Quaker Oats Limited

Directors' report and financial statements

Registered Number 64262

31 December 2001

Contents

Directors' report

The directors have pleasure in presenting their annual report, together with the audited financial statements, for the year ended 31 December 2001.

Principal activity

The principal activity of the company was the processing and sale of grocery products. During the year substantially all products were sold to Quaker Trading Limited.

Results and business review

Turnover for the year ended 31 December 2001 was £34,399,000 *(2000: £32,533,000)* and the profit before taxation for the year was £5,393,000 *(2000: £1,882,000).*

The proposed dividend for the year was £nil *(2000: £2,800,000).*

On 24 July 2001 the company was sold to Quaker Foods Limited, another group company.

On 2 August 2001 the ultimate parent company of the group, The Quaker Oats Company merged with PepsiCo inc.

Post balance sheet event

On 31 July 2001, Quaker Oats Ltd gave notice to Quaker Trading Ltd that Quaker Oats Ltd was cancelling its licence agreements with Quaker Trading Ltd, effective 29 December 2001. Quaker Oats Ltd now uses the trademarks for its own business, with Quaker Trading Ltd providing sales and distribution services for an interim period.

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the company exceeds the book values of these assets at 31 December 2001.

Payment of suppliers

The company's policy is to pay suppliers at the end of the month following that in which the supplier's invoice is received, and this policy is made known to all suppliers on request. The number of supplier's days outstanding at the year end was 27 days *(2000: 30 days).*

Directors' report *(Continued)*

Directors

The directors who served during the year and subsequently were:

M Welch	(resigned 13 May 2002)
G Sewell	
R Bouchier	
R Schellekens	(appointed 8 March 2002)
S Fraser	(appointed 20 March 2002)
G Legge	(appointed 20 March 2002)

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the company. There were no other interests in group companies requiring disclosure under the Companies Act 1985.

Disabled employees

Applications for employment from registered disabled persons are dealt with on the basis of aptitude and ability for the job concerned. In the event of employees becoming disabled, continuity of employment and relevant training are arranged whenever possible. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be no different from those of any other employee.

Employee consultation

The company places a high value on employee contribution to business success. Teamwork in the organisation is promoted through training workshops, the use of multifunctional groups, and the involvement of all levels of employees in contributing ideas and solutions to projects.

The communication of company goals and business performance is actively encouraged.

Auditors

KPMG were re-appointed auditors on 3 December 2001. However, since that date their audit practice was transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 12 June 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising.

By order of the board

George Sewell

G Sewell
Director

5 August 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements: and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

Arlington Business Park
Theale
Reading, RG7 4SD
United Kingdom

Report of the independent auditors to the members of Quaker Oats Limited

We have audited the financial statements on pages 5 to 14.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditors

29 August 2002

Profit and loss account
for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
Turnover	2	**34,399**	32,533
Cost of sales		**(22,742)**	(22,261)
Gross profit		**11,657**	10,272
Administrative expenses		**(10,014)**	(8,722)
Other operating income		**3,776**	332
Operating profit		**5,419**	1,882
Interest receivable and similar income		**1**	-
Interest payable on similar charges	3	**(27)**	-
Profit on ordinary activities before taxation	4,5	**5,393**	1,882
Tax on profit on ordinary activities	6	**(1,320)**	(526)
Profit for the financial year		**4,073**	1,356
Dividends proposed	7	**-**	(2,800)
Retained profit/(loss) for the financial year		**4,073**	(1,444)

All activities are derived from continuing operations. There are no recognised gains or losses other than the profit for the year.

