

ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO, SC

Quaker Oats Limited

Financial statements 31 December 1995
together with directors' and auditors' reports

Registered number: 64262



Directors' report

The directors have pleasure in presenting their report, together with the audited financial statements, for the period ended 31 December 1995.

Accounting reference date

On 28 June 1995 the directors passed a resolution to change the accounting reference date from 27 January to 31 December. The new accounting reference date was adopted to align reporting dates with the parent company, Quaker Trading Limited, and the ultimate parent company, The Quaker Oats Company Inc.

Principal activity

In the period to 31 December 1995, the principal activity of the company was the processing and sale of grocery products. From 1 July 1995, all products have been sold to the parent company, Quaker Trading Limited.

In the period to 27 January 1995, the company had two principal product lines, being human foods and pet foods. During the period to 27 January 1995 a decision was made to sell the pet food operations of the company to the Dalgety Group plc, a third party. As part of the sale transaction to the Dalgety Group plc, the pet food operations were sold to Quaker Limited on 27 January 1995.

During the period, the company had one primary product line, being human foods. On 31 March 1995, the company acquired the trade, assets and liabilities of Snapple Beverages from Snapple Beverage (Europe) Limited, a related company. On 28 July 1995, the trade, assets and liabilities of Snapple Beverages were transferred at book value to the parent company, Quaker Trading Limited.

Results and business review

Turnover for the period ended 31 December 1995, was £46,891,348 (period from 1 July 1994 to 27 January 1995 - £114,051,000) and the operating loss for the same period was £2,216,268 (period from 1 July 1994 to 27 January 1995 - profit of £6,157,000).

During the period, the company implemented a fundamental restructuring programme and consequential rationalisation of staff in order to provide the framework for the cereals business to pursue long term strategic goals. The cost of the fundamental restructuring and rationalisation of staff numbers resulted in a charge to the profit and loss account of £14,809,000 (period from 1 July 1994 to 27 January 1995 - nil).

No dividend is proposed for the period (period from 1 July 1994 to 27 January 1995 - £82,540,000).

Retained profits of £14,025,594 will be carried forward. The directors believe that the future prospects for the operations of the company are good.

Directors' report (continued)

Directors

The directors who served during the period were:

P. Farrand	(resigned 21 April 1995)
K.W. Lawton	(resigned 22 December 1995)
J. Cooper (USA)	
J. Calhoun (USA)	
D. Singer	
G. Sewell	(appointed 21 April 1995)
K. O'Byrne	(appointed 28 November 1995)

None of the directors had any beneficial shareholdings in the company at any time during the period.

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 of the company 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report (continued)

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 involvement and teamwork

The company places 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. Employees also contribute to in-house magazines and newsletters which provide updates on company activities.

Auditors

Arthur Andersen 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.

P.O. Box 24
Bridge Road
Southall
Middlesex
UB2 4AG

By order of the Board,



29 October 1996

Auditors' report

London

To the Shareholders of Quaker Oats Limited:

We have audited the financial statements on pages 5 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 9.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

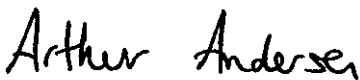
Basis of opinion

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 1995 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

29 October 1996

Profit and loss account

For the period ended 31 December 1995

	Notes	Period ended 31 December 1995		Period from 1 July 1994 to 27 January 1995	
		£'000	£'000	£'000	£'000
Turnover					
Continuing operations		46,891		42,414	
Discontinued operations		-		71,637	
	3		46,891		114,051
Cost of sales	4		(23,806)		(47,831)
Gross profit			23,085		66,220
Net operating expenses	5		(25,301)		(60,063)
Operating (loss)/profit					
Continuing operations		(2,216)		(3,009)	
Discontinued operations		-		9,166	
			(2,216)		6,157
Profit on disposal of discontinued operations	2		-		63,440
Costs of fundamental restructuring	7		(14,809)		-
(Loss)/profit on ordinary activities before interest			(17,025)		69,597
Interest receivable			191		324
Interest payable	6		(13)		(5)
(Loss)/profit on ordinary activities before taxation	7		(16,847)		69,916
Tax credit/(expense) on (loss)/profit on ordinary activities	9		2,994		(2,046)
(Loss)/profit for the financial period			(13,853)		67,870
Dividend paid and proposed	10		-		(82,540)
Retained loss for the financial period			(13,853)		(14,670)
Retained profit, at beginning of period			27,879		42,549
Retained profit, at end of period			14,026		27,879

Statement of total recognised gains and losses

For the period ended 31 December 1995

There are no recognised gains or losses other than the loss for the period of £13,853,406 (period from 1 July 1994 to 27 January 1995 - profit of £67,870,000).

