on the basis authorised for insurance companies and their combined balance sheets and profit and loss accounts are summarised in Note 12.

#### (e) Investments

The investments stated at cost less amounts written off in the consolidated balance sheet are those held by investment companies and are, in the main, the Group's long-term holdings. From 1964 until 1973 realised profits less losses on the sales of these investments were always taken directly to reserves but, with effect from 1st January, 1974, Standard Accounting Practice No. 6, dealing with extraordinary items and prior year adjustments, issued by the Institutes of Chartered Accountants, made it obligatory to pass all transactions through the profit and loss account regardless of whether they are capital or revenue by nature, or abnormal or non-recurring in relation to the main business of the company concerned. Accordingly, profits and losses arising on the disposal of long-term investments have been included under extraordinary items in the consolidated profit and loss account and further details of these, together with profits and losses on the disposal of holdings in subsidiary and associated companies, are set out in Note 3 (d).

Investments held as current assets are stated at the lower of cost and net realisable value. These are held by dealing companies and are generally held for the short term. Realised profits or losses on sales of these investments are taken to the profit and loss account.

Should the policy in respect of a particular holding be changed, the resulting transfer between investment and dealing companies is made at market price and any unrealised profit is eliminated on consolidation.

#### (f) Depreciation

No depreciation is provided on freehold and long leasehold properties, unit trust management contracts or works of art. All other fixed assets are written off over their estimated useful lives on a straight line basis.

#### (g) Foreign Currencies

Assets and liabilities in foreign currencies are converted at the rates of exchange ruling on the balance sheet date.

Gains and losses on revenue transactions in foreign currencies are included in the profit and loss account and those arising on capital transactions and on translation into sterling of the accounts of overseas subsidiaries and associates are shown in the profit and loss account under extraordinary items.

#### (h) Property

##### (i) Investment Property

Investment properties in the course of development, or held with that intention, are included as fixed assets (see Note 10) and are stated at their original cost plus directly attributable expenditure to date including interest (net of tax relief where available), with the exception of a residential development site with a book value of £3.6 million in respect of which interest is not capitalised. When a building has been completed and substantially let, interest and other expenses are charged to revenue. Surpluses arising from revaluations are credited directly to reserves whilst deficits on revaluations and all profits and losses arising on disposal are shown in the profit and loss account under extraordinary items. No property revaluations have occurred during the year.

##### (ii) Property held for Resale

Properties held for resale, including work in progress, are included as current assets and are stated in the consolidated balance sheet at the lower of cost and estimated net realisable value.

Interest payable in respect of properties in course of development for future resale is charged to the profit and loss account as incurred.

#### (i) Changes in accounting policies and related matters

##### (i) Associated Companies

During 1976 the Group disposed of all but three of its holdings in associated companies and because these no longer meet the criteria laid down by the Institutes of Chartered Accountants in defining "Associates", they have been transferred to "Investments" in the consolidated balance sheet and only dividends received have been included in the consolidated profit and loss account. Excluding the Group's proportion of the results of one former associate which by 31st July, 1976, had not produced any audited accounts since those for the period ended 31st December, 1973, the effect of this re-classification on the Group's results for 1976 has been to increase the loss before taxation by £1,047,669.

##### (ii) Banking Subsidiaries

For the reasons explained in Notes 1 and 2 (c) above, the net assets of the banking subsidiaries, which were fully consolidated in 1974 and prior years, are now shown as a single amount. The comparative figures for 1974 have accordingly been restated in the consolidated balance sheet.

# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 2. ACCOUNTING POLICIES continued

#### (iii) Unit Trust Management Contracts

Prior to 1st January, 1975, the only unit trust management contracts to which any value was attributed in the accounts was the purchase price paid for the contracts relating to the unit trusts previously managed by the Jessel Britannia Group. During 1975 the Group acquired the management contracts for the trusts previously in the National Group and at 31st December, 1975, all contracts including those for the original Slater, Walker trusts have been valued by the directors on the basis of open market value and included in the consolidated balance sheet at this valuation, the surplus arising on revaluation of £2,296,295 being credited directly to reserves.

#### (iv) Provisions for permanent diminution in carrying values

Although the policy of the directors has been to make provision in cases where they considered that a permanent diminution in value had occurred, this has rarely been necessary in the past. However, changes in the Group's structure and in its mode of operation have led to a re-appraisal of the criteria to be applied in determining whether a shortfall in market value is of a temporary or a permanent nature, the most significant factors being the length of time in which recovery can reasonably be anticipated and the amount of management and financial support which the Group itself is able to give in order to achieve such a recovery. The directors in considering the carrying values of properties held as fixed assets, the insurance subsidiaries and investments have decided that uncertainties surrounding the property and securities markets together with the general state of the economy, require that provisions should be made as follows:—

	£
Fixed assets (including a general provision of £8.25 million)	12,162,159
Insurance subsidiaries	5,000,000
Investments (including £1.65 million in respect of those purchased subsequent to the year end from Slater, Walker Insurance Company Limited under the option referred to in Note 12 (a))	9,664,292
Other	1,250,000
	<u>£28,076,451</u>

These provisions have been charged in the profit and loss account as extraordinary items, and include the specific provisions referred to in Note 10 (c) and a provision of £488,016 in respect of properties owned by Slater, Walker Limited which has been sold since 31st December, 1975, for £666,911.

As a result of these provisions being made, the carrying value of the holding company's investment in and amounts due from subsidiaries was substantially in excess of the underlying net assets and accordingly they have been written down to the net amount of the latter with the exception of the holdings in Slater, Walker Limited (to which no value was attributed for the purpose of the holding company's balance sheet at 31st December, 1975) and in the insurance subsidiaries.

#### (v) Transfers from Reserves

In 1974 a transfer was made from reserves to the profit and loss account of an amount equivalent to the extraordinary items referred to in (e) above so that the distinction between capital and revenue transactions followed by the Group would be maintained. The setting aside of the provisions referred to above has prevented a similar transfer being made in 1975. The transfer shown in the consolidated profit and loss account of £3,299,951 relates to the share of the reserves of subsidiary and associated companies disposed of during the year that had previously formed part of consolidated reserves. Prior to 1975 the opening balance on the consolidated profit and loss account had been adjusted for the amounts previously included therein attributable to subsidiary and associated companies disposed of during the year but these are now included in extraordinary items and the comparative figures for 1974 have been restated.

#### (vi) Investment Property

Prior to 1975 any adjustments to carrying values resulting from revaluation of investment properties were transferred directly to reserves. Only surpluses are now treated in this manner, all deficits being charged in the profit and loss account under extraordinary items.

#### (vii) Property held for Resale

Prior to 1975 the comparison of cost with net realisable value was made on an individual property basis. At 31st December, 1975, these properties have been included in the Group accounts on the basis of the lower of cost and estimated net realisable value in aggregate, after deducting a provision of £3.5 million. This has been charged as an exceptional item in the profit and loss account.

# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 3. CONSOLIDATED PROFIT AND LOSS ACCOUNT

1974		1975
£		£
<u>£10,328,792</u>	(a) Turnover comprises dividends, interest other than bank interest, rental income and dealing profits	<u>£19,803,533</u>
£		£
	(b) The results of the Company and its subsidiaries are arrived at:—	
	After crediting:—	
	Income from investments including related tax credits	
2,029,172	Quoted	1,224,026
1,217,489	Unquoted	933,261
1,421,349	Rents receivable less outgoings	1,341,950
	After charging:—	
423,794	Depreciation	354,314
237,309	Remuneration of directors (fees nil)	219,721
168,177	Remuneration of auditors	141,783
	Interest payable, gross (other than by Slater, Walker Limited)	
1,938,047	Bank overdrafts and other loans repayable within five years	1,870,674
4,582,525	Other unsecured loan stocks	3,863,290
2,648,707	Long-term loans not wholly repayable within five years	3,992,270
<u>2,686,044</u>	Other long-term loans	<u>1,512,341</u>
		£
	(c) Exceptional items comprise the following (1974: Nil):—	
	Provision to reduce properties held for resale to estimated net realisable value	3,500,000
	Provision for liabilities under a guarantee (given by a subsidiary)	900,000
	Fees paid (advising merchant bankers £217,000; other £82,527)	299,527
	Accountants' fees for investigation	144,000
		<u>4,843,527</u>
	Less: Provisions set up in prior years no longer required	<u>950,000</u>
		<u>£3,893,527</u>

1974			1975	
Company	Group		Company	Group
£	£		£	£
—	—	Provisions to reduce cost of investments in, and amounts due from, subsidiaries	(67,582,493)	—
—	(36,383,787)	Net loss on sales of shares in subsidiary and associated companies	—	(9,909,360)
—	(5,800,749)	Net loss on sales of investments held by investment companies	(429,034)	(2,084,814)
—	3,369,255	Net loss (1974: profit) on sales of properties held by property investment companies	(92,771)	(1,747,543)
(4,679,188)	(4,012,720)	Net profit (loss) on exchange (Note 2 (a))	779,087	(1,969,844)
8,003,324	8,003,324	Profit on redemption of loan stocks and currency bonds	12,088,810	12,088,810
(294,312)	(3,701,020)	Provisions (Note 2 (i) (iv))	(850,000)	(28,076,451)
—	(864,000)	Loss after corporation tax relief incurred through participation in support operation for Cannon Street Acceptances Limited	—	—
—	443,573	Share of extraordinary items of associated companies	—	—
<u>£3,029,824</u>	<u>(£38,926,124)</u>		<u>(£56,086,401)</u>	<u>(£31,699,202)</u>

- (e) The results of the Group have been dealt with in the accounts of the holding company to the extent of a loss of £57,581,322 (1974: £1,917,448 profit).
- (f) The consolidated deficit carried forward was included in the accounts of the holding company to the extent of £51,463,025 less an adjustment in respect of the write-off of £67,582,493 shown in Note 3 (d) above (which does not affect the consolidated accounts) and in the accounts of the subsidiaries to the extent of £26,254,063 (1974 undistributed profits: the Company £6,270,606, subsidiaries £19,291,320 and associated companies £3,498,144).

# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 4. TAXATION

1974 £		1975 £
3,482,387	Corporation tax	(1,098,142)
—	Advance corporation tax	2,816,845
232,133	Attributable to franked investment income	307,837
549,621	Overseas tax	374,003
(193,965)	Double tax relief	—
(164,790)	Deferred taxation	—
1,804,041	Associated companies	—
<u>£5,709,427</u>		<u>£2,400,543</u>

- Notes: (a) The credit for corporation tax arises from the set-off of current losses against profits of prior years.
- (b) The results for the year include franked investment income and profits arising overseas which are not subject to taxation unless they are remitted to the U.K.
- (c) No liability to taxation is expected to arise if assets included in the accounts at valuation in excess of their cost are disposed of at the amounts included, as substantial losses for capital gains tax purposes are available.
- (d) Certain companies in the Group have unutilised losses for corporation tax purposes of approximately £8 million (1974: £3 million) available for offsetting in the future against profits from the same source. In addition, advance corporation tax already paid of £2.8 million is available to reduce future corporation tax liabilities.

### 5. LOSS (1974: EARNINGS) PER SHARE

The figure for basic loss per share is calculated on the net loss of the Group (after minority interests and preference dividends but before extraordinary items) of £10,795,414 (1974 profit: £8,545,037) and on the weighted average of 73,648,662 ordinary shares in issue during the year (1974: 72,748,103).

No figure for fully diluted earnings per share is required to be shown when the figure for basic earnings per share is negative.

The figure for fully diluted earnings per share in 1974 was calculated on adjusted profits of £9,766,000 and 82,568,000 ordinary shares issued and issuable and was arrived at on the following assumptions:—

- (i) the outstanding share options had been exercised;
- (ii) the conversion rights attaching to certain bonds and loan stocks had been exercised;
- (iii) the warrants to subscribe for ordinary shares had been exercised;
- (iv) the balance of the moneys due on the incentive scheme shares had been paid up;
- (v) the proceeds of subscription in each case had been invested in 2½% Consolidated Stock.



# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 6. SHARE CAPITAL

#### (a) Authorised

The Authorised Share Capital at 31st December, 1975, consisted of 3,637,500 4.725% (formerly 6½% gross) Cumulative Preference Shares of £1 each and 90,000,000 Ordinary Shares of 25p each.

#### (b) Issued

	Number of Shares	£	£
4.725% (formerly 6½% gross) Cumulative Preference Shares of £1			
Fully paid:			
Issued at 31st December, 1974 and 1975 (see Note (c) below)	3,363,629		3,363,629
Ordinary Shares of 25p			
Fully paid:			
Issued at 31st December, 1974	72,750,571	18,187,642	
Issued as part consideration for the cancellation of £8,227,866 nominal of 9% Unsecured Loan Stock 1991/96	291,333	72,833	
Issued as part consideration for the cancellation of £7,120,082 nominal of 9½% Unsecured Loan Stock 1997/2002	536,264	134,066	
Issued as part consideration for the cancellation of £1,983,573 nominal of 9½% Unsecured Loan Stock 1988/93	138,409	34,602	
Issued as part consideration for the cancellation of £4,387,005 nominal of 9½% Unsecured Loan Stock 1991/96	191,210	47,803	
Partly paid shares, issued under the terms of the Share Incentive Scheme prior to 1975 which became fully paid up for cash during 1975	677,550	169,388	
Fully paid shares (issued without restrictions during 1975 pursuant to the capitalisation issue made on 14th July, 1972 to holders of partly paid shares under the terms of the Share Incentive Scheme) which became unrestricted during 1975	225,825	56,456	
Issued at 31st December, 1975	74,811,162		18,702,790
Partly paid:			
Issued for cash under the terms of the Share Incentive Scheme at 31st December, 1974	990,150	3,748	
Less: paid up during the year	677,550	2,530	
Issued at 31st December, 1975 (see Note (d) below)	312,600		1,218
Fully paid with restricted rights:			
Issued fully paid to holders of Share Incentive Scheme shares at 31st December, 1974	330,015	82,504	
Less: released from restrictions during the year	225,825	56,456	
Issued at 31st December, 1975 (see Note (d) below)	104,190		26,048
			<u>£22,093,685</u>

#### (c) Preference shares

Following a High Court decision as to the construction of paragraph 18 schedule 23 of the Finance Act 1972 the annual rate of dividend on the Preference Share Capital was reduced from 4.725% to 4.3875%. The Finance Act 1976 provides for a retrospective reversal of that High Court decision. Accordingly, the rate of dividend on the Preference Share Capital is restored to 4.725% from and including the dividend paid (at the rate of 4.3875%) for the 6 months to 30th November, 1975. It is not proposed to pay, at this time, this supplemental dividend.