Balance sheet
as at 31 December 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Intangible assets	*8*	**-**	72
Tangible assets	*9*	**18,437**	14,807
		18,437	14,879
Current assets			
Stocks	*10*	**3,365**	2,269
Debtors	*11*	**3,822**	4,483
Cash at bank and in hand		**240**	270
		7,427	7,022
Creditors: amounts falling due within one year	*12*	**(8,456)**	(8,555)
Net current liabilities		**(1,029)**	(1,533)
Total assets less current liabilities		**17,408**	13,346
Provisions for liabilities and charges	*13*	**(2,384)**	(2,395)
Net assets		**15,024**	10,951
Capital and reserves			
Called up share capital	*14*	**500**	500
Profit and loss account	*15*	**14,524**	10,451
Equity shareholders' funds	*15*	**15,024**	10,951

The financial statements were approved by the board of directors on 5 August 2002 and signed on its behalf by:

George Sewell

G Sewell
Director

Notes

(forming part of the financial statements)

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Under FRS 1 (Revised) the company is exempt from the requirement to prepare a cashflow statement on the grounds that a parent undertaking includes the cashflows of the company in its own consolidated financial statements.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for permanent impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Buildings	2.0%
Plant and machinery	6% to 10%
Office furniture	10%
Computer equipment	33.3%

Where there has been an impairment in the book value of any tangible fixed assets, the impairment is charged to the profit and loss account in the period in which it is identified.

Purchased goodwill

Purchased goodwill is stated at cost and is amortised over the shorter of 20 years and its estimated useful economic life.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of VAT, returns and trade discounts.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities) has been calculated on the liability method. Deferred tax is provided at the rates of tax likely to be in force at the time that they will probably reverse on all timing differences, only to the extent that they are expected to reverse in the foreseeable future.

Pension costs

The company participates in the Quaker Pension Scheme which is a defined benefit scheme run by Quaker Trading Limited. The company also contributes to a group defined contribution scheme run by Quaker Trading Limited.

The amount charged to the profit and loss account for both schemes represents the amounts recharged by Quaker Trading Limited.

Foreign currency

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the current year end are translated at the year end exchange rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the profit and loss account.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

2 Segment information

Turnover of the company is generated from the manufacture and sale of breakfast cereal and related products.

Substantially all products were sold to the parent company in the current and prior year.

3 Interest payable and similar charges

	2001 **£000**	2000 £000
To other group companies	**27**	--

Notes *(continued)*

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2001	2000
	£000	£000
Amortisation of goodwill	**72**	60
Depreciation of tangible fixed assets	**1,756**	1,779
Operating lease rental- plant and machinery	**117**	175

Auditors' remuneration in the current and previous year has been borne by the parent company. No amounts were payable for non-audit services in either year.

5 Staff costs

Employee costs during the year (including executive directors) are as follows:

	2001	2000
	£000	£000
Wages and salaries	**6,330**	6,522
Social security costs	**478**	510
Other pension costs (see note 16c)	**390**	289
	7,198	7,321

The average monthly number of persons employed by the company during the year was as follows:

	2001	2000
	No.	No.
Manufacturing	**210**	210
Administration	**50**	48
	260	258

Directors remuneration

The directors received no emoluments for services provided to the company *(2000: £nil)*

Notes *(continued)*

6 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	2001	2000
	£000	£000
Corporation tax at 30% *(2000:30%)*	**1,653**	595
Deferred taxation (see note 13)	**(12)**	93
	1,641	688
Adjustment of UK Corporation tax in respect of prior years	**(321)**	(162)
	1,320	526

7 Dividends

	2001	2000
	£000	£000
Dividend proposed	**-**	2,800

8 Intangible fixed assets

The net book value of intangible fixed assets comprises purchased goodwill relating to the purchase of the assets and trade of AR Scott Limited in 1982.

The movement in the year was as follows:

	£000
Cost	
At 31 December 2000 and at 31 December 2001	1,172
Amortisation	
At 31 December 2000	1,100
Charge during the year	72
At 31 December 2001	1,172
Net book value	
At 31 December 2001	**-**
At 31 December 2000	72

Notes *(continued)*

9 Tangible fixed assets

	Freehold land and buildings	Plant and equipment	Assets in course of construction	Total
	£'000	£'000	£'000	£'000
Cost				
At 31 December 2000	5,812	27,750	1,045	34,607
Additions	-	100	5,506	5,606
Transfers	59	1,356	(1,415)	-
Disposals	(116)	(494)	-	(610)
At 31 December 2001	5,755	28,712	5,136	39,603
Depreciation				
At 31 December 2000	2,107	17,692	1	19,800
Charge in year	164	1,583	9	1,756
Transfers	9	(9)	-	-
Disposals	(45)	(345)	-	(390)
At 31 December 2001	2,235	18,921	10	21,166
Net book value				
At 31 December 2001	**3,520**	**9,791**	**5,126**	**18,437**
At 31 December 2000	3,705	10,058	1,044	14,807

Freehold land of £172,727*(2000: £172,727)* has not been depreciated.