The accompanying notes are an integral part of these statements.

Balance sheet

31 December 1995

	Notes	31 December 1995 £'000	27 January 1995 £'000
Fixed assets			
Intangible assets	11	372	427
Tangible assets	12	14,804	22,785
		<u>15,176</u>	<u>23,212</u>
Current assets			
Stocks	13	3,014	5,170
Debtors: amounts falling due within one year	14	13,560	17,846
Debtors: amounts falling due after more than one year	15	-	1,396
Cash at bank and in hand		506	-
		<u>17,080</u>	<u>24,412</u>
Creditors: amounts falling due within one year	16	<u>(13,041)</u>	<u>(14,840)</u>
Net current assets		<u>4,039</u>	<u>9,572</u>
Total assets less current liabilities		<u>19,215</u>	<u>32,784</u>
Provisions for liabilities and charges	17	<u>(4,689)</u>	<u>(4,405)</u>
Net assets		<u>14,526</u>	<u>28,379</u>
Equity capital and reserves			
Called up share capital	18	500	500
Profit and loss account	19	14,026	27,879
Total capital employed	19	<u>14,526</u>	<u>28,379</u>

Signed on behalf of the Board

K. O'Byrne

Director



29 October 1996

The accompanying notes are an integral part of this balance sheet.

Notes to financial statements

31 December 1995

1 Statement of accounting policies

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

a) Basis of accounting

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

b) Length of accounting periods

The company has had a change in accounting reference date during the last two financial periods. For comparative purposes the length of each period was:

1 July 1994 to 27 January 1995	30 weeks
28 January 1995 to 31 December 1995	48 weeks

c) Tangible fixed assets

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

Buildings	2.5%
Plant and machinery	6% to 10%
Office furniture	10%
Computer equipment	33.3%
Motor vehicles	25%

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Where a deficit on book value is identified and that deficit is expected to be permanent, it is charged to the profit and loss account in the period in which it is identified.

d) 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.

e) Turnover

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

Notes to financial statements (continued)

1 Statement of accounting policies (continued)

f) 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 future.

g) Pension costs

The company provides three pension schemes. Entry into the principal scheme is available to all employees. Entry into the other two schemes is subject to certain age and seniority qualifications.

The assets of all the schemes are held independently of the company by trustees.

The amount charged to the profit and loss account for the defined contribution scheme is the contributions payable in the period, and for the two defined benefit schemes is the estimated regular cost of providing the benefits accrued in the period, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and estimated future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account on a straight-line basis over the estimated average remaining working life of scheme members.

Any difference between amounts charged to the profit and loss account and contributions paid to the pension schemes is shown as a separately identified asset or liability.

Further information on pension costs is provided in note 20c.

h) 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 period end are translated at the period 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.

i) Leases

The company enters into operating leases as described in note 20b.

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. Further information on charges in the year and future commitments is given in note 20b.

Notes to financial statements (continued)

1 Statement of accounting policies (continued)

j) Cash flow statement

Under the provisions of Financial Reporting Standard No. 1, the company has not presented a cash flow statement because it is a wholly owned subsidiary of Quaker Trading Limited (registered number 3068944), which is registered in England and Wales. Quaker Trading Limited presents consolidated group accounts which include the results of this company and a cash flow statement.

2 Sale of business, principal activity and change of accounting reference date

During the period to 27 January 1995, the company had two principal product lines, human foods and pet foods. In 1994, it was decided to sell the pet food operations to the Dalgety Group plc, a third party. As part of the sale transaction to the Dalgety Group plc, the pet food operations were initially transferred to Quaker Limited, formerly Wellcase Limited, on 27 January 1995. At the date of this transaction, Quaker Limited was the immediate parent company of Quaker Oats Limited.

