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QUAKER OATS LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30TH JUNE, 1980

The directors have pleasure in presenting their report together with the audited accounts for the year ended 30th June, 1980.

**PRINCIPAL ACTIVITIES:**

The principal activities of the Group were the manufacture and sale of grocery products and toys and the sale of chemicals.

Contributions to Group profit before taxation were as follows:-

	<u>Per cent of</u> <u>Group sales</u>		<u>Per cent of</u> <u>Profit before tax</u>	
	<u>1980</u>	<u>1979</u>	<u>1980</u>	<u>1979</u>
Grocery products	75	69	53	51
Chemicals	6	9	16	24
Toys	<u>19</u>	<u>22</u>	<u>31</u>	<u>25</u>
	100%	100%	100%	100%
	====	====	====	====

**PROFIT:**

The Group's net profit for the year ended 30th June, 1980 was £1,916,000 (1979 - £3,005,000 including an exceptional credit of £1,148,000 in respect of earlier years stock appreciation relief). The directors feel that the 1980 net profit of, £1,916,000 reflects the difficult economic conditions experienced during the year. No dividend is proposed and consolidated retained earnings of £15,055,000 will be carried forward.

14 FEB 1981

DIRECTORS;

The directors who served during the year were:-

R. G. Lagden	-	Chairman
G. J. Yapp (U.S.A.)	-	Managing
F. G. Earwaker		
P. W. Gibbs		
A. S. Hart (U.S.A.)		
H. W. Hooper		
R. D. Jaquith (U.S.A.)		
F. J. Morgan (U.S.A.)		
J. A. Nelson (U.S.A.)		
R. D. Stuart Jr. (U.S.A.)		

Directors retiring by rotation are Mr. P. W. Gibbs, Mr. H. W. Hooper, and Mr. R. D. Stuart Jr. who, being eligible, offer themselves for re-election.

None of the directors had any beneficial shareholdings in the U.K. Group of companies at any time during the year.

EMPLOYEES:

The average weekly number of employees was 1,960 (1979 - 1,702) and the aggregate remuneration paid to all employees during the year was £9,132,000 (1979 - £7,399,000). The increase in employees has arisen because of business growth in toys and merchandising.

CHARITABLE DONATIONS:

The Group made donations to charitable organisations during the year amounting to £2,801 (1979 - £1,274).

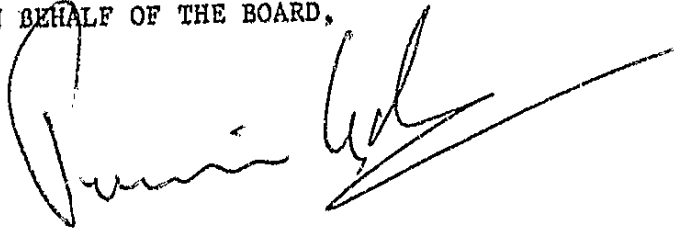
EXPORTS:

The value of goods exported from the United Kingdom by the Group during the year was £4,490,000 (1979 - £5,110,000).

AUDITORS:

Messrs. Arthur Andersen & Co. have indicated that they are willing to continue as auditors, and accordingly a resolution will be proposed to reappoint them at the Annual General Meeting.

ON BEHALF OF THE BOARD,

A handwritten signature in dark ink, appearing to read 'R. G. Lagden', with a long, sweeping horizontal stroke extending to the right.

R. G. Lagden  
Chairman

QUAKER OATS LIMITED AND SUBSIDIARIES

REPORT OF THE AUDITORS

To the Members of Quaker Oats Limited:

We have examined the balance sheets of QUAKER OATS LIMITED and the consolidated balance sheets of QUAKER OATS LIMITED AND SUBSIDIARIES at 30th June, 1980 and 1979 and the related consolidated statements of profit and loss and source and application of funds for the years ended on those dates, prepared on the historical cost basis.

In our opinion, the accompanying accounts give a true and fair view, on the historical cost basis, of the state of affairs of the Company and the Group at 30th June, 1980 and 1979, and of the profit and source and application of funds of the Group for the years ended on those dates, and comply with the Companies Act 1948 and 1967.