#### (d) Partly paid and fully paid ordinary shares with restricted rights

There were outstanding at 31st December, 1975, partly paid ordinary shares to the nominal value of £78,150 which had been allotted to executives at subscription prices between 144p and 360p per share under the terms of the Share Incentive Scheme ("the Scheme") approved by shareholders at the Extraordinary General Meeting held on 7th July, 1970. There were also outstanding at the same date, fully paid ordinary shares to the nominal value of £26,048 which were allotted to holders of partly paid shares pursuant to the capitalisation issue made on 14th July, 1972. These shares carry identical restricted rights to the partly paid shares until such time as the partly paid shares are paid up. With the fall in the market value of the Company's ordinary shares, the subscription prices at which executives had originally agreed to subscribe for ordinary shares were far in excess of the amounts which would have been available on the sale (as fully paid ordinary shares) of the partly paid shares and the shares carrying restricted rights. Accordingly, the executives faced substantial liabilities not contemplated

# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 6. SHARE CAPITAL continued

when the partly paid shares were originally allotted. The directors (other than those participating in the Scheme by virtue of the allotment to them of partly paid ordinary shares at a time before their appointment to the Board) considered it in the best interests of the Company to limit the liability of these executives with respect to the shares allotted to them under the Scheme, since such liability would otherwise have constituted a continuing disincentive and also to bring the terms of the Scheme in line with many other companies whose schemes had been introduced after July, 1970 and which include stop loss provisions. Accordingly, under the powers conferred on them by Clause 12 of the Scheme, the Scheme was amended so as to include a stop-loss provision. On 11th April, 1975, the Inland Revenue confirmed that the amendment would not prejudice the approved tax status of the Scheme and it was subsequently adopted by a resolution of the directors (other than those participating in the Scheme) on 14th April, 1975. All the remaining holders of 990,150 partly paid shares and the relevant 330,015 fully paid shares with restricted rights subsequently applied to pay up their partly paid shares in accordance with the amended terms of the Scheme. Between 7th May and 9th October, 1975, 677,550 partly paid shares were paid up in accordance with the amended terms and the restrictions were accordingly released on 225,825 fully paid shares with restricted rights.

- (e) Share options ("the original scheme")  
There were outstanding at 31st December, 1975, options granted to a director and executives under the original scheme approved by shareholders at the Annual General Meeting held on 29th April, 1965, to subscribe for ordinary shares to the nominal value of £26,410 at prices between 123p and 259p per share. These options are capable of being exercised over varying periods up to 21st August, 1980, and all these options were capable of being exercised at 31st December, 1975. The options held by the director were all granted to him before he became a director.
- (f) Share options ("the new scheme")  
There were outstanding at 31st December, 1975, options granted to directors and executives under the new scheme approved by shareholders at the Extraordinary General Meeting held on 15th November, 1972, to subscribe for ordinary shares to the nominal value of £424,675 at prices between 68p and 245p. These options are capable of being exercised over varying periods between 23rd February, 1976 and 26th March, 1982, in accordance with the terms of the new scheme. The options held by directors were all granted to them before they became directors.
- (g) Warrants to subscribe for ordinary shares  
There were outstanding at 31st December, 1975, warrants to subscribe for ordinary shares to the nominal value of £689,736.  
Each warrant confers the right to subscribe for  $1\frac{1}{2}$  ordinary shares of 25p each at 225p per share. There are no restrictions on the subscription rights attached to the warrants which are exercisable during any period of any year and there is no final date by which such rights must be exercised.
- (h) Conversion rights (loan stock)  
There were outstanding at 31st December, 1975, rights attaching to the 9 $\frac{1}{2}$ % Partly Convertible Unsecured Loan Stock 1984 to convert into ordinary shares to the nominal value of £698,869 (see Note 8).
- (i) Conversion rights (bonds)  
There were outstanding at 31st December, 1975, rights attaching to the Slater, Walker International Finance Limited 6 $\frac{1}{2}$ % Guaranteed U.S. Dollar Convertible Bonds due 1987 to convert into ordinary shares of Slater, Walker Securities Limited to the nominal value of £175,445 (see Note 9 (a)).

### 7. RESERVES

(a) Share premium account		£
Balance at 31st December, 1974		22,816,112
Arising during the year:		
On paying up partly paid shares by participants in the Share Incentive Scheme		488,822
On ordinary shares issued as part consideration for the cancellation of certain of the Company's unsecured loan stocks		393,457
On issue of 17 $\frac{1}{2}$ % Unsecured Loan Stock 1995		(446,384)
		<u>£23,252,003</u>
(b) Reserves		
	Company	Group
	£	£
Balance at 31st December, 1974	11,753,837	7,409,012
Capital dividends from subsidiaries	13,312,102	—
Excess of cost of shares in subsidiaries over attributable net tangible assets	—	(962,300)
Surplus on revaluation of Unit Trust Management Contracts	—	2,296,295
Transfer to Profit and Loss Account (Note 2(i) (v))	—	(3,299,951)
	<u>£25,065,939</u>	<u>£5,443,056</u>

# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 8. UNSECURED LOAN STOCKS

1974 £		Purchased for cancellation at prevailing market prices	Changes during year Cancelled in accordance with the provisions of the loan stock schemes and offers	Redeemed at par and cancelled	1975 £
2,076,073	9½% Unsecured Loan Stock 1988/93	92,500	1,983,573	—	—
7,883,733	9½% Unsecured Loan Stock 1991/96	37,500	4,387,005	3,459,228	—
16,443,487	9% Unsecured Loan Stock 1991/96	2,200,000	8,227,866	—	6,015,621
7,188,082	9½% Unsecured Loan Stock 1997/2002	68,000	7,120,082	—	—
9,159,489	9½% Partly Convertible Unsecured Loan Stock 1984	213,972	—	—	8,945,517
—	17½% Unsecured Loan Stock 1995	—	—	—	11,903,565
<b>£42,750,864</b>					<b>£26,864,703</b>

The 9½% Partly Convertible Unsecured Loan Stock 1984 carries conversion rights entitling holders to convert one half of the amount of such stock held on 16th October, 1976 at a conversion rate of 25p nominal of ordinary share capital for every 160p nominal of stock converted. Further rights will be exercisable on 15th June in any of the years 1977–1984 inclusive. If not previously purchased by the Company or converted it will be repaid at par on 31st December, 1984. If not previously purchased by the Company or redeemed the other loan stocks will be repaid at par in their final year of maturity on 31st December, 1996 and 31st December, 1995 respectively.

### 9. OTHER LOANS

1974 £	The Company	1975 £
8,510,638	8½% U.S. Dollar Bonds due 1988	9,883,865
5,025,126	Swiss Franc loan at varying rates of interest repayable in equal yearly instalments between 1976 and 1978	5,658,776
8,936,170	Multi-currency loan at varying rates of interest	—
<b>22,471,934</b>		<b>15,542,641</b>
	<b>Subsidiaries (guaranteed by the Company)</b>	
4,485,106	5½% Guaranteed U.S. Dollar Convertible Bonds due 1987 (Notes (a) and (b))	3,002,718
11,432,611	7½% Guaranteed Sterling/Deutsche Mark Bonds due 1987 (Note (b))	7,506,366
8,375,209	6½% Guaranteed Swiss Franc Bearer Notes due 1977	9,431,293
10,204,081	6½% Dutch Guilder Bearer Notes due 1976/79	10,472,861
5,868,545	7½% Luxembourg Franc Bonds due 1987	4,731,288
4,132,231	8% Belgian Franc Bonds due 1980/87	4,294,479
	<b>Other loans of subsidiaries</b>	
—	Secured loan at varying rates of interest repayable 1978	7,500,000
3,412,905	9½% mortgage repayable between 1979 and 1998	7,585,325
1,390,500	Other mortgages at rates of interest between 5½% and 9½% repayable between 1976 and 2001	1,155,685
1,148,875	10% loan repayable 1978	1,326,407
4,060,042	Other loans wholly repayable within five years (Secured 1974: £59,426)	—
<b>£76,982,039</b>		<b>£72,549,063</b>

- Note: (a) The 5½% U.S. Dollar Convertible Bonds due 1987 carry conversion rights to convert into ordinary shares of Slater, Walker Securities Limited. Holders are entitled to convert at any time prior to maturity of the Bonds into fully paid ordinary shares of Slater, Walker Securities Limited at a conversion price of 333p per ordinary share based on a fixed exchange rate of £1 = U.S. \$2.60 throughout the life of the Bonds.
- (b) During the year the Company purchased for cancellation 4,464 5½% Guaranteed U.S. Dollar Convertible Bonds due 1987 of U.S. \$1,000 each, and 5,925 7½% Guaranteed Sterling/Deutsche Mark Bonds due 1987 of £500 each. The Company also purchased 308 6½% Dutch Guilder Bearer Notes due 1976/79 of D.fl. 10,000 each and 2,288 7½% Luxembourg Franc Bonds due 1987 of L.Frs. 50,000 each, which will be held until redemption.
- (c) The aggregate amount of loans included above which are not wholly repayable within five years is £38,159,726 (1974: £39,232,536).
- (d) Included above are amounts totalling £4,549,657 (1974: £445,426) of long-term loans which are due to be repaid within one year.

# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 10. FIXED ASSETS—GROUP

	Freehold Properties £	Leasehold Properties Over 50 years £	Under 50 years £	Other £	Total £
Net book value at 31st December, 1974	51,807,043	670,525	2,962,818	6,080,672	61,521,058
Adjustments arising on translation from foreign currencies	1,129,201	—	—	—	1,129,201
Assets of subsidiaries acquired during the year at cost to Group	1,519,184	—	—	—	1,519,184
Additions at cost	9,992,395	246,995	145,687	1,602,731	11,987,778
Surplus on revaluation of Unit Trust Management Contracts	—	—	—	2,296,295	2,296,295
Less: Assets of subsidiaries disposed of	(2,830,136)	—	—	(3,423,663)	(6,253,799)
Other disposals	(2,198,767)	(200,341)	(43,772)	(191,595)	(2,634,465)
Depreciation charged in 1975	—	—	(172,321)	(158,480)	(330,801)
Specific provisions (see Note (c) below)	(3,046,875)	—	—	(3,726,813)	(3,424,143)
	<u>£56,372,055</u>	<u>£717,179</u>	<u>£2,892,412</u>	<u>£5,828,662</u>	<u>65,810,308</u>
Less: General provision against properties					(8,250,000)
Net book value at 31st December, 1975					<u>£57,560,308</u>
Representing assets stated at:—					
Cost less specific provisions	37,026,165	588,756	2,037,744	1,460,298	41,112,963
Valuation less specific provisions	19,345,890	128,423	1,605,000	5,000,000	26,079,313
Less: Accumulated depreciation	—	—	(750,332)	(631,636)	(1,381,968)
	<u>£56,372,055</u>	<u>£717,179</u>	<u>£2,892,412</u>	<u>£5,828,662</u>	<u>65,810,308</u>
Less: General provision against properties					(8,250,000)
					<u>£57,560,308</u>

Notes: (a) The fixed assets of Slater, Walker Securities Limited having a net book value of £2,348,850 at 31st December, 1975 (1974: £2,873,644) are included above.

(b) Other fixed assets comprise motor vehicles, office furniture and equipment, works of art and the management contracts of the Unit Trusts (Note 2 (f) and (i) (iii)).

(c) Since 31st December, 1975 certain fixed assets have been sold. These have been included, after deduction of specific provisions of £3,424,143 at the net amounts realised totalling £7,670,969.

(d) In addition to the amount stated above for depreciation charged in 1975, £23,513 has been charged against the trading profits of Slater, Walker Limited.

The assets included at valuation above were valued in:

	£
1975 on an open market basis by the directors (Unit Trust Management Contracts)	5,000,000
1974	575,000
1973 (including valuations in early 1974 for inclusion in the accounts for the year ended 31st December, 1973)	17,887,274
1972	797,800
1971	198,087
1970	1,610,500
1968	10,652
	<u>£26,079,313</u>

## Notes on the Accounts continued

The Group's wholly owned banking subsidiaries are:—

The accounts of these companies are prepared on the basis authorised for banking companies and their combined balance sheets and profit and loss accounts at 31st December, 1975 are summarised below.

Notes: (a) A provision for doubtful debts amounting to £7,648,000 (1974: £9,623,000) has been deducted in arriving at the total of loans, advances and other accounts shown above. As explained in Note 1, by an agreement dated 11th December, 1975, the Bank of England guaranteed and indemnified Slater, Walker Limited and its subsidiaries against any additional losses arising from the failure of its debtors to repay loans and advances in full and contingent liabilities to a maximum principal amount of £40,000,000 together with future interest accruing on such loans and advances, after offsetting the provision of £9,623,000. Consequently no further provisions have been deemed necessary in these accounts. At 31st December, 1975, no amounts had been drawn under this guarantee and indemnity which expires on 31st December, 1980.

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# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 12. INSURANCE SUBSIDIARIES

The Group's wholly owned insurance subsidiaries are:—

Slater, Walker Insurance Company Limited.

Slater, Walker Insurance (Pensions) Limited.

Slater, Walker Insurance Company (C.I.) Limited.

The accounts of these companies are prepared on the basis authorised for insurance companies and their combined balance sheets and profit and loss accounts at 31st December, 1975 are summarised below.