On 27 January 1995, Quaker Limited purchased the trade, assets and liabilities of the pet food operations for a consideration of US\$130m (£82.54m). The company then declared a dividend payable to Quaker Limited, equivalent to the US\$130m consideration received, amounting to £82.54m. The dividend and the consideration for the pet food operations were satisfied by a deed of set-off. The profit on the disposal of the pet food business to Quaker Limited amounted to £63.44m representing the difference between the consideration and the net book value of the assets transferred. The profit was recorded in the results of the company in the period to 27 January 1995.

On 24 April 1995, Quaker Limited, after transferring its interest in Quaker Oats Limited to its parent, Grocery International Holdings Limited (see note 21), was sold to the Dalgety Group plc.

In the period to 31 December 1995, the principal activity of the company was the processing and sale of grocery products for human consumption. From 1 July 1995, all products have been sold to the parent company, Quaker Trading Limited. This compares to the two principal product lines of the company, human foods and pet foods, produced and sold in the period to 27 January 1995.

On 28 June 1995, the directors passed a resolution to change the accounting reference date of the company from 27 January, to 31 December. The new accounting reference date was adopted to align reporting dates with the parent company and the ultimate parent company.

Notes to financial statements (continued)

3 Segment Information

Turnover of the company is generated from the sale of human food products. Included in the turnover of the company is £2,526,231 which relates to the sale of beverage products. From 31 March 1995 to 28 July 1995, the company held a 100% interest in the trade and business of Snapple Beverages. This interest was transferred by Snapple Beverages (Europe) Limited, a related company on 31 March 1995. Profit before tax of £138,619, relating to the beverage business is included in the result for the period.

The trade and business of Snapple Beverages was transferred to Quaker Trading Limited, the parent company, for a value equal to the net assets of the Snapple Beverages business at the date of transfer on 28 July 1995. Analysis of turnover and loss before tax by geographic segment has not been disclosed, as in the opinion of the directors, publication of this information is prejudicial to the company's interests.

4 Cost of sales

	Period ended 31 December 1995	Period from 1 July 1994 to 27 January 1995		
	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Cost of sales	<u>23,806</u>	<u>17,792</u>	<u>30,039</u>	<u>47,831</u>

5 Net operating expenses

	Period ended 31 December 1995	Period from 1 July 1994 to 27 January 1995		
	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Selling and distribution costs	7,432	18,647	22,986	41,633
Administrative expenses	17,869	8,984	9,446	18,430
	<u>25,301</u>	<u>27,631</u>	<u>32,432</u>	<u>60,063</u>

6 Interest payable

	Period ended 31 December 1995 £'000	Period from 1 July 1994 to 27 January 1995 £'000
On bank loans and overdrafts, and other loans - repayable within five years, not by instalments	<u>13</u>	<u>5</u>

Notes to financial statements (continued)

7 (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging (crediting):

	Period ended 31 December 1995 £'000	Period from 1 July 1994 to 27 January 1995 £'000
<i>Charged against operating losses</i>		
a) Amortisation of goodwill	55	35
b) Depreciation of tangible fixed assets	2,214	2,455
c) Profit on disposal of fixed assets	(34)	-
d) Auditors' remuneration		
i. audit	-	64
ii. other	-	6
e) Staff costs (see note 8)	11,257	11,196
f) Management charges from related companies	1,441	3,890
g) Compensation costs (i)	648	-
<i>Exceptional charges - costs of fundamental restructuring (ii)</i>		
h) Write off and write down of fixed assets reflecting either a permanent diminution of value or assets scrapped or retired from operations (see note 12)	7,126	-
i) Provision for site separation and reorganisation	3,979	-
j) Provision for staff redundancies	3,704	-

Auditors' remuneration in the current period has been borne by the parent company.

