Slater, Walker Securities Limited

J. D. Slater, F.C.A. (Chairman)
A. J H. Buckley, LL.B., F.C.A. (Managing Director)
F. R. R. Rowe, LL.B. (Deputy Managing Director)
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Our Ref: MRF/CW

18th September, 1972.

Private & Confidential

P. Chan, Esq.,
Managing Director,
Inter-Asia Travel Co. Ltd.,
50 Curzon Street,
Mayfair,
London, W.1.

Dear Mr. Chan,

Following our meeting on the 15th September, I have now had the opportunity to raise briefly with Wrensons Limited the possibility of the acquisition by them of the capital allowances which you expect to arise to one of your companies on the purchase of two aircraft.

I can advise you that the initial reaction of the "Wrenson Group" is that they are interested in pursuing the matter further. I expect to be in a position to write to you again in about a week when I expect to set out in broad outline both the "Wrensons" proposals and my comments on how the envisaged capital allowances could be made available to the "Group". It should then be possible for both parties to consider if they wish to proceed and have further discussions on this matter.

Yours sincerely,

M.R. Fairs

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Ref: MRF/CF

26th September, 1972

P. Chan, Esq.,
Managing Director,
Inter-Asia Travel Co. Ltd.,
50 Curzon Street,
Mayfair,
London, W.1.

Dear Mr. Chan,

I refer to my letter of 18th September, and would advise you that Wrensons Stores Limited have indicated that they would be prepared to pay 20p in the pound for the taxation losses, as adjusted after the inclusion of capital allowances which are agreed with the Inspector of Taxes as being available for group relief to the Wrensons Group. The scheme below is one of the means by which this relief might be made available. It has been used quite widely and appears to be accepted by the Inland Revenue.

The scheme by which the capital allowances arising on your acquisition of the two aircraft could effectively be transferred to "Wrensons" would require a holding company to be formed in which you and your associates, if any, would hold all the share capital. Alternatively, a suitable company may already be in existence and there is no reason why such a company should not already be trading. This company would then acquire a "clean" subsidiary company, which I will call S Limited, having an authorised and issued share capital of £101 made up as follows:-

100 10% participating non-cumulative preference shares of £1 each
20 ordinary shares of 5p each.

S. Limited would then acquire the aircraft and arrange the leasing, etc. I assume this would not cause any problems, but the question of the option agreement will need to be considered by your advisers. Wrensons Stores Limited would then acquire the 100 10% £1 preference shares at par (i.e. £100). Your holding company would acquire the 20 ordinary shares at a price to be determined by the Company. I would suggest that for the U.K. Capital Gains tax purposes that any financing of the aircraft should not be in the form of ordinary loans but on a security (e.g. debenture). It is essential that S Limited must be able to satisfy the U.K. Revenue authorities that it has its central management and control in the U.K. if capital allowances are to be available to it and the agreement with the Wrensons Group for the payment for the tax losses would be conditional on their being available to that Group.

Wrensons, as holders of the preference shares, will participate in the profits. The profits which S Limited may determine to distribute in respect of any financial year will firstly be distributed in payment to the holders of the preference shares and a non-cumulative dividend of 10% will be paid. Secondly, any balance of the profits will be distributed among the holders of the preference shares and the ordinary shares according to the amount paid up on the share capital, but subject to a limit in respect of the preference shares of 50% of the nominal value of those shares. The balance remaining will be distributed among the holders of the ordinary shares. The maximum dividend receiveable by Wrensons would only be £60 per annum (i.e. 10% on the 100 £1 preference shares plus £50, being 50% of the nominal value of the 100 preference shares). It is quite probable that no dividend will be paid. It will also be necessary that the articles of association of the subsidiary company require that on a return of assets on a liquidation the holders of the preference shares would participate in profits up to a limit of, say, 50% of the nominal value of the shares. Thus, the maximum payment in respect of the 100 preference shares would be £150 (i.e. the nominal value of the preference shares, plus 50% of their nominal value).

It should then be possible to satisfy the Inland Revenue that both the preference and ordinary shares will be classed as "ordinary share capital" (Section 526 (5) Taxes Act, 1970) for the purpose of determining whether S Limited is a 75% subsidiary of Wrensons Stores Limited (within the definition contained in Section 532 (1)(b) Taxes Act, 1970). S Limited and Wrensons Stores Limited

will then be members of a group for the purpose of Section 258 (5) (a) Taxes Act, 1970 and from this it should follow that any losses from S Limited which will be arrived at after the inclusion of capital allowances should be available for group relief purposes to Wrensons.

No doubt you will need to consult your legal and taxation advisers as to whether they are satisfied with the basic scheme which has been briefly outlined above. In your circumstances they may wish to give further consideration to certain aspects of it.

At this stage I would point out that it is not clear as to what percentage of the capital allowances will be available in the first period as this will depend on the date when the expenditure will be deemed to be "incurred" for taxation purposes. If this is agreed as being between 26th October, 1970 and the present time, the first year's allowances could vary from 60% to 100% of the total capital expenditure.

I would point out that Wrensons would in no way wish to be involved in the management of the new subsidiary and for accounts purposes the company would be a subsidiary of your company. The preference shares would then be sold back to you at a later date, although for the scheme to be successful, no actual agreement to this effect would be given.

If you are agreeable to the terms outlined above and wish to proceed with the scheme, I would advise you that Wrensons would expect both parties to bear 50% each of the expenditure of forming the new company and of going to Tax Counsel to clear the scheme. However, if Counsel approves the scheme and it is carried through, Wrensons would be prepared to pay all the expenses of forming this company and going to Counsel. It would be intended that your holding company would be left with all the shares of the subsidiary company after, say, a couple of years and it would then be for you to decide the future of the company.

Yours sincerely,

M.R. Fairs.