1974			1975	
£	£		£	£
	11,000,000	Share capital	11,000,000	
	—	Fire and accident special reserve	1,250,000	
	(4,990,736)	Profit and loss account	(7,398,418)	
6,009,264				4,851,582
54,459,382		Long-term insurance funds		59,543,239
7,063,280		Fire and accident, and marine funds		8,657,711
	2,842,526	Current liabilities and provisions		
	—	Creditors	6,798,483	
	264,063	Bank Overdraft	56,526	
3,106,589		Taxation	106,805	
<u>£70,638,515</u>				<u>6,961,814</u>
				<u>£80,014,346</u>
94,552		Fixed assets		
		Fixtures, fittings, vehicles, etc. at cost less depreciation		49,174
	25,766,385	Investments		
	—	Quoted at market value (see Note (a) below)	26,655,760	
	2,018,050	Local Authority deposits	15,000,000	
	220,513	Unquoted at directors' valuation	3,267,291	
	2,685,238	Loans	256,772	
	7,056,698	Mortgages on property	2,308,060	
	2,341,542	Freehold property	7,639,979	
40,088,426		Leasehold property	2,608,554	
				57,736,416
	4,441,127	Current assets		
	1,007,938	Debtors	10,271,303	
	12,538	Taxation recoverable	1,046,912	
	24,993,934	Net amount due from Slater, Walker Group	241,186	
30,455,537		Bank balances and cash	10,669,355	
<u>£70,638,515</u>				<u>22,228,756</u>
				<u>£80,014,346</u>
(5,015,235)		Loss for the year after all expenses including taxation and after making the following transfers:—		
	4,236,000	To: Long term insurance fund	4,224,764	(1,057,682)
	60,720	Fire and accident, and marine funds	6,449	
24,499				
<u>(4,990,736)</u>		Balance brought forward		<u>(4,990,736)</u>
				<u>(6,048,418)</u>
		Add Appropriations:—		
	—	Transfer to Fire and accident special reserve (see Note (b) below)	1,250,000	
	—	Proposed dividend payable by Slater, Walker Insurance Company (C.I.) Limited (net of Guernsey taxation)	100,000	
<u>(£4,990,736)</u>				<u>1,350,000</u>
		Balance carried forward		<u>(£7,398,418)</u>

Notes: (a) Three investments for which The Stock Exchange listing had been suspended are included at the pre-suspension price as Slater, Walker Securities Limited had granted a put option (subsequently exercised) to Slater, Walker Insurance Company Limited at these prices. In 1974, quoted investments were included at cost, less amounts written off, and the comparative figure shown above has not been restated.

(b) The transfer to Fire and accident special reserve consists of profits arising from a change in basis of accounting required by the Department of Trade (£710,117) and of gains on the conversion of foreign currency (£539,883).

(c) A dividend of £337,671 (net of tax) was declared and paid by Slater, Walker Insurance Company Limited on 7th July, 1975. This dividend has been repaid to Slater, Walker Insurance Company Limited.

# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 13. INVESTMENTS

The investments included in current assets comprise :—					
1974			1975		
£	Market/ Directors' valuation £		£	Market/ Directors' valuation £	
—	—	Shares at the lower of cost and market value			
7,831,154	7,848,666	Quoted in the United Kingdom	658,133	724,969	
1,474,113	1,474,113	Quoted outside the United Kingdom	204,405	204,405	
		Unquoted, at the lower of cost and directors' valuation (based on subsequent realisations)	2,976,328	2,976,328	
<u>£9,305,267</u>	<u>£9,322,779</u>		<u>£3,838,866</u>	<u>£3,905,702</u>	

### 14. CONTINGENT LIABILITIES

- The Company could be liable to subscribe for additional capital in Slater, Walker Limited and has given a subordinated guarantee to the Bank of England as described in Note 1.
- The Company had guaranteed certain liabilities of subsidiary and other companies which at 31st December, 1975, amounted to **£51,175,067** (1974: £54,999,747).
- Certain subsidiary companies have contingent liabilities in respect of guarantees and indemnities amounting to **£1,139,746** (1974: £4,463,249). The contingent liabilities incurred by Slater, Walker Limited in the normal course of its business are not included. Warranties and indemnities have been given by companies in the Group in connection with sales of investments and subsidiaries.
- Under a settlement in June, 1976, with Haw Par Brothers International Limited ("Haw Par") it was agreed that Slater, Walker Limited should be appointed sole agent for 18 months for the sale of a substantial industrial building in Hong Kong on terms which could lead to Slater, Walker Limited being contingently liable to pay a maximum of HK\$5 million to Haw Par.
- The taxation assessments relating to the Group's French subsidiary companies have not been agreed with the fiscal authorities. This matter could lead to additional liabilities being assessed, although the amounts cannot be determined. Any such assessments would be vigorously challenged.

### 15. FUTURE CAPITAL EXPENDITURE

- At 31st December, 1975, the Group had contracts for capital expenditure amounting to **£7,410,787** which related principally to contracts for the completion of property developments which had commenced before 24th October, 1975 (1974: £9,890,972).
- Capital expenditure authorised but not contracted for in respect of the Group at 31st December, 1975, amounted to **£123,000** (1974: £8,769,545).
- The Company had no commitments for capital expenditure at 31st December, 1975 (1974: £8,138).

# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 16. REMUNERATION OF DIRECTORS AND EMPLOYEES

1974		1975
£34,412	Emoluments of Chairmen	£31,196
—	Mr. J. D. Slater (resigned 24th October, 1975)	Nil
—	Sir James Goldsmith (appointed 24th October, 1975)	—
—	Other directors:—	—
—	Number of directors in receipt of emoluments within the ranges:—	—
—	Nil emoluments	5
1	£7,501 to £10,000	—
2	£12,501 to £15,000	—
1	£15,001 to £17,500	—
—	£17,501 to £20,000	1
1	£20,001 to £22,500	1
2	£22,501 to £25,000	1
1	£25,001 to £27,500	2
1	£27,501 to £30,000	1
1	£30,001 to £32,500	1
—	Number of employees of U.K. subsidiary companies at 31st December, 1975, receiving more than £10,000 per annum:—	—
14	£10,001 to £12,500	22
6	£12,501 to £15,000	7
5	£15,001 to £17,500	5
1	£17,501 to £20,000	2
—	£20,001 to £22,500	2
1	£22,501 to £25,000	1
1	£25,001 to £27,500	—

### 17. SUBSIDIARY COMPANIES

<b>Investment Banking</b>	Slater, Walker Limited
	Slater, Walker (Guernsey) Limited (Incorporated in Guernsey)*
	Slater, Walker (Isle of Man) Limited (Incorporated in the Isle of Man)*
	Slater, Walker (Jersey) Limited (Incorporated in Jersey)
	Slater, Walker International Finance Limited (Incorporated in Bermuda)
<b>Investment and Unit Trust Management</b>	Slater, Walker Investments Limited
	Slater, Walker Trust Management Limited
<b>Insurance</b>	Slater, Walker Insurance Company Limited
	Slater, Walker Insurance Company (C.I.) Limited (Incorporated in Guernsey)*
<b>Property</b>	Buckingham Properties Holdings Limited
	Slater, Walker Properties Limited
	St. Paul's Securities Limited (75%)

- Notes: (a) These were the principal subsidiary companies at 31st December, 1975. The directors have omitted details of other subsidiary companies as to consider that the list would otherwise be of excessive length.
- (b) With the exception of Slater, Walker Limited, the above companies were owned by subsidiaries of Slater, Walker Securities Limited.
- (c) Except where stated, all the above companies were wholly owned and were incorporated in Great Britain and registered in England.
- (d) The country of operation of each of the above subsidiary companies was the same as the country of incorporation.
- (e) Since the year end the Group has disposed of its interests in Slater, Walker (Jersey) Limited, Slater, Walker (Isle of Man) Limited and Slater, Walker (Guernsey) Limited.
- (f) Those subsidiaries marked thus\* are audited by firms other than Arthur Young McClelland Moores & Co, and its associates.



# Slater, Walker Securities Limited

## Notes on the Accounts continued

### 10. INVESTMENTS HELD BY GROUP COMPANIES

Company	Activities	Issued share and loan capital at 31st December, 1975	Percentage held at 31st December, 1975
Adda International Limited	Hotel and travel group	17,772,128 ordinary stock units of 10p	16.93
Cannon Street Investments Limited	Investment group, with interests in retailing, manufacturing and investment dealing	20,289,560 ordinary shares of 10p 35,480,308 Preferred ordinary shares of 10p	15.99
Dubilier Limited	Manufacturers of electronic components	22,416,603 ordinary shares of 5p 200,000 7.7% Cumulative Preference shares of 50p £1,000,000 8½% Convertible Unsecured Loan Stock 1982	
Equity Enterprises Limited (see Note (a))	Investment group specialising in leisure and entertainment	7,437,823 ordinary shares of 10p £1,995,805 10½% Partly Convertible Guaranteed Loan Stock 1983	21.43 100.00
James Finlay & Company Limited (Registered in Scotland)	International traders and financiers	9,000,000 ordinary stock units of 50p 500,000 4.2% Cumulative Preference Stock Units of £1	26.81 —
J. H. Vavasour Group Limited	Holding company with interests in moneybroking, property and advertising	20,377,618 ordinary shares of 5p 100,000 7.7% Redeemable Cumulative Preference shares of 50p 2,038,638 1975/78 Warrants to subscribe for ordinary shares of 5p 8,133,584 38.86% (formerly 33.5%) Redeemable Cumulative First Preference shares 1981 of 25p	29.10 — 48.51 29.60
Mount Charlotte Investments Limited	Hotel and catering group	32,282,590 ordinary shares of 10p	19.98
Sekers International Limited	Textile group specialising in furnishing and clothing fabrics	5,337,808 ordinary shares of 10p	21.32
Tromletts Holdings Limited	Holding company with interests in specialised engineering and furniture	2,982,529 ordinary shares of 25p 50,000 10% Convertible Cumulative Redeemable Preference Shares of £1 £784,414 10% Unsecured Loan Stock 1978/83	25.36 — 63.74

Notes: (a) Since 31st December, 1975, the Group has sold its holding of shares in Equity Enterprises Limited and conditionally agreed to the cancellation of its holding of Loan Stock in Equity Enterprises Limited.

(b) This list shows the principal companies in which members of the Group held 10% or more of the ordinary share capital. The directors have omitted details of smaller investments as they consider that the list would otherwise be of excessive length.

(c) The above percentages include certain holdings of a wholly owned insurance company.

(d) Except where stated the above companies were incorporated in Great Britain and registered in England.

# Slater, Walker Securities Limited

Statement of source and application of funds for the year ended 31st December, 1975

Source of Funds	1975	
	£'000	£'000
Shares issued including premium	892	
Loan Stock issued	11,904	
Amounts drawn down under long-term loan and mortgage facilities	11,672	
Sale proceeds of capital assets	<u>24,383</u>	48,851
<b>Funds Absorbed by Operations</b>		
Loss after tax and extraordinary items but before minorities	(42,347)	
Adjustments for items not involving working capital:		
Extraordinary items (Note 3 (d))	31,699	
Increase in net asset value of the banking subsidiaries before provision against loss on sale of property (Note 2 (i) (iv))	(4,320)	
Excess of cost of shares in subsidiaries over net assets acquired	(962)	
Depreciation charged during the year	<u>331</u>	(15,599)
		<u>33,252</u>
<b>Other Applications of Funds</b>		
Purchases of loan stocks, bonds and capital assets	(49,662)	
Corporation tax	(210)	
Dividends paid in respect of current year	<u>(162)</u>	(50,024)
		<u>(16,772)</u>
<b>Decrease in Working Capital</b>		
Increase in debtors	1,060	
Decrease in creditors	17,333	
Decrease in properties held for resale	(5,265)	
Movement in net liquid funds—		
Decrease in cash balances and short term investments	(3,430)	
Decrease in net balance of Group companies with banking subsidiaries	<u>(26,470)</u>	(16,772)

# Slater, Walker Securities Limited

Substantial investments in United Kingdom public companies held by the Slater, Walker Group, or under its management, by investment trusts, unit trusts and other investment clients

Company	Activities	Number of ordinary shares held at 31st December, 1975		Aggregate % of ordinary share capital at 31st December, 1975
		Group	Investment Clients	
Adda International Limited	Hotel and travel group	3,009,448	—	16.93
Cannon Street Investments Limited	Investment group, with interests in retailing, manufacturing and investment dealing	8,918,357	—	16.99
The Direct Spanish Telegraph Company, Limited	Investment trust	—	2,508,000	27.33
*Dorada Holdings Limited	Motor distributors and engineers	265,000	591,000	20.71
Dubilier Limited	Manufacturers of electronic components	2,672,830	684,298	14.97
*Equity Enterprises Limited	Investment group specialising in leisure and entertainment	1,594,000	—	21.43
Estates House Investment Trust Limited	Investment trust	1,093,431	2,854,592	20.21
*Forminster Limited	Manufacture and sales of clothing	—	302,757	13.49
General & Commercial Investment Trust Limited	Investment trust	—	1,213,172	22.69
*Gepeng Consolidated Limited	Tin-ore extraction and natural rubber production	—	458,500	11.50
Grimshawe Holdings Limited	Industrial and investment banking group	3,605,000	1,056,000	11.80
James Finlay & Company Limited	International traders and financiers	2,412,750	570,000	33.14
J. H. Vavasseur Group Limited	Holding company with interests in moneybroking, property and advertising	5,931,346	—	29.10
Mount Charlotte Investments Limited	Hotel and catering group	6,450,000	433,848	21.32
Oil and Associated Investment Trust Limited	Investment trust	—	1,036,500	13.44
Sekers International Limited	Textile group specialising in furnishing and clothing fabrics	1,138,000	—	21.32
Tremletts Holdings Limited	Holding company with interests in specialised engineering and furniture	756,318	—	25.36
Trust & Agency Company of Australasia Limited	Investment trust	—	1,579,418	19.74
*York Trust Limited	Investment banking, engineering, repair and maintenance of railway rolling stock	—	480,000	12.80

\*Sold since 31st December, 1975.