8th September, 1980

*Arthur Andersen & Co.*

ARTHUR ANDERSEN & CO.,  
1 Surrey Street,  
London, WC2R 2PS

QUAKER OATS LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF PROFIT AND LOSS  
FOR THE YEARS ENDED 30th JUNE, 1980 AND 1979

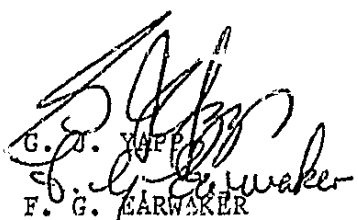

	<u>Notes</u>	<u>1980</u> <u>£'000</u>	<u>1979</u> <u>£'000</u>
NET SALES	1	69,785	67,416
COST OF SALES AND EXPENSES		66,609	63,218
		<hr/>	<hr/>
Profit before taxation and extraordinary item	7	<u>3,176</u>	<u>4,198</u>
TAXATION:			
Corporation tax, including deferred taxation of £2,846,000 (1979 - £1,389,000)	1	1,632	2,341
Exceptional credit (all relating to deferred taxation) arising from the provisions of the Finance (No. 2) Act. 1979, by which claims made for stock appreciation relief in 1973 and 1974 have become permanent reliefs.		-	(1,148)
		<hr/>	<hr/>
		<u>1,632</u>	<u>1,193</u>
Profit before extraordinary item		1,544	3,005
EXTRAORDINARY ITEM, net of taxation	6 & 8	<u>372</u>	<u>-</u>
Net profit	7	1,916	3,005
RETAINED EARNINGS, beginning of year		13,139	10,134
		<hr/>	<hr/>
RETAINED EARNINGS, end of year		<u>15,055</u> =====	<u>13,139</u> =====

The accompanying notes are an integral part of these statements.

QUAKER OATS LIMITED AND SUBSIDIARIES

BALANCE SHEETS -- 30th JUNE, 1980 AND 1979

	Notes	COMPANY		CONSOLIDATED	
		1980 £'000	1979 £'000	1980 £'000	1979 £'000
CURRENT ASSETS:					
Cash and short-term deposits		89	2,799	89	2,964
Accounts receivable and prepaid expenses		6,978	4,950	8,361	6,776
Inventories	1 & 2	10,271	7,873	14,153	10,939
Due from parent and fellow-subsiidiaries	11	3,373	1,383	472	395
Taxation racoverable		1,070	-	1,070	-
		<hr/>	<hr/>	<hr/>	<hr/>
		21,781	17,005	24,145	21,074
CURRENT LIABILITIES:					
Bank overdrafts and loans	3	1,701	316	1,753	340
Accounts payable and accrued expenses		5,805	4,857	6,375	5,921
Taxation payable	1	-	1,158	-	1,250
Due to parent and fellow-subsiidiaries	11	6,266	4,205	4,737	4,502
		<hr/>	<hr/>	<hr/>	<hr/>
		13,772	10,536	12,865	12,013
		<hr/>	<hr/>	<hr/>	<hr/>
Net current assets		8,009	6,469	11,280	9,061
PROPERTY, PLANT AND EQUIPMENT, net					
	1 & 4	12,572	10,259	12,884	10,359
INVESTMENT IN SUBSIDIARIES					
	1 & 5	2,296	1,849	-	-
GOODWILL					
	1 & 5	751	805	751	805
DEFERRED TAXATION					
	1 & 6	(7,970)	(5,568)	(9,257)	(6,411)
DEFERRED GOVERNMENT GRANTS					
	1	(103)	(175)	(103)	(175)
		<hr/>	<hr/>	<hr/>	<hr/>
Net assets		15,555	13,639	15,555	13,639
		=====	=====	=====	=====
Representing -					
SHAREHOLDERS' INVESTMENT:					
Share capital - authorised, issued and fully-paid - 500,000 shares of £1 each		500	500	500	500
Retained earnings		15,055	13,139	15,055	13,139
		<hr/>	<hr/>	<hr/>	<hr/>
		15,555	13,639	15,555	13,639
		=====	=====	=====	=====

G. S. YAPP  
 F. G. EARWAKER

)  
 ) Directors

The accompanying notes are an integral part of these balance sheets.