10 Stocks

	2001	2000
	£000	£000
Raw materials	**3,358**	2,259
Work-in-progress	**7**	10
	3,365	2,269

The value of consignment stock included in raw materials held by the company at the end of the year was £1,517,000 *(2000: £1,288,000)*. Although the stock remains the property of the consigner until Quaker decides to transfer the stock into its ownership (based on usage in production) Quaker bears the key risks and rewards of ownership.

Notes *(continued)*

11 Debtors: amounts falling due within one year

	2001 £000	2000 £000
Trade debtors	**130**	163
Amounts due from group undertakings and other related undertakings	**3,103**	3,831
VAT receivable	**306**	232
Other debtors	**229**	182
Prepayments and accrued income	**54**	75
	3,822	4,483

The amounts due from group undertakings are interest free and repayable on demand.

12 Creditors: amounts falling due within one year

	2001 £000	2000 £000
Trade creditors	**2,859**	2,486
Dividend proposed	**-**	2,800
UK corporation tax payable	**625**	404
Social security and PAYE	**163**	159
Accruals and deferred income	**4,809**	2,706
	8,456	8,555

13 Provisions for liabilities and charges

	Deferred taxation £000
At 31 December 2000	2,396
Released in the year	(12)
At 31 December 2001	**2,384**

There is no unprovided deferred tax since in the view of the directors all timing differences are expected to reverse. Deferred tax provided comprises the excess of tax allowances over book depreciation of fixed assets.

Notes *(continued)*

14 Called up share capital

	2001	2000
	£000	£000
Authorised, allotted, called up and fully paid		
500,000 ordinary shares of £1 each	**500**	500

15 Reconciliation of movements in shareholders' funds

	Share capital	**Profit and loss account**	**Total shareholders' funds**
	£000	**£000**	**£000**
Beginning of year	500	10,451	10,951
Profit for the financial year	-	4,073	4,073
End of year	**500**	**14,524**	**15,024**

16 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, there were contracted capital commitments of £612,000 *(2000:£21,799)*.

b) Lease commitments

The company has entered into a number of leases in respect of plant and machinery, for which the minimum future annual rentals are as follows:

	2001	2000
	£000	£000
Operating leases which expire		
Within one year	**46**	101
Within two to five years	**71**	74
	117	175

c) Pension arrangements

The company is a member of the Quaker Trading Limited defined benefit and defined contribution pension schemes. Any pension costs charged are based on contribution rates across the group as a whole, assessed by a qualified actuary. The costs recognised in the company are based upon contributions made and pension costs recharged by the immediate parent company in the year. Full disclosure of the group pension scheme is included in the financial statements of Quaker Trading Limited.

i Defined contribution scheme

The pension cost charge relating to this scheme for the period was £167,000 *(2000: £168,000)*

ii Defined benefit scheme

Notes *(continued)*

The combined pension cost charge relating to this scheme for the period was £223,000 *(2000: £121,000)*.

17 Ultimate parent company

The company is a subsidiary undertaking of PepsiCo Inc. a company registered and incorporated in the United States of America.

The largest group in which the results of the Company are consolidated is that headed by PepsiCo Inc. The smallest group in which they are consolidated is that headed by Quaker Trading Ltd, a company incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of these groups are available to the public and may be obtained from their respective registered offices as follows:

Quaker Trading Ltd
Po Box 24
Bridge Road
Southall
Middlesex
UB2 4AG

PepsiCo Inc
700 Andersen Hill Road
Purchase
New York 10577
USA

18 Related party transactions

The company has taken advantage of the exemption conferred by FRS 8 not to disclose details of transactions with companies in the same group on the grounds that it is a wholly owned subsidiary undertaking of PepsiCo Inc, a company whose consolidated accounts are available to the public, as detailed in note 17.