# Slater, Walker Securities Limited

## Investments and properties held by the Group (excluding the Insurance subsidiaries)

### CAPITAL INVESTMENTS HELD AT 31st DECEMBER, 1975

		£'000	£'000
<b>Quoted in the United Kingdom</b>			
James Finlay & Company Limited	2,412,750 ordinary shares of 50p	3,568	
Estates House Investment Trust Limited	411,000 ordinary shares of 25p	796	
Miscellaneous under £250,000		1,141	
			5,505
<b>Quoted Overseas</b>			
*A. T. Velázquez S.A.	51,965 ordinary shares of 1,000 pts.	387	
*Schubert & Salzer Maschinenfabrik A.G.	28,136 ordinary shares of 50 DM	504	
Miscellaneous under £250,000		197	
			1,088
<b>Unquoted</b>			
Cornwall Equities Limited (incorporated in U.S.A.)	U.S. \$10m. 6% Conv. Notes 1988	4,942	
†Wigham Poland Holdings Limited	£4m. 12% Loan Note 1979/81	3,500	
Miscellaneous under £250,000		389	
			8,831
Total per balance sheet			15,424

†The issued share capital of Wigham Poland Holdings Limited is held as follows:—

63.60% Anglo-Continental Investment & Finance Company Limited (a company of which Sir James Goldsmith is chairman and in which he has an indirect interest).

25.00% The Thomson Organisation Limited.

11.40% Other interests, including the Poland family.

100.00

### DEALING INVESTMENTS HELD AT 31st DECEMBER, 1975

		£'000
*Atlantic Assets Trust Limited	£3,185,448 2½% U.L.S. 1976	2,976
Estates House Investment Trust Limited	329,531 ordinary shares of 25p	658
*Miscellaneous under £250,000		205
Total per balance sheet		3,839

### INVESTMENT PROPERTIES HELD AT 31st DECEMBER, 1975

<i>Properties having a book value of over £10m</i>	<i>Tenure</i>	<i>Description</i>
100 Fetter Lane, London, EC4	Freehold	Office refurbishment to be completed September, 1976.
<i>Over £5m and under £10m</i>		
10/12 Rue Guimard, Brussels	Freehold	Office development recently completed.
<i>Over £3m and under £5m</i>		
Land at Woollahill, Wokingham, Berks.	Freehold	Land with outline planning consent for residential development.
17/19 Avenue Marnix, Brussels	Freehold	Office development recently completed.
<i>Over £1m and under £3m</i>		
*Tulchan Estate, Scotland	Freehold	Sporting estate.
13 Avenue Marnix, Brussels	Freehold	Offices and shops.
*5 Place Rio de Janeiro, Paris	Freehold	Offices.
16 Rue Saulnier, Paris	Freehold	Offices.
*55th Floor, Tour Maine, Montparnasse, Paris	Freehold	Offices.
3/15 Queen Street, St. Helier, Jersey	Freehold	Office and shop development.
Petershill House, London, EC4	Leasehold	Offices.

\*Sold since 31st December, 1975.

# Slater, Walker Securities Limited

## Investments and properties held by the Group (excluding the Insurance subsidiaries)

<i>Over £250,000 and under £1m</i>	<i>Tenure</i>	<i>Description</i>
Station Road, London, N22 (50% owned)	Freehold	Office development site.
77/122 Castle Street and		
61/79 Endless Street, Salisbury	Freehold	Office development site.
106/118 Station Road, Redhill, Surrey	Freehold	Office development site.
11/21 Chapel Street and		
1/3 Thistle Street, Aberdeen	Freehold	Office and shop development recently completed.
1/14 The Parade, Frimley	Freehold	Shops and offices.
Albert Close Trading Estate, Manchester	Freehold	Industrial property.
Faircross House, Watford	Freehold	Shops, offices and flats.
125/129 Aldersgate Street, London, EC1	Freehold	Shops, offices and workrooms.
36 Victoria Street, Bristol	Freehold	Office and shop development recently completed.
33 East Street, Havant	Freehold	Office and showroom development recently completed.
*9/11 Niels Juels Gade, Copenhagen (75% owned)	Freehold	Office and residential development site.
26/32 Tordenskjoldsgade, Copenhagen (75% owned)		
*2/6 Church Street, Jersey	Freehold	Head office of Jersey subsidiaries.
11 Esplanade, St. Helier, Jersey	Freehold	Offices and showrooms.
Borough House, Rue du Pre, St. Peter Port, Guernsey		
*33 Old Broad Street, St. Helier, Jersey	Freehold	Offices.
*Leales, St. Sampsons Bridge, Guernsey	Freehold	Office development site.
*16 St. Stephen's Green, Dublin	Freehold	Industrial development site.
1/4 and 5 Burgh Quay, Dublin	Freehold	Office refurbishment.
30 Uxbridge Road, London, W12	Freehold	Office and showroom development site.
114/116 Queen Victoria Street, London, EC4	Leasehold	Offices.
	Leasehold	Offices.

### DEALING PROPERTIES HELD AT 31st DECEMBER, 1975

<i>Properties having a book value of over £1m</i>	<i>Tenure</i>	<i>Description</i>
Fort Picklecombe, Cremyll, Plymouth	Freehold	Residential development.
Dorset House, Gloucester Place, London, NW1	Leasehold	Block of flats.

#### *Over £500,000 and under £1m*

Churchills, Highweek, Newton Abbot	Freehold	Housing development.
Watchfield Estate, London, W4	Freehold	Block of flats.
Ashold Farm Road, Erdington, Birmingham	Freehold	Industrial development recently completed.
Great Gates, Salcombe, Devon	Freehold	Residential development.
26/42 Park Street, Camberley (52% owned)	Freehold	Office and shop development recently completed.
Buckingham House, Glovers Grove, Preston	Freehold	Office development.
*Cumberland Mansions, George Street, London, W1	Leasehold	Block of flats.

#### *Over £250,000 and under £500,000*

Haven Green Court, London, W6	Freehold	Block of flats.
Wellswood Hall, Torquay	Freehold	Residential development site.
167/177A West Street, Fareham	Freehold	Office development.
Prestwood Farm, Wolverhampton	Freehold	White land for future residential development.
23/27 London Road, Cowplain	Freehold	Office and shop development.
Corfe Mullen, Dorset	Freehold	White land for future residential development.
26/27 Old Gloucester Street, London, WC1	Freehold	Office refurbishment recently completed.
5a New Road, Chatham	Freehold	Office development recently completed.
The Hoe, Plymouth	Freehold	Residential development site.
Collingwood House, New Cavendish Street, London, W1	Leasehold	Block of flats.

\*Sold since 31st December, 1975.

## Slater, Walker Securities Limited

## Investments and properties held by the Insurance subsidiaries

## QUOTED INVESTMENTS HELD AT 31st DECEMBER, 1975

	Holding	Market Value 31st December, 1975	
		£'000	£'000
<b>FIXED INTEREST SECURITIES</b>			
<b>British Government Treasury Loans</b>			
**Treasury Loan 12% 1983	4,997,981	4,952	
*Treasury Loan 8% 2002/06	17,314	10	
*Treasury Loan 8½% 1987/90	72,891	50	
Treasury Loan 8½% 1980/82	20,500	19	
Treasury Loan 9% 1994	21,200	14	
Treasury Loan 13½% 1997	76,700	87	5,112
<b>Other public authorities</b>			
Finance for Industry Limited 13% U.L.S. 1981	1,050,000	976	
Irish Conversion 9% 1980/82	2,500,000	2,004	
Agricultural Mortgage Corporation Limited 14½% Deb. Stock 1984	200,000	199	3,179
<b>Debentures and Unsecured Loan Stocks</b>			
*Anglo-Continental Investment & Finance Company Limited Six Month Rate U.L.S. 1974/84 (A company of which Sir James Goldsmith is chairman and in which he has an indirect interest)	42,000	28	
British Leyland Motor Corporation Limited 6% U.L.S. 1993/2003	316,000	79	
British Leyland Motor Corporation Limited 6½% U.L.S. 1977/82	499,500	265	
British Leyland Motor Corporation Limited 7½% U.L.S. 1987/92	501,000	175	
British Leyland Motor Corporation Limited 8% U.L.S. 1998/2003	241,000	84	
The Burmah Oil Company Limited 7½% U.L.S. 1981/86	530,000	188	
*Cavenham Limited 9½% U.L.S. 1992/97 (A company of which Sir James Goldsmith is chairman and in which he has a direct and an indirect interest)	1,850,000	1,108	
*Courtaulds Limited 7% Deb. Stock 1982/87	640,000	357	
Doulton Engineering Holdings Limited 6½% Mort. Deb. Stock 1984/87	100,000	50	
*Imperial Group Limited 5½% U.L.S. 1982/85	125,000	66	
*Industrial and General Trust Limited 5½% Deb. Stock 1982/87	125,000	62	
Ladbroke Group Limited 8% Gtd. U.L.S. 1990/92	135,000	65	
*Norcross Limited 14% U.L.S. 1984	2,575,000	2,254	
Ranks Hovis McDougall Limited 6½% U.L.S. 1985/88	85,000	41	
*Sphere Investment Trust Limited 5½% Deb. Stock 1974/84	150,000	81	
*Sterling Guarantee Trust Limited 7½% U.L.S. 1982	83,500	38	4,941
<b>Preference shares</b>			
J. H. Vasseur Group Limited 38-86% Red. Cum. 1st Pref. 1981	2,407,339	409	409

\*Sold since 31st December, 1975.

\*\*A partial disposal of these holdings has taken place since 31st December, 1975.

# Slater, Walker Securities Limited

## Investments and properties held by the insurance subsidiaries

	Holding	Market Value 31st December, 1975	
		£'000	£'000
<b>Waterworks</b>			
Bristol Waterworks Company 9% Red. Pref. Stock 1980	500,000	482	
The Cambridge Water Company 9% Red. Pref. Stock 1980	200,000	184	
Colne Valley Water Company 10½% Red. Pref. Stock 1983	150,000	113	
Colne Valley Water Company 9% Red. Pref. Stock 1980	500,000	489	
East Surrey Water Company 9% Red. Pref. Stock 1980	200,000	188	
Folkestone and District Water Company 9% Red. Pref. Stock 1980	505,000	495	
Newcastle and Gateshead Water Company 9% Red. Pref. Stock 1980	400,000	380	
North Surrey Water Company 9% Red. Pref. Stock 1980	100,000	97	
Sunderland and South Shields Water Company 9% Red. Pref. Stock 1980	500,000	480	
York Water Company 9% Red. Pref. Stock 1980	600,000	582	
			3,490
<b>Convertible Loan Stocks</b>			
**Allied Polymer Group Limited 10% Part. Conv. Gtd. U.L.S. 1978/81	1,900,000	1,710	
*Armour Trust Limited 10½% Part. Conv. Gtd. U.L.S. 1991/96	947,500	265	
*The Bowater Corporation Limited 7% Conv. U.L.S. 1992/97	600,000	510	
British Leyland Motor Corporation Limited 7½% Conv. U.L.S. 1982/87	2,800,000	983	
Combined English Stores Group Limited 9½% Part. Conv. U.L.S. 1986/91	1,174,000	1,086	
London United Investments Limited 8½% Conv. U.L.S. 1977	333,500	267	
*Orme Developments Limited 9% Part. Conv. U.L.S. 1982	390,000	234	
*James Warren & Company Limited 10% Conv. U.L.S. 1983	120,000	60	
			5,095
<b>ORDINARY SHARES</b>			
*Advest Group Limited	7,500	10	
*A.V.P. Industries Limited	90,000	53	
Cannon Street Investments Limited	8,524,250	511	
*Dorada Holdings Limited	265,000	98	
Dubilier Limited	2,150,000	237	
Estates House Investment Trust Limited	352,900	776	
Mount Charlotte Investments Limited	2,557,728	90	
*Powell Duffryn Limited	235,000	305	
*Victor Products (Wallsend) Limited	23,750	12	
			2,092
<b>OVERSEAS INVESTMENTS</b>			
Nederland 8% 1980/94	330,000	73	
Bank Nederland Gem. 7½% 1984/98	100,000	20	
West Utrecht Gyp. Bank 7½% 1977/86	100,000	21	
Rolingo N.V.	325	10	
			124
<b>INVESTMENTS SUBSEQUENTLY TRANSFERRED TO SLATER, WALKER SECURITIES LIMITED (Note 12 (a))</b>			
Tremletts Holdings Limited 10% U.L.S. 1978/83	500,000	400	
Charles Spreckley Industries Limited 9% Part. Conv. U.L.S. 1983	1,809,500	500	
Tremletts Holdings Limited ordinary shares	756,318	1,314	
			2,214
			<u>28,656</u>

\*Sold since 31st December, 1975.

\*\*A partial disposal of these holdings has taken place since 31st December, 1975.

# Slater, Walker Securities Limited

## Investments and properties held by the Insurance subsidiaries

### UNQUOTED INVESTMENTS HELD AT 31st DECEMBER, 1975

	Holding	Market Value 31st December, 1975	
		£'000	£'000
<b>Local Authority Deposits</b>			<u>15,000</u>
<b>Unit Trusts (all held in connection with Unit-linked policies with the exception of Slater, Walker Minerals Trust)</b>			
Slater, Walker Assets Trust	1,782	1	
Slater, Walker Growth Trust	132,439	81	
Slater, Walker High Income Trust	275,967	159	
Slater, Walker Minerals Trust	926,784	482	
**Slater, Walker Worldwide Fund—General	186,415	119	
Slater, Walker Worldwide Fund—Selective	1,606,802	1,074	
Slater, Walker Growth Investors Trust	262,918	629	
**Slater, Walker International Fund	461,654	262	
Jersey Energy Trust	4,010	5	
			<u>2,812</u>
<b>Fixed Interest Securities</b>			
Dubilier Limited 8½% Loan Stock 1982	500,000	325	
Duple International Limited 14% 1978	131,250	126	
Jersey Electricity 7% Loan Stock 1977/79	4,650	3	
Jersey Gas Company Limited 4½% Stock 1968/77	1,000	1	
			<u>455</u>
			<u>3,267</u>

### PROPERTIES HELD AT 31st DECEMBER, 1975

	Description
<i>Freehold property having a book value of over £1m</i>	
87-95 Mansell Street, London, E1	Offices.
<i>Over £500,000 and under £1m</i>	
Marconi Factory, Fitzherbert Road, Farlington	Industrial property.
Southbridge Industrial Estate, The Green, Southall	Industrial property.
Bankhead Industrial Estate, Aberdeen	Industrial property.
<i>Over £100,000 and under £500,000</i>	
3 Deanery Street, London, W1	Offices.
Mace Industrial Estate, Ashford	Industrial property.
Suffolk House, Banbury Road, Oxford	Shops, offices and warehouses.
Southbridge Industrial Estate, Kings Road, Southall	Offices.
<i>Leasehold property having a book value of over £1m</i>	
*188-196 Regent Street, London, W1	Department Store.
<i>Over £500,000 and under £1m</i>	
78-81 Fetter Lane, London, EC4	Offices.
<i>Over £100,000 and under £500,000</i>	
Albion House, Woking	Offices.