QUAKER OATS LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS  
FOR THE YEARS ENDED 30th JUNE, 1980 AND 1979

	<u>1980</u> £'000	<u>1979</u> £'000
<b>SOURCES OF FUNDS:</b>		
Operations -		
Profit before extraordinary item	1,544	3,005
Add or (deduct) items not involving cash flow during the year -		
Depreciation	930	751
Amortisation of interest relief grant	(207)	(185)
Amortisation of goodwill	54	55
Net increase in deferred taxation	2,846	241
Net (gain) loss on disposal of property, plant and equipment	(320)	117
Total funds from operations	<u>4,847</u>	<u>3,984</u>
Proceeds from sale of property, plant and equipment	807	113
Extraordinary item, net of taxation	372	-
Interest relief grant received	135	360
Total funds provided	<u>6,161</u>	<u>4,457</u>
<b>USES OF FUNDS:</b>		
Purchases of property, plant and equipment	3,942	1,765
Increase in net current assets	2,219	2,692
Reflecting -	=====	=====
<b>INCREASES (DECREASES) IN NET CURRENT ASSETS:</b>		
Net liquid funds -		
Cash and short-term deposits	(2,875)	2,829
Bank overdrafts and loans	(1,413)	554
	<u>(4,288)</u>	<u>3,383</u>
Accounts receivable and prepaid expenses	1,585	803
Inventories	3,214	435
Due from parent and fellow-subsiidiaries	77	(484)
Taxation recoverable	1,070	-
Accounts payable and accrued expenses	(454)	(1,062)
Taxation payable	1,250	(782)
Due to parent and fellow-subsiidiaries	(235)	399
	<u>2,219</u>	<u>2,692</u>
	=====	=====

The accompanying notes are an integral part of these statements.

QUAKER OATS LIMITED AND SUBSIDIARIES

NOTES TO ACCOUNTS -- 30th JUNE, 1980 AND 1979

1. SUMMARY OF ACCOUNTING POLICIES:

- a) Basis of presentation and consolidation -  
The accompanying consolidated accounts have been prepared on the historical cost basis and include the accounts of the Company and its five wholly-owned subsidiaries, Sutherlands Foods Limited, Felix Catfood Limited, Felix Pet Foods Limited, Fisher-Price Toys Limited, and Merchandising and Sales Services Limited. Only the last two subsidiaries are operating companies.

The effect of all significant intercompany transactions has been eliminated.

- b) Translation of foreign currencies -  
Purchases transacted in foreign currencies are recorded in sterling at the exchange rates prevailing at the dates of the transactions.

Foreign currency balances at year-end are translated into sterling at the approximate rates ruling at that date. Any resultant gains or losses (immaterial in 1980 and 1979) are reported in the statement of profit and loss.

- c) Inventories (Note 2) -  
Inventories of grocery and chemical products (£8,668,000; 1979 - £7,177,000) are stated at the lower of quarterly average cost and net realisable value. Inventories of toys (£5,485,000; 1979 - £3,762,000) are stated at the lower of first-in, first-out cost and net realisable value.
- d) Investment in subsidiaries (Note 5) -  
Investment in subsidiaries is stated at the Company's equity in the net assets of the subsidiaries, less advances from non-trading subsidiaries.
- e) Goodwill (Note 5) -  
Goodwill represents the excess of the cost of investment in subsidiaries over the net tangible assets at the date of acquisition and is stated at cost, less accumulated amortisation.

The goodwill of £544,026 which arose on the acquisition of one subsidiary is being amortised on a straight-line basis over ten years to 30th June, 1983. The goodwill which arose on other acquisitions was amortised until 1970, but has not been amortised since.



