

£10,254,000, before extraordinary items, shows an increase of £1,584,000.

While 1977 is the year of major change in the structure of the Group, to which I shall make further reference in dealing with future prospects, I feel that I should point out that the inevitability of this change has been recognised for at least fifteen years and that, during that period, we have been pursuing a strategy which would carry us into the future in a strong position.

With the coming into service in 1962 of Transvaal Castle, later sold to Safmarine and renamed SA Vaal, a reasonable carrying capacity for passengers had been achieved, but was still dependent on the use of three old "ladies" built to undertake the journey to the Cape in a leisurely 13½ days. Edinburgh and Pretoria and the three newer ships, Penderinis, Windsor and Transvaal, were capable of reducing the time to 11½ days and if two further ships of this speed were introduced, could perform the weekly Mail Service on the basis of a seven ship schedule as compared with the eight then in use.

Owing to the intervention of competition from the air, it did not appear appropriate to build further passenger ships, yet there could be no doubt that a seven-ship schedule would be more economic and efficient than operating with eight ships. In consequence, with the consent of the South African Government, the two cargo malls Good Hope and Southampton were built, which came into service in 1965. Thus, some twelve years later we can face the termination of the Mail Service with financial equanimity, but the end of a service which has played such a large part in the life of both this country and South Africa over 120 years cannot be viewed with other than sadness. I wish to thank all the men and women afloat and ashore, past and present, for the great contribution they have made to what by any standards must be regarded as a success story.

With the decision by OCL to participate in the containerisation of the trade, the result was inevitable and will leave the Group with only a few ships wearing the familiar lavender hulls and red and black funnels continuing to operate to and from South African ports. We wish OCL all possible good fortune in their new responsibilities.

If I have singled out for thanks those specially connected with the Mail Service it is because of the occasion, but equally I would wish to thank all those who have contributed and continue to contribute to the success of our Group.

With both Mr. A. E. Lemon and Mr. J. A. Thomson reaching the age of 65, we are now in process of re-constituting the management structure of the Group. Mr. Lemon will retire from the Board and while Mr. Thomson will remain a director, he will give up his position as Financial Director and concentrate on what I might call the merchant banking aspects of our under-

taking with which he has been intimately connected over many years.

Last year I thanked Mr. Lemon for his great service to the shipping interests of the Group. He has served for no less than 48 years in many capacities and I can but repeat our thanks for such long and valuable service and wish him and Mrs. Lemon many years of happiness.

### Shipping

The liner trades held up well, but of our six bulk carriers only one, which is on time-charter, made a contribution to profits. The South African Marine Corporation had another successful year to June 30, 1976, and the interim statement covering the half-year to December 31, 1976, indicates continued progress. OCL made a major step forward in profitability, though the company was careful to point out that substantial profits will be required over the years to generate the cash necessary for replacement of ships.

### Air transport

British Island Airways achieved a small, but welcome, profit.

### Underwriting

The 1974 Underwriting Year of The Scottish Lion Insurance Company Limited, which closed on December 31, 1976, was the worst in the company's history and produced a loss of £906,000.

Tax relief is available against this loss and with the provisions made against it in earlier years would on a conventional basis leave a balance in the Insurance Fund adequate to meet future liabilities related to premium income. Nevertheless, the directors have decided to make a transfer of £200,000 in order to strengthen the Fund.

The subsidiary, Marine Indemnity Insurance Company of America, contributed an underwriting profit of £102,000.

### Other activities

Special mention should be made of Leaderhall-Sterling Investments, in which the Group has an 80 per cent interest, whose profit before taxation increased from £242,000 for the nine months to December, 1975, to £511,000 for the year to December, 1976.

Improved trading results were achieved by our office machinery subsidiaries and a trading loss in 1975 in our Tasmanian timber interests was converted into a small profit.

### Investments

As stated, St. Mary Axe Holdings has now become a subsidiary and the results, which were satisfactory, have been consolidated for the last quarter of 1976.

Steel Brothers Holdings again achieved an improved profit, but as a result of the expansion of their business, are making a rights issue to ordinary and convertible preference shareholders. We have taken up our entitlement.

Other major interests now include

a stake of approximately 10 per cent in James Finlay & Co. and 5 per cent in Tricentral. Both shares have risen significantly since the date of acquisition. In this category I should refer to Country and New Town Properties, where the process of streamlining the UK operation continues and where overseas operations are progressing satisfactorily.

Generally, our portfolio of investments represents a wide spread in equities in various countries and on the whole will tend to follow market indices.

After the close of the year, Bricom Investments (a wholly-owned subsidiary) made an offer to acquire all shares in Menteith Investment Trust not already owned. The offer was successful and, in due course, Menteith should become a wholly-owned subsidiary. This Trust has a high proportion of its assets invested in significant stakes in smaller companies and is complementary to our other investment activities.

### Future prospects

Significant change will take place in the structure of our Group as a result of the containerisation of the South African trade. Our shareholding in Overseas Containers Limited will rise from 7.62 per cent to approximately 20 per cent, projected to take place on September 1 of this year. As this will mean that the future profits of a major part of our shipping undertaking will be represented by an increased shareholding in OCL, I think we shall have to examine what is the most appropriate means of accounting for our share of profits arising from this source.

The success of our shipping activities, and for that matter, our involvement in industry as a whole, must in the ultimate depend on the ability of our country to sustain a high level of exports, for without exports, we shall be unable to acquire the essential food and raw materials which we require to maintain our existence and give hope of future advancement.

While North Sea oil is a vital component in the equation, it will only be a palliative if it is squandered in giving short term benefits, perhaps designed to create a favourable political climate. We are regularly promised an improvement in the rate of inflation, but a cynic would suggest that the pot of gold at the end of the rainbow still appears to be somewhat distant.

We must not rely on chance; we must seek to balance our consumption with our production; we must not consume irreplaceable raw materials. Thus, returning to the North Sea, we have a duty to ensure that this valuable asset, which is finite in amount, is not dissipated, but used to create other assets which are capable of generating their own replacement and, in the meantime, provide the wherewithal to expand production.

Commonsense is defined as "good practical sense in everyday matters" and if we apply this concept it can do much for us.