\*Sold since 31st December, 1975.

\*\*A partial disposal of these holdings has taken place since 31st December, 1975.



# Slater, Walker Securities Limited

## Agreement with Haw Par Brothers International Limited ("Haw Par")

In 1971, SWS and certain associates acquired control of Haw Par, a Singapore company best known at that time for the manufacture and distribution of pharmaceuticals under the Tiger Balm name. Over the next two years the SWS interests in the Far East were expanded by a series of acquisitions, most notably that of Kwan Loong & Co. (Hong Kong) Limited which was renamed Slater Walker Securities (Hong Kong) Limited ("SWSHK"). By the middle of 1973 SWS held 45.7 per cent. of SWSHK, and Haw Par held a further 25 per cent. At that time SWS still held about 20 per cent. of Haw Par itself.

Later in 1973, SWS decided to reduce its Far Eastern interests and negotiations between SWS and Haw Par culminated in the sale by SWS in November, 1973, of its 45.7 per cent. shareholding in SWSHK to Haw Par for HK\$160 million payable as to HK\$80 million on completion of the sale on 15th December, 1973, and as to the remainder in June, 1974. At the same time the SWS Group acquired certain assets from SWSHK for cash. The first half of the purchase price of SWSHK was financed by a loan from SWL to Haw Par which was repaid in May, 1974. In the meantime Haw Par's efforts to raise a syndicated loan of US\$50 million were unsuccessful due to market conditions. In June, 1974, SWL made a one-year loan of US\$16.5 million to a Haw Par subsidiary to facilitate payment of the second instalment of the purchase price.

In August, 1974, after the sale by SWS of its remaining shareholding in Haw Par to Atlantic Assets Trust Limited and Charter Consolidated Limited, SWL concluded new financial arrangements for a five-year loan of US\$16.5 million which was used to repay the one-year loan and a standby loan of US\$13.5 million of which US\$12.5 million was drawn down. The standby loan was repayable on 14th July, 1976, or earlier upon six months' notice. Notice was given and the standby loan became due on 22nd January, 1976.

The Chairmen of SWS and Haw Par, both new to office, met in December, 1975, and discussed various proposals for repayment of the loans but no agreement was reached. Accordingly, when the standby loan of US\$12.5 million was not repaid on 22nd January, 1976, SWL issued proceedings for its repayment; shortly afterwards SWL issued further proceedings to recover the US\$16.5 million loan; Haw Par also issued proceedings against SWS, SWL and certain SWS executives who had been shareholders of Spydar Securities Limited, a company set up to provide certain executive incentive benefits. In these proceedings Haw Par claimed, inter alia, that the SWL loans to Haw Par were ultra vires and void and also claimed the return of the executive incentive benefits.

In June, 1976, SWS and Haw Par reached agreement for the amicable settlement of all contentious matters between them. Under the terms of settlement Haw Par repaid the standby loan of US\$12.5 million in full and SWL accepted US\$8 million in full and final settlement of the US\$16.5 million loan due in August, 1979. Both payments were made on 2nd July, 1976, with accrued interest. Each side bore its own legal costs and released the other from all claims.

The discount of US\$8.5 million includes some US\$1.9 million representing the estimated gross profit earned by the six executives from the disputed executive incentive arrangements. The executives agreed to join in the settlement arrangements and to reimburse £659,772 and US\$742,902 to SWL on 30th June, 1981, being together (at the time of their agreement) the equivalent of US\$1.9 million.

In addition, SWL has been appointed sole agent of the Haw Par Group for a period of eighteen months to effect the sale of the Mandarin Building, Hong Kong for a minimum price of HK\$31 million. If the sale price, before deducting selling costs, is in excess of HK\$36 million an amount equal to the excess will be paid by Haw Par to SWL. If the sale price is less than HK\$36 million SWL will reimburse Haw Par the shortfall up to a maximum of HK\$5 million. If the building is not sold within the eighteen-month period SWL will pay the sum of HK\$5 million to Haw Par.

Although the SWS and SWL Boards considered that they had a strong case against Haw Par for the recovery of the loans they favoured an early settlement of the disputes for the following reasons:

- (1) Litigation concerning disputes of this nature is inevitably likely to be protracted due to its complexity and, until concluded, must involve uncertainty.
- (2) Immediate payment of a substantial proportion of the total amount due eliminated not only the uncertainty of litigation but also numerous other imponderable factors such as foreign currency exchange risks.
- (3) By settling at an early stage, the very substantial costs, which would inevitably have been incurred in the litigation, have been avoided.
- (4) If SWL had failed to obtain judgment the consequences might have had grave repercussions on the SWS Group as a whole.
- (5) The SWS Group agreed to accept the burden of the recovery of the disputed executive incentive benefits because it was joined in the claim for such recovery of profits since they had been derived under arrangements introduced as an SWS Group incentive scheme.

The SWS and SWL Boards were advised by leading Counsel that the terms of the settlement were proper and reasonable and both Boards unanimously approved them.

**SLATER,  
WALKER  
SECURITIES  
LIMITED**

**Explanatory Circular**

**Directors' Report and Accounts  
1975**

# Slater, Walker Securities Limited

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# Slater, Walker Securities Limited

## Notice of adjourned meeting

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NOTICE IS HEREBY GIVEN that the Adjourned Forty-first Annual General Meeting of Slater, Walker Securities Limited will be held at The Connaught Rooms, Great Queen Street, London, W.C.2, on Friday, 8th October, 1976, at 11.30 a.m., for the following purposes:—

- 1 To receive and consider the statement of accounts for the year ended 31st December, 1975, and the reports of the directors and auditors thereon.
- 2 To elect directors.
- 3 To elect as a director, Mr. D. Leca who attained the age of 70 on 25th July, 1976.
- 4 To authorise the directors to fix the remuneration of the auditors.

By Order of the Board  
C. D. MACINNES  
Secretary

14th September, 1976

- Notes:**
- 1 Holders of ordinary and preference shares are entitled to attend or to be represented at the meeting. A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. Such proxy need not be a member of the Company. A form of proxy is enclosed.
  - 2 To be effective, the form of proxy, duly completed, must be lodged with the Company at the offices of its Registrars, Midland Bank Limited, Registrar's Department, Courtwood House, Silver Street Head, Sheffield S1 1AY, or at the Registered Office of the Company, not less than forty-eight hours before the adjourned meeting.
  - 3 No service contract exists with any director which is not determinable by the Company or its subsidiaries within one year without payment of compensation.
  - 4 The Company has received Special Notice of the Resolution to elect Mr. D. Leca.

# Slater, Walker Securities Limited

## Chairman's statement

### Introduction

On the morning of 20th October, 1975, the founder and then chairman of your Company ("SWS"), Mr. James Slater, telephoned me and said that he felt that he should resign as chairman and a director of SWS. He said that he thought this to be necessary because of the growing publicity concerning the dispute with Haw Par Brothers International Limited ("Haw Par") of Singapore, and that this could result in a sudden loss of confidence in SWS which, as a financial group, it could not survive. He also felt that a new chairman was needed to negotiate effectively with Haw Par. He asked me to assume the chairmanship because companies with which I am associated had an interest in your Company, and because I was experienced in running an international financial group. During the next few days I sent in a team to assess the situation and, as a result, I concluded that I could only accept this invitation if there were to be a major reconstruction of the Board so as to bring in men of undoubted reputation, not only in the City of London, but also, in view of SWS's overseas interests, abroad. The Bank of England was apprised of the position. Lord Rothschild, at that time chairman of N. M. Rothschild & Sons Limited ("Rothschilds"), Mr. Charles Hambro, chairman of Hambros Bank Limited ("Hambros"), Mr. Dominique Leca, honorary president of France's largest state-owned insurance company, Union des Assurances de Paris, Mr. Peter Hill-Wood, a director of Hambros, and Mr. Ivor Kennington, a director of Rothschilds, all agreed to join the Board. None of these men had any direct interest in the SWS Group. Sir Ronald Leach, senior partner of Peat, Marwick, Mitchell & Co., agreed to serve as consultant to the Board and Hambros and Rothschilds were appointed merchant bankers to advise on the future of SWS. The Bank of England authorised the issue of a press release in which it was stated that the reconstitution of the Board had been carried out with its encouragement. The Bank of England also made available to the banking subsidiary of SWS a cash facility to help protect the bank's depositors and assist liquidity. At the first meeting of the new Board it was decided to appoint Peat, Marwick, Mitchell & Co. and Price Waterhouse & Co. jointly to carry out a comprehensive review of the financial position of the SWS group to assist the Board in planning the Group's future. A summary, prepared by them, of their extensive reports comprising this review is set out immediately following my statement. Copies of the full reports have been made available to the Bank of England and to the Department of Trade. Following receipt of the reports, the Department of Trade decided to make further enquiries under Section 109 of the Companies Act 1967; further details will be found in Section I (c) of the summary of the Accountants' Report.

### Background

Support measures such as those described above have not been unusual in the past two years or so; and in fact, the support required and provided was smaller than that received by other financial companies that had run into difficulties during the deep recession which started in 1973. But SWS, over the previous decade, had established a special position in London and abroad. It was likely, therefore, that Mr. Slater's departure would take place in an emotional atmosphere which would make the re-establishment of confidence that much more difficult. But the re-establishment of financial confidence was vital. Among SWS's activities were three subsidiaries, each of which was responsible for the management of large amounts of other people's money. They were Slater, Walker Limited ("SWL"), the banking group, which at that time had public deposits taken in the U.K. and abroad of £95 million; Slater, Walker Investments Limited ("SWIL"), which managed the investments of over 300,000 people amounting to approximately £250 million; and Slater, Walker Insurance Company Limited ("SWI"), which conducted both a life assurance as well as a general insurance business. SWI had issued life assurance policies to the public with an actuarial liability of £42.5 million and also operated insured pension schemes on behalf of over 29,000 existing and future pensioners with an actuarial liability of £13.7 million. SWI also provided general insurance, 80 per cent. of which originated from overseas to be placed on the London market. In addition the SWS group had in issue £30 million of U.K. loan stocks with over 24,000 holders, and £75 million of foreign currency loans issued to overseas investors.

Loss of confidence would inexorably have resulted in a run on each of these companies, with the probable destruction of the Group, to the detriment not only of the shareholders and loan stock holders, but also to all those who were directly and indirectly concerned.

SWS had two other major areas of activity: Slater, Walker Properties Limited ("SWP"), which developed and dealt in industrial, commercial and residential property; and general investments, which consisted principally of key stakes in companies which it treated as associates. This meant that it was SWS's intention to hold these investments for the long term, and generally to participate in the direction of the companies concerned. SWS also held a number of general investments which, for the most part, were of a short-term nature.

A new Board of directors can review a company's affairs dispassionately; the new SWS Board formed the view that substantial provisions would be needed. The Directors' Report and Accounts for 1975 have now been completed and are contained in this document. Your directors have not sought to be pessimistic taking only short-term considerations into account, but have assumed that the medium-term strategy outlined later in my statement can be and will be followed.

# Slater, Walker Securities Limited

## Chairman's statement continued

### Initial Considerations

After an initial appraisal of your Company's affairs, your directors found themselves in a most difficult position. They were not able properly to assess the full extent of the provisions that would be required and would have to wait some months before the reporting accountants would be able to offer guidance in this respect. As I have already explained, your Group had issued over the years a number of long-term loans both in the U.K. and overseas. Certain of them imposed restrictions on overall borrowings by the Group in relation to its net assets and if net assets were to fall below a certain figure, these loans could be "triggered" and immediately become repayable. SWS would not have been in a position to face such a demand and would therefore have had to be put into liquidation. The Board could not, in the circumstances, be certain that the Company was still solvent.

So as to meet these problems, your Board reached an agreement whereby the Bank of England guaranteed SWL's loan book to a maximum principal amount of £40 million above its existing bad debt provision of £9.6 million. In return, SWL agreed that, in the event of its calling on this guarantee, it would pay over to the Bank of England all future profits to the extent of 125 per cent. of the amount called and not subsequently recovered. This effectively allows SWL to spread any losses over and above the £9.6 million provision existing at 30th September, 1975, over future years' trading. The extra 25 per cent. represented both the fee to be paid to the Bank of England for its commitment and an amount in lieu of interest for the indeterminate period for which it might be out of its money. In addition, it was understood that SWL would apply the cash received in the event of calling on the guarantee in repaying amounts borrowed from the Bank of England under the cash demand facility to which I referred in the first paragraph. SWS also agreed that it would subscribe to an increase in capital of SWL as soon as practicable. Furthermore, in view of the general uncertainties and of the agreement with the Bank of England, your Board agreed that it would not pay any dividend on the ordinary share capital of SWS without the prior approval of the Bank of England. These arrangements are described more fully in the Directors' Report and Accounts and in particular Note 1 to the Accounts and in the report of the auditors. The summary of the Accountants' Report also describes these arrangements.

Having obtained this guarantee, your Board was confident that the Group could continue in operation. However, it was considered prudent to redeem before the year end the most restrictive of the loan stocks. Therefore the whole of the outstanding £3,459,228 9½ per cent. Unsecured Loan Stock 1991/96 was redeemed at par and certain bank loans, totalling £10.4 million, were repaid on 31st December, 1975.