- f) Property, plant and equipment (Note 4) -  
Property, plant and equipment are stated at cost (net of regional development grants) less accumulated depreciation. The Group has provided depreciation to write off the cost of the assets over their estimated useful lives on a straight-line basis at the following annual, composite rates -

Land and construction-in-progress	-	Nil
Buildings	-	2½% to 20%
Plant and machinery	-	5% to 12 1/2%
Office furniture and equipment	-	10%
Computer Equipment	-	25%
Motor vehicles	-	25%
Moulds and testing equipment	-	25% to 33 1/3%

- g) Government grants -  
Regional development grants are credited to the cost of the assets concerned.

Interest relief grants are classified as deferred government grants when received, and are amortised by varying amounts each year, calculated as the notional annual cost of funding the new operations for which the grants are made.

- h) Net sales -  
Net sales represent the invoiced value of shipments to customers, less returns, allowances and VAT.

- i) Taxation (Note 6) -  
The charge for corporation tax has been based on the profit before taxation adjusted for expenses not allowable for tax and in 1980 and 1979 is stated after a write-back of under and over provisions in prior years. The rate of corporation tax in 1980 and 1979 was 52%.

Deferred taxation has been fully provided, on the liability method (which approximates historical rates), where the directors are unable to conclude with certainty that there will not be a reversal of timing differences in the foreseeable future. Deferred taxation represents mainly corporation tax deferred due to -

- the difference between book and tax depreciation and
- stock appreciation relief.

## 2. INVENTORIES:

Inventories comprise -

	Company		Consolidated	
	1980	1979	1980	1979
	£'000	£'000	£'000	£'000
Finished product	5,274	4,314	9,156	7,380
Raw materials	4,997	3,559	4,997	3,559
	10,271	7,873	14,153	10,939
	=====	=====	=====	=====

## 3. BANK OVERDRAFTS AND LOANS :

At 30th June, 1980 and 1979 the Company and the Group had overdraft facilities of £5,450,000.

The Company also has irrevocable loan facilities of £4,000,000 for periods of up to five years. At 30th June, 1980 these facilities were unused (1979 - also unused).

4. PROPERTY, PLANT AND EQUIPMENT:

Movement on these accounts for the Company and the Group during the year ended 30th June, 1980, was as follows -

a) Company -

	Total £'000	Freehold Land £'000	Buildings £'000	Plant, machinery and vehicles £'000	Construction -in- progress £'000
Cost -					
Balance, 1st July, 1979	13,643	710	2,755	9,216	962
Additions	3,661	-	21	749	2,891
Retirements	(823)	-	(59)	(764)	-
Transfers	-	-	146	1,222	(1,368)
Balance, 30th June, 1980	16,481	710	2,863	10,423	2,485
Accumulated depreciation -					
Balance, 1st July, 1979	3,384	-	617	2,767	-
Provision	881	-	89	792	-
Retirements	(356)	-	(28)	(328)	-
Balance, 30th June, 1980	3,909	-	678	3,231	-
Net -					
1980	12,572	710	2,185	7,192	2,485
1979	10,259	710	2,138	6,449	962

b) Group -

Cost -					
Balance, 1st July, 1979	13,902	710	2,755	9,475	962
Additions	3,942	-	21	1,030	2,891
Retirements	(866)	-	(59)	(807)	-
Transfers	-	-	146	1,222	(1,368)
Balance, 30th June, 1980	16,978	710	2,863	10,920	2,485
Accumulated depreciation -					
Balance, 1st July, 1979	3,543	-	617	2,926	-
Provision	930	-	89	841	-
Retirements	(379)	-	(28)	(351)	-
Balance, 30th June, 1980	4,094	-	678	3,416	-
Net -					
1980	12,884	710	2,185	7,504	2,485
1979	10,359	710	2,138	6,549	962

5. INVESTMENT IN SUBSIDIARIES:

	1980 £'000	1979 £'000
a) Investment in subsidiary companies at 30th June, 1980 and 1979 comprises-		
Cost of shares	3,190	3,190
Increase in the underlying net assets reported since acquisition	2,330	1,883
Advances, interest free and with no fixed repayment date	(1,578)	(1,578)
Accumulated amortisation of goodwill	(895)	(841)
	<u>3,047</u>	<u>2,654</u>
	=====	=====
b) The investment is analysed in the balance sheet of the company as -		
Investment in subsidiaries	2,296	1,849
Goodwill	<u>751</u>	<u>805</u>
	<u>3,047</u>	<u>2,654</u>
	=====	=====

