B&C's ANNUAL REPORT FOR 1976

The following remarks by B&C's chairman Sir Nicholas Cayzer are extracted from his statement published in the annual report and accounts:

I am pleased to be able to report a substantial increase in Group profits, before taxation and minority interests, at £25,184,000 as compared with £16,396,000 for 1975, and an improvement on the indication (over £20 million) which was given at the time of the announcement of the interim dividend.

Shipping and helicopter operations accounted for the major part of the increase in operating profits, with useful additions from aviation support services, The Wellington Hospital, the distribution of office equipment, engineering services and an aggregation of improvements from our smaller trading activities. On the other hand, increased losses were incurred in carrying on our leisure activities (arising in part from costs connected with the disposal of our interests in Castle Holidays and BCA Travel and the termination of the lease of one of our hotels in the Canary Islands) and our shipstores business in Holland.

In both shipping and helicopter operations the results show a marked advance on our original budgets, enhanced particularly in the case of shipping by profits of £3,392,000 arising on the disposal of ships. Of this figure £422,000 represents the release of a provision of additional depreciation made in earlier years out of profits on the disposal of ships. This provision was set up when it appeared that, owing to the introduction of containerisation in the South African trade, Pendennis Castle and Windsor Castle were likely to be retired from service before the end of their normal lives. As Windsor Castle has now been sold at a price in excess of her book value before deducting the provision, the remainder of the provision, amounting to £1,500,000 will no longer be required for the purpose for which it was created.

Last year a 49 per cent interest in the Wellington Hospital was sold to an American Hospital Group with option to acquire the remainder of the share capital. This option has been exercised so that from April 1, 1977, no further profits from this source will be for our account. This has been a satisfactory investment, but I retain the view that an undertaking of this kind has better scope for further development as part of a larger hospital group. We wish the new owners every success.

The shipstores business in Holland has been beset with difficulties. High operating costs combined with a strong guilder tended to make Rotterdam less competitive and this coincided with a general reduction in shipping activity. Furthermore, rates of interest increased and, owing to statutory regulations, the size of the staff could not be tailored to fit current conditions. Urgent attention has been and will continue to be given to the management problems involved in restructuring the operation.

Last year it was mentioned that we had an interest in two support ships for pipe-laying operations in the North Sea and that both were idle. A decision was taken by the consortium that it would not be justified in converting the second ship for this purpose and, accordingly, she was sold. A similar decision had to be taken regarding the continued ownership of the converted ship in a market situation where enquiries were numerous but where, owing to the nature of the work involved, any contract would not immediately bring the ship into service. We have concluded that, as part of the totality of a shipping operation, it is not unreasonable to take the longer view and, accordingly, we have acquired the one-half interest of our associate at a value which recognises market conditions. In all the circumstances, we have thought it prudent to make a provision of £3.25 millions to reduce the book value of our investment to take account of our share of the losses of this associate in respect of the 1976 trading, the loss on the disposal of the second ship and the writing down of the cost of the remaining ship, calculated by reference to a basic scrap value and the cost of conversion to present use.

In the past I dealt at considerable length with the losses arising on foreign currency loans raised to finance trading assets. With a further fall in the value of sterling, the realised loss in 1976 amounted to £1,430,000 and unrealised losses at December 31 amounted to £6,702,000. As the assets concerned are traded mainly in US dollars or under dollar-related contracts, trading receipts are enhanced by the additional value of the foreign currency.

A further small addition to our operating profits arises from a disposal of part of a purchase of approximately £1,100,000 of copper bars. The purchase was made at a time when sterling appeared very vulnerable and where the value of copper did not appear to reflect either this vulnerability or the then reduced purchasing power of the pound. Given these circumstances, a purchase of the metal appeared to be a reasonable hedge against currency risks.

Thus, in the result, operating profits, including profit on disposal of ships, increased from £10,739,000 to £17,802,000.

Income from dividends and interest received, less interest paid, has increased by £1,725,000 reflecting, *inter alia*, an increased dividend from The South African Marine Corporation. While our associate company, Overseas Containers Limited, paid a higher rate of dividend than in the previous year, our income from this source was reduced owing to the receipt in the previous year of a special dividend (£972,000) reflecting entitlements built up in earlier years. The reduction amounted to £530,000.

At this level profits rose from £16,396,000 to £25,184,000.

The effective rate of taxation shows a marked increase over that of the previous year. This arises, in the main, from the fact that losses incurred overseas are not available for offset against United Kingdom profits and that tax is payable in this country on dividends received from abroad subject to any relief for double taxation. In the year under review, profits earned in earlier years which had been included in the Group accounts for those years subject only to the appropriate rate of foreign tax, were received as dividends, with the effect that tax became payable on the remittances.

The amount attributable to minority interests has increased largely as a result of the increased profitability of the helicopter group and The Wellington Hospital, magnified in the case of the hospital where the participation occurred for the first time.

Thus, the final outcome at