Liquidity had been the most immediate concern. Your Board had had to face the possibility of a run on the insurance company and on bank deposits. Fortunately, SWL had maintained a very high degree of liquidity and was therefore able to meet what turned out to be no more than a limited call on its funds. I have already mentioned that, to protect the bank, a facility was agreed with the Bank of England which, up to 31st July, 1976, had been called upon to a maximum extent of £45.2 million. SWL has currency deposits placed in the London money market which, if it was considered necessary, could be available to reduce substantially its drawings under this facility.

### Policy and Action by the Board

Your Board's next task was to shape a policy for the medium-term future. In the past, active dealing in shares and property had supplied substantial profits to the Group. This had allowed the Group to finance other investments despite the fact that they resulted in a negative cash flow. Dealing, however, was an activity more particularly associated with my predecessor and which, under the new circumstances, would not be continued. Now each investment would have to be looked at with particular regard to cash flow. I will now describe the policy determined in respect of each of the five main areas of activity.

#### (i) General Investments and Associated Companies

Although the underlying earnings were much higher, the average dividend yield on the investments in associated companies was 2.3 per cent. These were being financed principally by borrowings, the cost of which was considerably greater. Cash flow was therefore negative and it was decided that they had to be sold. Since 30th September, 1975, no new investments in associated companies have been made and a total of £9.7 million has been realised. Whilst the holdings in James Finlay & Company Limited and Sekers International Limited are held as long-term investments, nonetheless, if attractive offers are received, serious consideration will be given to their sale after consultation with the boards of the companies concerned.

It was also decided that the other general investments should be sold and £10.9 million has been realised since 30th September, 1975. Details of major investments held at 31st December, 1975, indicating those sold subsequently, are shown in Appendix C to this document.

# Slater, Walker Securities Limited

## Chairman's statement continued

### (ii) Banking

The banking activities consisted of SWL in London, regional offices in six major U.K. cities and a representative office in Switzerland. In addition, there were subsidiary banks in Jersey, Guernsey and the Isle of Man. Mr. D. J. Thomason, a director of Hambros, was seconded to SWL and was subsequently appointed a full-time executive director and deputy chairman of SWL and a director of SWS and I assumed the chairmanship of SWL. It was evident that the task ahead was to cut back the bank's activities to its London base and to recover loans that had been made. All the regional offices and the representative office were, therefore, closed and the three subsidiary banks were sold. As a result of these measures and the recovery of loans, the total loan portfolio has been reduced from £111 million at the end of September, 1975 to £67 million on 31st July, 1976. Having had the support of the Bank of England, to which I have already referred and without which SWL would not have been in a position to carry on trading, SWL was able to continue to manage its loan portfolio and to arrange collection of existing advances in an orderly manner. SWL is not now in a position to undertake any significant new business and the size of its management and the level of its overheads have been reduced.

Among the principal loans in dispute were those made to Haw Par. An agreement was reached on 17th June, 1976, and a press statement issued. Further details of this appear in Appendix E.

### (iii) Property

Here again the rental income from property was well below the cost of carrying that property and it was decided to realise the portfolio in an orderly way. A major part of the portfolio comprised properties held for or in the course of development and, in the light of the uncertain market for this type of property, a full-scale valuation was not undertaken. Mr. J. W. Hackman, a joint managing director of Keith & Henderson Limited and Mr. N. J. M. Spurrier, a director of Argyle Securities Limited, were appointed to a property management committee of SWP and subsequently as chairman and deputy chairman respectively of SWP. It was decided to complete all current developments and to consider in due course the development of other sites which might be viable following pre-lettings. Since 30th September, 1975 £18 million of the portfolio has been realised and £11 million (excluding financing costs) has been expended on the developments in hand. It is estimated that a further £4 million will be expended on the current development programme which is expected to be substantially completed by the end of 1976.

### (iv) Insurance

SWI and Slater, Walker Insurance Company (C.I.) Limited were formed in 1968 and 1972 respectively. The insurance activities have grown rapidly over the past few years. This created an increasing need for new share capital. This need has been met, but it is considered unlikely that SWS could continue to supply any extra capital which may be required for further expansion in the future. It was therefore decided that there were two alternative plans that could be considered. We could either sell SWI or we could reduce the range and level of its activities, concentrating on the more successful elements of its business. Both these alternatives are currently under consideration.

### (v) Investment Management

Although this business was sound and well run, a period of uncertainty ensued following the resignation of Mr. Slater. Accordingly, an investment committee was formed under my chairmanship and with the management of Mr. Brian Banks in order to supervise overall investment policy. The committee included representatives of Hambros and Rothschilds. In the circumstances, it was considered right to stop advertising. Whilst repurchases of units were initially abnormally high they have returned to more normal levels.

We now intend to pursue active development of this business and a major objective will be to complete the programme of unit trust mergers embarked upon at the beginning of the year with the approval of the Department of Trade. Over half of this programme has already been completed successfully and, with full implementation, Slater, Walker Trust Management Limited will continue to offer a spread of unit trusts catering for most investors' requirements.

The value of the private clients' and institutional funds under management is now at approximately the same level as at October, 1975.

### The Future

Your directors believe that the Group should continue to realise its investments and properties, and to recover the loan portfolio of SWL. Continued progress in this programme will enable SWS to use its resources to reduce its existing heavy liabilities. But it must be remembered that until such time as sufficient of the non income or low income producing assets have been sold, the existing equity will be further depleted. Preference and ordinary shareholders cannot therefore expect any dividend until such time as this position has been corrected and resolved.

# Slater, Walker Securities Limited

## Chairman's statement continued

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As a result of the provisions which your Board has made in the accounts for 1975 the borrowing powers of the directors contained in the Articles of Association will have been exceeded and accordingly preference and ordinary shareholders will be asked to approve an alteration to the Articles of Association. Further details together with notices of an extraordinary general meeting of the Company and of a separate general meeting of the preference shareholders at which resolutions to increase the borrowing powers of the directors will be proposed are included in a separate letter to ordinary and preference shareholders accompanying this document. These meetings will be held immediately after the adjourned Annual General Meeting and details of the action to be taken by ordinary and preference shareholders are contained in that letter. **Having regard to the fundamental importance to you as shareholders of the Company that, in the present financial circumstances of the Company, these resolutions be passed, I urge you to consider the contents of the letter most carefully and to vote in favour of the resolutions being proposed.** It is also intended in the near future to submit proposals to holders of certain loan stocks issued by the Group to vary the basis upon which the borrowing limits contained in the Trust Deeds constituting these stocks are calculated. On the basis of the 31st December, 1975 Consolidated Balance Sheet the amount of the Group's total borrowings is close to the existing limits.

### Staff

During November, 1975, your Board undertook a full review of staffing requirements and overheads following the reduction of the Group's activities. As a result, 98 employees have been made redundant during the period ended 31st July, 1976 and a further 37 employees have resigned from the Group. These redundancies did not include any of the employees of SWI and SWIL where no staff reductions were considered necessary.

These have been very unsettling times for all members of the staff and I should like to take this opportunity to thank them for the exceptional loyalty which they have shown to the Group during this most difficult period.

JAMES GOLDSMITH  
Chairman

3rd September, 1976.



# Slater, Walker Securities Limited

## Summary of Accountants' Report

### INTRODUCTION

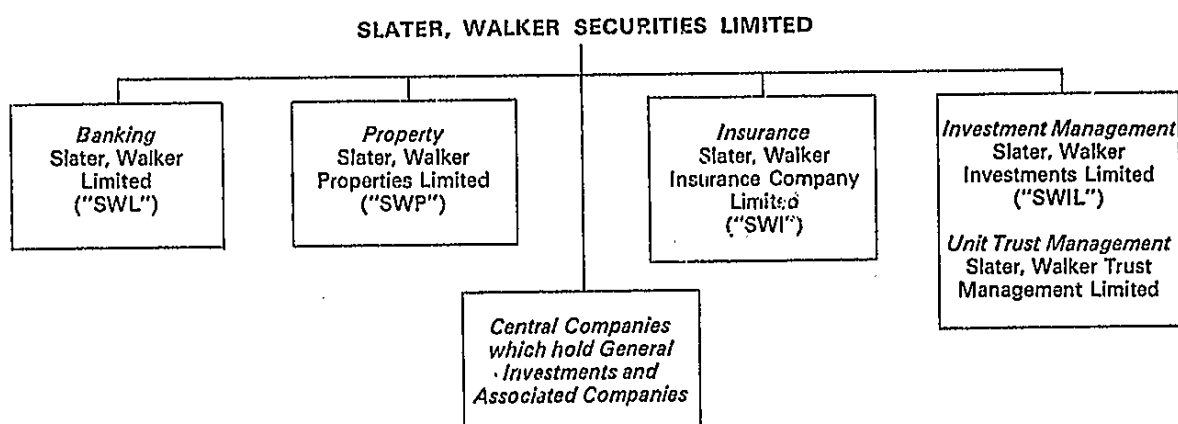
This section contains a summary of the principal features of the various reports on the SWS Group which were issued by Peat, Marwick, Mitchell & Co. and Price Waterhouse & Co. ("the Accountants"). This summary has been prepared by the Accountants.

The Accountants were appointed to carry out a full review in order to assist the Board in planning the future direction of the Group. They did not, therefore, regard it as part of their terms of reference to enquire into the circumstances of past transactions, except to the extent that these might have a bearing on the current and future position of the Group as it was then constituted.

In general, their work was based on the situation at the end of September 1975 (October 1975 in the case of SWL) with updating to 31st December, 1975. Their enquiries were effectively completed by 12th March, 1976. Where appropriate, subsequent events have been referred to in this section of the circular.

### A. GROUP STRUCTURE

The divisional structure of the SWS Group together with the principal companies is set out below.



### B. FINANCIAL POSITION AT 30th SEPTEMBER, 1975

At 30th September, 1975, the closest practicable date to the change in Board membership for which figures were available, the Group management accounts, consolidating all subsidiaries other than the insurance companies, disclosed the following position:

	£m	£m
<b>FIXED ASSETS</b>		86.3
INSURANCE COMPANIES		11.0
ASSOCIATED COMPANIES		23.1
GENERAL INVESTMENTS		19.3
<b>CURRENT ASSETS</b>		
Properties	17.1	
Debtors, loans and advances	126.9	
General investments	8.1	
Cash	42.0	
	<u>194.1</u>	
<b>CURRENT LIABILITIES</b>		
Creditors (including current, deposit and other accounts)	107.6	
Bank overdrafts	8.5	
Current taxation	4.8	
1975 dividends	3.2	
	<u>124.1</u>	
<b>NET CURRENT ASSETS</b>		<u>70.0</u>
<b>CAPITAL EMPLOYED</b>		<u>169.7</u>
Less: LONG TERM BORROWINGS	107.2	
MINORITIES	0.6	
	<u>107.8</u>	
<b>NET ASSETS</b>		<u>81.9</u>

# Slater, Walker Securities Limited

## Summary of Accountants' Report continued

An analysis of the capital employed, according to those accounts, is set out below. Also included for comparative purposes is the capital employed at 31st December, 1975, as shown by the audited consolidated accounts and which must be considered in conjunction with the Directors' Report and the notes to those accounts.

	30th September, 1975 Approximate number of employees	Capital employed £m	31st December, 1975 Capital employed £m
<b>BANKING</b>			
SWL, an authorised bank, with wholly owned subsidiaries in Jersey, Guernsey and the Isle of Man, and six regional offices in the United Kingdom		21.5	21.7
Net Assets		22.4	11.4
Deposits placed by other Group companies			
	210	43.9	33.1
<b>PROPERTY</b>			
SWP, together with some 200 companies mostly owning a single property, including a building division employing about 160 people	210	78.0	62.0
<b>INSURANCE</b>			
SWI and Slater, Walker Insurance Company (C.I.) Limited. The insurance group was not consolidated in the SWS accounts and the investment in it was shown at cost	190	11.0	6.0
<b>INVESTMENT MANAGEMENT</b>			
SWIL with 4 main operating companies	75	3.6	5.5
<b>GENERAL INVESTMENTS and ASSOCIATED COMPANIES</b>			
Holdings of more than 20 per cent. of the equity in 6 companies and a considerable number of other investments	—	51.2	19.6
<b>CENTRAL COMPANIES</b>			
SWS (the parent company) together with numerous intermediate holding and investment companies (including proceeds of sale of investments)	105	2.0	14.7
	<u>790</u>	<u>189.7</u>	<u>140.9</u>
Less: Long term borrowings and minority interests		107.8	100.2
<b>NET ASSETS (including non-income producing assets)</b>		<u>81.9</u>	<u>40.7</u>

As a result of the review, the Accountants recommended the following major provisions against the operating divisions:

Banking Division—loans and advances excluding loans to Haw Par	24.2
Property Division	14.8
U.K. Insurance Company	8.8
General Investments and Associated Companies	13.3

The above provisions were calculated before taking into account certain arrangements entered into after 30th September, 1975, notably the agreement with the Bank of England (referred to in section C below) which indemnified the banking division against losses on its loan portfolio and before taking into account the factors affecting SWI referred to below. In arriving at the provisions, the future cost of financing the holding of non-income producing assets was not taken into account and the Accountants drew attention to the future revenue drain which was likely to arise, discussed further on pages 16 and 17. After eliminating the banking provision of £29.2 million and after taking into account losses on exchange and other central provisions and write offs, in particular irrecoverable ACT of some £3 million, a provision of £1.7 million against investments transferred from SWI, and the revenue loss for the final three months of 1975, the Accountants estimated the Group's net assets at 31st December, 1975 to be some £38.4 million. This compares with the amount of £40.7 million in the audited consolidated balance sheet.

The estimate of the Group's net assets included £2.7 million as the purchase cost of the management rights of certain unit trusts. It was noted that the market value of all such rights held by the investment management division was presumably greater than that figure, since nothing was included in respect of other existing unit trusts established and managed by the Group.

The insurance division was included in the estimate of the Group's net assets at its provisional net asset value of £2.4 million, which did not reflect the definitive actuarial calculations which have been adopted for SWI's statutory accounts at 31st December, 1975, nor any goodwill element which might be achieved on a sale of the insurance companies.