6. DEFERRED TAXATION:

- a) Deferred taxation at 30th June, 1980 and 1979 comprises amounts relating to -

	Company		Consolidated	
	1980 £'000	1979 £'000	1980 £'000	1979 £'000
Differences between book and tax depreciation	5,280	4,071	5,391	4,097
Stock appreciation relief	2,743	1,497	4,052	2,359
Tax effect of losses carried forward	-	-	(64)	(45)
Short-term timing differences	(53)	-	(122)	-
	<u>7,970</u>	<u>5,568</u>	<u>9,257</u>	<u>6,411</u>
	=====	=====	=====	=====

- b) The only deferred taxation that has not been provided is that in respect of the capital gain arising from the disposal of assets destroyed by fire (note 8) because, in the opinion of the directors, no liability is likely to arise in the foreseeable future. The potential liability to Capital Gains Tax is approximately £100,000.

7. SUPPLEMENTARY INFORMATION:

- a) The net profit dealt with in the accounts of the Company before reflecting the Company's equity in the profits of its subsidiaries amounted to £1,466,000 (1979 - £1,871,000).

- b) Profit before taxation and extraordinary item has been determined after accounting for the following items -

	<u>1980</u> <u>£'000</u>	<u>1979</u> <u>£'000</u>
Income -		
Interest income	393	384
Amortisation of interest relief grant	207	185
	===	===
Expense -		
Directors' emoluments for management services	139	146
Amortisation of goodwill	54	55
Depreciation	930	751
Auditors' remuneration	50	41
Hire of equipment	304	178
Interest on bank loans and overdrafts	158	49
	===	===

- c) The emoluments, excluding pension contributions, of the Chairman amounted to £6,121 (1979 - £6,292). The emoluments, excluding pension contributions, of the highest-paid director amounted to £32,422 (1979 - £45,552).

The emoluments of the directors fell into the following brackets -

		<u>Number of directors</u> <u>1980</u>	<u>1979</u>
ENIL	- £ 5,000	5	5
£ 5,001	- £10,000	1	2
£20,001	- £25,000	-	3
£25,001	- £30,000	2	-
£30,001	- £35,000	2	-
£45,001	- £50,000	-	1
		===	===

The remuneration of employees receiving over £20,000, excluding pension contributions, fell into the following brackets -

		<u>1980</u>	<u>1979</u>
£20,001	- £25,000	2	-
£25,001	- £30,000	2	1
		===	===

#### 8. EXTRAORDINARY ITEM:

On 26th July, 1979 the Company's main raw materials warehouse and certain related plant and equipment were destroyed by fire.

Although the Company's insurance claim relating to the loss has yet to be agreed by the insurers, the company has estimated that a profit of £400,000 will be realised and has provided for the related taxation of £28,000 arising in connection with the recapture of capital allowances. As described in Note 6, the Company has not provided for the taxation, of approximately £100,000, on the resultant capital gain. This profit arises from the excess of the estimated insurance proceeds over the written down book value of the assets destroyed.

9. PENSION PLANS:

The Company has established pension plans which cover substantially all the full-time employees of the Group.

Contributions by the Group for the year were £395,294 (1979 - £354,509). The last actuarial valuations of the plans were made as at 6th April, 1979 and disclosed that there were no unfunded past service liabilities at that date.

10. CAPITAL COMMITMENTS:

Capital commitments at 30th June, 1980 and 1979 for the Company and the Group were as follows -

	<u>1980</u> <u>£'000</u>	<u>1979</u> <u>£'000</u>
Contracts for capital expenditure	678	267
Capital expenditure authorised by the Board of Directors but not contracted for	2,968	451
	<u>3,646</u> =====	<u>718</u> =====

11. ULTIMATE PARENT COMPANY:

The ultimate parent company is The Quaker Oats Company, incorporated in the State of New Jersey, U.S.A.