### C. THE BANKING DIVISION

SWL's principal business was based in London, and in addition it had branches in six major U.K. cities, and three offshore subsidiaries in Jersey, Guernsey and the Isle of Man. The Accountants reviewed the banking division as at 31st October, 1975, when its gross assets amounted to £122 million, its customer deposit and current accounts were £72 million, and its capital employed was £43 million, including net deposits of £21 million by other SWS Group companies. SWL was by far the largest component of the division, the gross assets of the offshore companies amounting to only £13 million. The offshore companies have not been dealt with in this summary as they were sold after 31st December, 1975 for amounts approximating to their net asset values.

In the opinion of the Accountants SWL was regarded in the SWS Group as an "in house" bank whose prime function had been to service the needs of the Group and the Group's clients. Thus some £68 million of SWL's advances, out of a total of £91 million at 31st October, 1975, were to companies in which SWS had or previously had an interest, or to individuals or finance shareholdings in such companies. The greater part of the provisions which the Accountants recommended related to a small number of accounts in this category, including a provision of £15.5 million in respect of a single situation.

#### Support arrangements

The Bank of England granted SWL a secured standby facility in October, 1975, to assist the banking division in meeting withdrawals of public deposits which might arise as a result of the resignation of Mr. J. D. Slater. This facility was superseded on 27th November, 1975, by a revised secured advance facility of up to £70 million with interest on amounts drawn down at Bank of England base rate plus  $1\frac{1}{2}$  per cent. and a commitment fee of  $\frac{1}{4}$ th per cent. per quarter on the amount of the facility. In addition, the directors of SWS undertook inter alia that, if requested by the Bank of England, up to £25 million of SWS Group deposits with SWL would be converted into equity capital.

On 11th December, 1975, the Bank of England gave a guarantee and indemnity to SWL and its banking subsidiaries in respect of losses arising from their loan portfolios in excess of the existing bad debt provision of £9.6 million limited (as to amounts of principal) to £40 million. The guarantee also covers interest accrued after 11th December, 1975. The guarantee arrangements provide that repayment of the amounts called should only be made out of the profits of SWL and its subsidiaries earned subsequent to 31st December, 1975, and that all these profits are to be used to make the repayments, up to an amount equal to 125 per cent. of the total amount called and not subsequently recovered. Therefore SWL would make no contribution towards the profits of the SWS Group in the foreseeable future. SWS undertook to procure the due performance by SWL of its obligations under the guarantee.

By accepting the guarantee arrangements with the Bank of England the directors of SWS undertook to inject £10 million further capital into SWL as soon as practicable, being in part settlement of the obligation to inject £25 million referred to above. The subscription of the remaining £15 million of equity capital is expressed to be conditional on such action being consistent with the responsibility of the directors of SWS. Having regard to the financial position of the Group, the Accountants doubted if the directors of SWS could responsibly accede to such a request if it were made.

#### Loans and Guarantees

At 31st October, 1975, SWL had some 150 commercial loans outstanding totalling £91 million before existing provisions. It was the opinion of the Accountants that at 31st October, 1975, the existing bad debt provision of £9.6 million in respect of the loans and advances was inadequate. In the absence of the guarantee arrangements made in December, 1975 with the Bank of England, they considered that a further bad debt provision of about £29 million would have been required against these advances and against liabilities arising under certain guarantees in respect of loans made by banking subsidiaries. This amount excluded any provision that might have proved necessary in respect of the loans totalling some U.S. \$29 million to Haw Par, which at that time could not be evaluated. As a result of events since the completion of the Accountants' Report, including the effect of the Haw Par settlement (summarized in Appendix E), movements on exchange rates and further deterioration in the values of security held for certain loans, the directors consider that the further provisions of £29 million then recommended would need to be substantially increased and it is now likely that the full amount of the Bank of England guarantee of £40 million will be required.

The Accountants went on to point out that it was only the existence of the Bank of England guarantee which made it appropriate to ignore the future cost of financing the doubtful loans in evaluating the necessary provisions. In the absence of that guarantee, the bad debt losses which they considered SWL had incurred would have made it insolvent at that time.

The Accountants also commented that it appeared that, in assessing the amount of the bad debt provision at 31st December, 1974, although some borrowers were known to be in financial difficulties, lack of security was not of itself regarded as necessitating a provision. In their view, optimistic assessments were made by SWL regarding the ability of managements of certain of the companies to whom loans were made, the likely course of property prices and the worth of unsupported guarantees. For the purposes of their report, however, the Accountants considered it appropriate in estimating provisions in the majority of cases, to have regard solely to the value of underlying security.

In the view of the Accountants, the inherent weaknesses of SWL's lending resulted from the following factors:

- (1) The small number of very large loans, whose size appeared out of proportion to the resources of SWL. The four largest loans (ranging from £5 million to almost £18 million) accounted for 51 per cent. of the portfolio. There were a further 16 loans of over £1 million which accounted for 31 per cent. of the portfolio. Therefore of the 150 loans, 13 per cent. of the total number accounted for 82 per cent. of the total value of the portfolio.
- (2) The terms on which some £36 million of the loans were granted included provision for the rolling up of interest.
- (3) The mismatching of the maturity dates of assets and liabilities; liabilities due within 3 months amounted to £57 million, whereas assets realisable within 3 months were £22 million. The loan portfolio included some £62 million of loans (before provisions) with an expected repayment date of over two years.

## Summary of Accountants' Report continued

### Loans to Directors and Staff

At 31st October, 1975, loans to the then directors of SWS (which were made by SWL) amounted to £585,000, of which £228,000 were house mortgages. House mortgages to other Group staff, made by SWL, amounted to £623,000. All house mortgages were at the recommended interest rate of the Building Societies Association and were generally limited to 3½ times salary with a maximum of 80 per cent. of valuation. SWL could demand repayment of the mortgages giving six months' notice if the borrower ceased to be employed by the SWS Group. Other loans to directors bore interest at 2 per cent. above National Westminster Bank's base rate and were repayable on demand. In the opinion of the Accountants, the staff mortgages appeared to have been well secured when granted but since most of the advances were made and the property valuations obtained in 1973 and 1974 when property values were higher, they considered that some borrowers would have considerable difficulty refinancing their mortgages and a general provision of £50,000 was recommended. In their opinion, there was a shortfall of some £200,000 in the security held for loans and a house mortgage totalling £303,000 to one director and a provision was recommended. No provisions were recommended in respect of the other directors' loans and house mortgages.

At 31st October, 1975, there were also outstanding loans of £1.2 million made by SWL in which two directors who resigned during 1975 were interested. Of the balance outstanding at 31st October, £1 million was advanced during 1975. The total included a house mortgage of £119,209 to Mr. J. D. Slater's wife, which he had guaranteed and loans (since repaid) of £352,000 to companies controlled by him. In the opinion of the Accountants, the loans to these companies were at commercial rates of interest and adequately secured. Loans outstanding of £751,000 to the other director who resigned in 1975 included £500,000 which was advanced after it had been decided that he would leave the SWS Group; quoted securities with a then market value in excess of this amount were charged to SWL. The Accountants were informed that the reasoning behind this loan was to enable the borrower to buy shares in a company which he planned to develop with the intention of improving the inadequate security for the earlier advance. The Accountants were of the opinion that at the time of their review, there was a shortfall of some £325,000 in the security held by SWL for these loans, and a provision was recommended.

In addition to the above loans one other subsidiary of SWS had made loans to staff, which at 31st October, 1975 amounted to £259,000. The Accountants did not recommend a provision in respect of any of these loans.

### D. PROPERTY DIVISION

At 30th September, 1975, the division comprised some 200 companies holding a similar number of properties.

Soon after the reconstruction of the SWS Board, a property committee (consisting of Mr. J. K. O'Donnell (until the date of his resignation), Mr. J. W. Hackman and Mr. N. J. M. Spurrier) was appointed for the purpose of reviewing the position of the property division, to advise on current values and to propose a plan for the future. In many areas, especially in respect of estimated property values, the Accountants relied on the expertise of this committee.

Neither the Accountants nor the committee investigated the past activities of the property division but the view of the committee (which the Accountants' impressions supported) was that the business of the division was conducted professionally. A policy of retrenchment had been followed since early 1974 with the exception of a successful increase in business in residential flat break-ups. The Channel Islands' subsidiaries were initially slow to follow this policy but were by then actively seeking to make sales. The main areas of loss had been those over which inadequate control of purchases had been exercised, namely, Channel Islands, Eire, house building land in the U.K., joint venture schemes, and, to some extent, Belgium and France.

The book value of properties in the division at 30th September, 1975 was £75.3 million and nearly 60 per cent. of this was accounted for by 10 properties. Approximately 95 per cent. by value of the portfolio consisted of freehold properties, the remainder being nearly all long leaseholds.

#### Book value 30th September, 1975

	£m
100 Fetter Lane, London, EC4	17.5
10-12 Rue Guimard, Brussels	5.7
17-19 Avenue Marnix, Brussels	4.0
13 Avenue Marnix, Brussels	2.7
Land at Woollahill, Wokingham, Berks	3.6
5 Place Rio de Janeiro, Paris	2.7
55th Floor, Tour Maine, Montparnasse, Paris	2.0
16 Rue Saulnier, Paris	1.7
Tulchan Estate, Scotland	2.0
3-15 Queen Street, St. Helier, Jersey	1.7
Others	31.7
	<hr/> 75.3

In addition, the SWS Group offices were held at a book value of £2.4 million. The house-building activities, although a large employer of direct labour, contributed little to the division's profits and did not account for a significant amount of its capital employed.

Based on the work of the property committee, the Accountants recommended provisions, net of certain surpluses, of £14.8 million against the above book values, of which £9.5 million net related to the ten largest properties.

Most of the property division's activities are funded by borrowings which at 30th September, 1975, amounted to £60.8 million. Of this, £47.8 million represented intra-group indebtedness with the rolling up of interest, and this amount is included as part of the capital employed by the division in the table on page 10. At 31st December, 1975, the gross income from the properties was only £1.5 million in a full year.

## Summary of Accountants' Report continued

Out of the portfolio of £75.3 million, approximately 70 per cent. was accounted for by properties held for or in the course of development, being mainly freehold offices and shops. Following a review by the property committee, it was proposed to complete existing developments with a view to sale. Under the development programme, authorised expenditure then amounted to £8.3 million, substantially all of which was scheduled for 1976. This amount excluded the costs of finance and selling, and some £4 million expended in the three months to 31st December, 1975.

### E. INSURANCE DIVISION

The insurance division consisted of two principal companies, SWI and a small Guernsey company. The investment in these companies was stated at its cost of £11 million in the Group management accounts at 30th September, 1975, of which £10 million related to SWI.

The constituent parts of SWI were as follows:

#### (a) Long Term Business Fund

The long term business fund, amounting to £57 million at 31st December, 1975, was derived from the following types of policy:

	£m.
Income bonds	25.6
Pension business	14.2
Life assurance	4.8
Conventional annuities	12.4
	<hr/>
	57.0
	<hr/>

All the income bonds were issued in 1972 and 1973 and they confer a guaranteed annual income over their 10 year term and repayment in full at the end of the term or in the event of earlier death. In addition they may be encashed at any time for an amount ranging from 90 per cent. of the face value initially up to 100 per cent. towards the end of the term.

Pension business is the longest established of all the company's activities. Policies were originally written only in respect of SWS Group Companies but since 1970 SWI has also dealt with the general public.

At 30th September, 1975, funds totalling £13.4 million were held for 147 group pension schemes. The annual recurring premium income in respect of the then current schemes was £2.1 million, but little new business was obtained during 1975.

SWI has written conventional life assurance and annuity business since it commenced operations, and although the life assurance policies continue to be marketed satisfactorily, the amount of annuity business in 1974 and 1975 has fallen as a result of the uncompetitive terms being offered as a matter of policy by SWI.

#### (b) General business

SWI transacts all classes of general business, other than aviation and motor. The account includes direct insurance, facultative reinsurance and treaty reinsurance business from the U.K. and from most other parts of the world. The prime source of business (92 per cent.) is derived from Lloyd's brokers, the remainder (8 per cent.) being derived from direct connections of SWI.

The net accounted premium income for the first nine months of 1975 was £7.7 million (£10.3 million in the full year), in the approximate proportions of 10 per cent. Marine, 30 per cent. Fire and Accident and 60 per cent. Non-Marine Treaty Reinsurance.

It is SWI's policy to limit its underwriting exposure in two ways. It imposes limits on the maximum liability it is prepared to accept under any one risk, and it makes reinsurance arrangements which restrict the impact of any substantial net claims. The objective of the present reinsurance arrangements is to limit SWI's net loss on any one risk to a maximum of £50,000, and to £5,000 in respect of all classes of "long-tail" liability business.

The essential feature in considering the profitability of the general branch activities is that this division has been operational for a comparatively short period. Definitive accounting for this business is difficult because part of the underwriting is "long-tail" and the full extent of claims is not known until some years after the inception of the risk period. The provision to be made in respect of such claims which have not been notified at the end of the accounting period can only be calculated on an approximate basis until sufficient time has elapsed for a statistical pattern to have developed giving some guidance as to the incidence and timing of claims in relation to the premium income for a given underwriting year. The method of estimating the provisions for claims incurred but not reported is heavily dependent on the underwriters' judgment of the ultimate profitability of the business. SWI believes these provisions to be conservative, and it may transpire that this is so; there is however little statistical evidence on which a judgment as to the adequacy of these provisions can be made and consequently it was not possible for the Accountants to express any opinion as to the profitability of the general branch operations.

#### Investments

The Department of Trade impose on all insurance companies various constraints on investment policy, and receive quarterly portfolio analyses from SWI. Under the terms of its authority to carry out insurance business SWI is not permitted to invest in shares not quoted on recognised stock exchanges or to make investments in or loans to other SWS Group companies.

# Slater, Walker Securities Limited

## Summary of Accountants' Report continued

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The principal problem areas associated with the investment portfolio were:

- (a) At the time of the Accountants' examination, the long-term business fund was particularly liquid; thus the invested assets were not sufficiently well-matched and the fund's income was therefore vulnerable to a fall in interest rates. Since that time a proportion of those liquid funds has been reinvested in Local Authority Lender Option Bonds on which, in certain circumstances, SWI has the option of immediate repayment.
- (b) At 30th September, 1975, 16 per cent. (£10.4 million) of the total market value of the portfolio was represented by properties and this is too high a proportion for a company of SWI's nature because of the inflexible characteristics of this form of investment and its low yield.
- (c) There were too many holdings of portfolio investments of questionable value. Many were as a matter of policy in companies whose management ability was well known to and well thought of by SWS. These investments were generally in the form of unsecured loan stocks which were considered, at the time they were made, not to have any substantial degree of risk although it is acknowledged now that a too large proportion was invested into that part of the financial sector which is highly geared. In addition some of these companies had been associated in various ways with the SWS Group and the losses arising on such holdings have been of significance in relation to the overall investment performance of SWI. Over the past five years losses on stock exchange investments of the long term business fund have aggregated £19 million in relation to a fund of £57 million, although the situation was alleviated by a profit of £12.6 million resulting from the sale of property.

(Mr. Slater has since commented that he pointed out to the Accountants that during the relevant period the market as a whole dropped substantially and he informed the Accountants that as a consequence of the policy of maintaining a high degree of liquidity, any opportunity of taking advantage of the subsequent revival of the market by reinvestment was lost.)

### Management and Investment Policy

The management of SWI has enjoyed some degree of autonomy in the development of the underwriting operations but this has been subject to the direction of overall strategy by Mr. Slater. However, it was in the crucially important area of investment policy that Mr. Slater exercised a dominant role; although the SWI actuary specified the broad parameters within which investment decisions should be taken to achieve matching of the liabilities of the long term business, SWI management in no way influenced the selection of investments within these parameters, nor were the dealings formally approved or ratified by either the board or the executive committee. As part of the reporting system, however, SWI management received full information relating to their investment portfolio.

### Net Assets and Solvency Margin of SWI

In view of the size of the long term business fund, the Accountants commissioned Messrs. Bacon & Woodrow ("B&W"), consulting actuaries, to report on the actuarial liabilities of the insurance division. An initial review by the Accountants, taking account of B&W's report, indicated that SWI was likely to experience difficulty, on the basis of the new asset valuation rules, in meeting the solvency margins laid down by the Department of Trade. To meet this problem, SWS agreed to acquire from SWI any investments which had lost their quotation, at pre-suspension prices. Certain investments were accordingly transferred from SWI in 1976, the effect of this being reflected in the 1975 accounts of SWI and the remainder of the SWS Group. As a result of the foregoing transfer, and on the basis of the published actuarial valuation, SWI was able to satisfy the Department of Trade's solvency requirements at 31st December, 1975. The Accountants recommended, because of the uncertainty over certain aspects of the position of SWI, that the investment in it should be shown at net asset value. The amount of the provision recommended by the Accountants was determined before the statutory accounts of SWI at 31st December, 1975, which adopted SWI's definitive actuarial calculations, were available. The Accountants did recognize however, that a goodwill element might attach to the business of SWI.

### The Guernsey Company

The financial position of the Guernsey company, which had net assets of £1.2 million at 30th September, 1975, appeared to be satisfactory. In the Accountants' opinion, the company was not vulnerable to stock market or interest rate movements in the same way as SWI, as it engaged almost exclusively in unit linked policies. It was, however, as a result dependent on a continued flow of business for its continued profitability. The profit projected for 1976 was £120,000 after Guernsey tax.

## F. INVESTMENT MANAGEMENT DIVISION

The division is not formalised as a group but draws together a number of separate legal entities. The main profit centres are:

- Portfolio management for private clients and certain Group companies.
- U.K. unit trust management.
- Offshore trust management.

# Slater, Walker Securities Limited

## Summary of Accountants' Report continued

The net assets of the division at 30th September, 1975, are set out below.

	£m	£m
<b>FIXED ASSETS</b>		<b>2.7</b>
Cost of acquiring management contracts of Jessel and National Group unit trusts		
<b>CURRENT ASSETS</b>	<b>2.2</b>	
Debtors		
Less:		
<b>CURRENT LIABILITIES</b>	<b>1.0</b>	
Creditors	<b>0.3</b>	
Overdrafts	<b>1.3</b>	
		<b>0.9</b>
<b>NET ASSETS</b>		<b>3.6</b>

At 30th September, 1975, the division had funds under management of just under £300 million, comprising £40 million private and institutional clients' money, £75 million Group companies' money, £170 million in U.K. unit trusts and £10 million in offshore trusts. Out of the total funds managed, approximately two per cent. was held in companies which are connected with companies of SWS, one per cent. in companies which are clients of the banking division and four per cent. in certain major strategic holdings. At 30th September, 1975, one unit trust held 323,333 ordinary shares and five trusts held a total of 1,362,963 preference shares in SWS. These holdings had not altered significantly by 31st July, 1976. Transactions in these shares were approved by the trustee in each case.

The adverse publicity surrounding the SWS Group, and the uncertainty as to its future, resulted in an abnormally high level of repurchases in the unit trusts. Since the Accountants' reports were completed, however, the situation has stabilized and in the opinion of the division's management, repurchases are now at a normal level.

The private client portfolios included approximately £3.4 million invested in specialist unit trusts managed by Slater, Walker Trust Management Limited. Management fees, which are based on portfolio values, are not charged on the value of a client's holding in the unit trusts. In addition, when such investments are made, there is a reduction in the initial service charge by the unit trust.

As a result of takeovers of the Jessel trusts and the National trusts in November, 1974 and February, 1975, there were 44 U.K. unit trusts at the time of the Accountants' reports, many of which had similar investment objectives. Certain of the National trusts were very old and had not been actively promoted for a considerable time. A scheme of rationalization, involving the amalgamation of a number of these trusts, which had previously been planned, has since been instituted and is now more than half completed.

This division appeared to the Accountants to be well run and managed in an orthodox manner.

### G. GENERAL INVESTMENTS AND ASSOCIATED COMPANIES

At 30th September, 1975, SWS's interests in associated companies and other investments had a net book value of £51.2 million. The Accountants reported on these investments and considered what adjustments should be made to the carrying value of each investment at 31st December, 1975. In accordance with the SWS Group's accounting policies, they assumed that investments of a long term nature would continue to be stated at cost (plus Group share of post acquisition reserves where applicable) unless circumstances were such that their value to the business might be considered to have been permanently impaired. All other investments were valued by them at the lower of cost and market value or estimated realisable value. Of the major investments those in Cornwall Equities Limited ("Cornwall"—a U.S. company) and James Finlay & Company Limited ("Finlay") were valued at above estimated realisable value and market value respectively; further details on these and the other major investments are set out below.

By 31st December, 1975, investments with a book value of £21.5 million had been sold at a loss of £5.0 million. The Accountants recommended a provision and other adjustments of £8.3 million in respect of the investments held at 31st December, 1975, which would consequently have had a book value of £21.4 million. Thus, the total loss to be provided on these investments was £13.3 million, which was about 25 per cent. of their book value at 30th September, 1975. This is in addition to any provisions for losses on these investments made prior to 30th September, 1975, and excluded the extra provisions made at 31st December, 1976, by the SWS Board. These extra provisions were £1.1 million, which arose from the subsequent reclassification of two holdings in associates as long-term investments, and the provision of £0.35 million in respect of certain paintings referred to below.

In addition to these provisions, SWL has had to make substantial provisions in respect of loans to some of these companies and of loans to finance purchases of shares in them by directors of such companies which are included in the provisions against loans and advances of the banking division shown in Section C above.

### Major Investments

The investments at 30th September, 1975, included interests in seven companies valued at over £3 million each, which amounted to £34 million, and eight investments of over £1 million each, which amounted to £12 million. These fifteen holdings accounted for approximately 90 per cent. of the total in value. The provisions and adjustments recommended by the Accountants amounted to £13.3 million. Of this, £10.8 million related to six investments, the largest single provision being £5.6 million in respect of Equity Enterprises Limited ("Equity Enterprises").

# Slater, Walker Securities Limited

## Summary of Accountants' Report continued

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Four of the major investments were fixed interest stocks with no conversion rights into ordinary shares; they were valued at 30th September 1975, at £11.3 million. The Accountants considered provisions were required in respect of only one of these holdings and this provision was more than offset by realised profits on the other such stocks.

The seven holdings valued at over £3 million each consisted of loan stocks issued by Atlantic Assets Trust Limited (since redeemed), Wigham Poland Holdings Limited, and Cornwall, and shares in Finlay, Helma Holding NV and Rockware Group Limited and shares and loan stock in Equity Enterprises. SWS's investments at 30th September, 1975, also included £0.4 million in sugar options, which were sold in December, 1975, at a loss of £0.3 million; £1 million in gold shares, of which £0.2 million worth were held at 31st December, 1975, and the remainder sold at a loss of £0.4 million; and substantial holdings in Cannon Street Investments Limited, Grimshaw Holdings Limited, Charles Spreckley Industries Limited and Triumph Investment Trust Limited, which had a book value at 30th September, 1975, of less than £0.3 million in aggregate.

In addition, SWS owned paintings held for investment purposes which had a carrying value at 30th September, 1975 of £0.7 million. None of these paintings had been sold by 31st December, 1975, and the Accountants did not recommend any provision against them. However, in the light of subsequent sales, the Board of SWS has decided to write the carrying value of the paintings down by 50 per cent. at 31st December, 1975.

### H. PROSPECTS

The Accountants pointed out that the prospects for the Group were clearly subject to considerable uncertainty, not only as to the outcome of normal trading assumptions but also as a result of potential changes in Group strategy. It was apparent, however, that the Group was likely to experience a revenue drain in 1976 and this could only be financed from the proceeds of asset realisations.

The most significant feature was the effective isolation of the banking division from the rest of the Group's results, because of the obligations which would arise if the Bank of England guarantee was called. Of the other three divisions, only the investment management division appeared clearly profitable, although some possibility existed of a small return from the insurance companies.

As regards the management projection of results for 1976 which the Accountants examined, they stressed that in the then circumstances such figures could be no more than an indication of what might happen and they should not therefore be treated with the same degree of confidence as a formal forecast. It is therefore considered that it would not be appropriate to deal with such projections in this summary.

A cash flow projection for 1976 was made at the same time. The Accountants felt that the bases adopted were not unreasonable in respect of recurring flows, but the key element in the projection was the rate at which assets, particularly properties, could be realized in order to fund the revenue drain and repay SWL's deposits and the drawings under the Bank of England facility. On the assumption that the Bank of England guarantee was not called upon, it was unlikely that the cash inflow generated by asset disposals would reduce drawings under the Bank of England facility in 1976.

The Accountants noted that because of the underutilisation of space in Petershill House arising from the reduction in activity and staff, the amount of overheads projected was clearly considerably in excess of what the continuing operations at their present level of activity, might bear.

### I. OTHER MATTERS

#### (a) Interim results

The Accountants believed that the need for many of the provisions in SWL should have been apparent earlier in 1975. The announcement of the Group's interim results on 19th August, 1975, showed half year pre-tax profits of about £2.2 million and was approved by all the then directors of SWS (either present at a board meeting or individually by letter).

The Accountants were told that the interim results were produced by the normal management reporting process. It appeared that the question of reviewing advances in order to assess any provisions which might then be required against doubtful advances—a procedure which they regarded as appropriate in banking groups—was not considered by the Board at the interim stage, although it was carried out for the annual audited accounts. Such a review would, in the Accountants' opinion, have resulted in a loss being disclosed for the half year.

#### (b) Borrowing limits

The Accountants noted that on the basis of the likely provisions, even after allowing for the effect of the Bank of England guarantee, SWS would be in breach of its borrowing powers under its Articles of Association, and recommended that action should be taken to rectify the position. The Accountants also noted that a similar problem might also arise in the future in respect of certain of the loan stocks, although the position would not be determined until the final audited accounts were available. The Auditors have confirmed that on the basis of the accounts at 31st December, 1975, SWS was not in breach of its borrowing limits under the loan stock trust deeds.



# Slater, Walker Securities Limited

## Summary of Accountants' Report continued

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### (c) Shares in Slater, Walker Securities Limited

During the course of their full review, the Accountants identified the possibility that there could have been a breach of Section 54 of the Companies Act, 1948, in relation to the financing by SWL of certain purchases of SWS shares by a company related to the SWS Group, but not a subsidiary, and in respect of which SWL incurred a significant loss. The Board then commissioned a more detailed report on the purchases and sales of SWS shares by this company and three other similarly related companies which had also bought and sold SWS shares. The report covered the period of six years ended 31st May, 1975, after which no sales and purchases of SWS shares took place. The opinion of leading Counsel was also sought by the SWS Group and he has stated that in his view there had been breaches of Section 54.

The Accountants were informed by Mr. Slater that the purchase of SWS shares was related to a number of business objectives including the listing of the shares on certain foreign stock exchanges and the development of associations with several other major commercial groups and that management believed these objectives to be in the general interests of the SWS Group. Mr. Slater acknowledged that he was responsible for the decision by SWL to make loans to the four companies and that he was also responsible for the investment policy of the companies which included the purchase and sale of SWS shares. The Accountants found no evidence that either Mr. Slater or any other SWS director derived any personal benefit from any of the transactions.

Copies of the Accountants' further report and of Counsel's Opinion were submitted by the Board of SWS to the Department of Trade who then made enquiries under the provisions of Section 109 of the Companies Act 1967. The official report is now with the Secretary of State to take such action as is fit.

### (d) Financial position

In their conclusions, the Accountants drew attention to the financial position of the Group, which was very highly geared. Of the long-term borrowings, some £35 million was denominated in foreign currencies; against this, the Group had, at 31st December, 1975, net foreign currency assets of about £56 million, which left some exposure to a deterioration in the sterling exchange rate; furthermore the position was not completely matched in individual currencies.

In view of the high gearing, the basic problem was that the Group had non-income producing assets of about £70 million consisting of development properties and the net assets of SWL, any profits of which would for an indeterminate period have to be applied towards payments to the Bank of England arising under their guarantee. This would result in a net revenue drain, which in the absence of remedial action was likely to continue and which would further erode the Group's reserves and hence also its borrowing base.

### (e) Acknowledgement

The Accountants placed on record their appreciation of the considerable assistance given to them in the course of their work by the staff of the Group.

3rd September, 1976.