Note:

- i. The compensation relates to costs associated with the decision to abandon the development of a manufacturing facility in Belgium.
- ii. Following the disposal of the pet food business, the company undertook a fundamental restructuring of its cereals business including a project to separate physically the Southall site between the retained cereals business and the disposed pet food business.

The fundamental restructuring programme involved a rationalisation of staff numbers to match the needs of the cereals business following the disposal of the pet food business. The provision for redundancy costs was transferred to the parent company, Quaker Trading Limited (as that company took over responsibility for making the payment) during the period to 31 December 1995 at net book value.

Notes to financial statements (continued)

8 Staff costs

Particulars of employees (including executive directors) are shown below:

	Period ended 31 December 1995 £'000	Period from 1 July 1994 to 27 January 1995 £'000
Employee costs during the period amounted to:		
Wages and salaries	9,766	9,358
Social security costs	791	843
Other pension costs (see also note 20c)	700	995
	<u>11,257</u>	<u>11,196</u>

Staff costs reported above do not include the fundamental restructuring charge of £3,704,000 to provide for redundancy costs.

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

	Period ended 31 December 1995 Number	Period from 1 July 1994 to 27 January 1995 Number
Manufacturing	205	553
Selling and distribution	8	57
Administration	42	132
	<u>255</u>	<u>742</u>

Directors' remuneration:

Directors' remuneration was paid in respect of directors of the company as follows:

	Period ended 31 December 1995 £'000	Period from 1 July 1994 to 27 January 1995 £'000
Emoluments (including pension contributions)	<u>324</u>	<u>168</u>

Notes to financial statements (continued)

8 Staff costs (continued)

The directors' remuneration shown above (excluding pension contributions) included:

	Period ended 31 December 1995 £'000	Period from 1 July 1994 to 27 January 1995 £'000
Chairman	-	-
Highest paid director	125	72

Directors received emoluments (excluding pension contributions) in the following ranges:

	Period ended 31 December 1995 Number	Period from 1 July 1994 to 27 January 1995 Number
Up to £ 5,000	3	2
£ 20,001 - £ 25,000	1	-
£ 25,001 - £ 30,000	-	1
£ 55,001 - £ 60,000	1	-
£ 60,001 - £ 65,000	-	1
£ 70,001 - £ 75,000	-	1
£110,001 - £115,000	1	-
£125,001 - £130,000	1	-
	<u>7</u>	<u>5</u>

Notes to financial statements (continued)

9 Tax on loss on ordinary activities

The tax (credit)/charge is based on the (loss)/profit for the period and comprises:

	Period ended 31 December 1995 £'000	Period from 1 July 1994 to 27 January 1995 £'000
Corporation tax at 33% (1995 - 33%)	(400)	2,358
Deferred taxation (see note 17)		
- capital allowances	(2,112)	(148)
- other timing differences	(2)	2
- provision in respect of pension prepayment	(461)	(163)
	(2,975)	2,049
Adjustment of current taxation in respect of prior years	(19)	(3)
	(2,994)	2,046

10 Dividend paid and proposed

No dividend has been paid or proposed in respect of the period to 31 December 1995. During the period to 27 January 1995, a dividend of US\$130m (equivalent to £82.54m) was declared on 27 January 1995 which was applied in set-off to the debt of US\$130m, owed to the company by Quaker Limited as consideration for the purchase of the pet food operations, as disclosed in note 2.

11 Intangible fixed assets

The net book value of intangible fixed assets comprises purchased goodwill.

The movement in the period was as follows:

	£'000
Cost	
At 27 January 1995	1,172
At 31 December 1995	1,172
Amounts written off	
At 27 January 1995	745
Written off during period	55
At 31 December 1995	800
Net book value	
At 27 January 1995	427
At 31 December 1995	372

Notes to financial statements (continued)

12 Tangible fixed assets

The movement in the period was as follows:

	Freehold land and buildings £'000	Plant, machinery and vehicles £'000	Assets in course of construction £'000	Total £'000
Cost				
At 27 January 1995	8,826	32,589	431	41,846
Additions	4	196	1,721	1,921
Disposals	(289)	(849)	-	(1,138)
Write off (i)	(4,058)	(8,112)	-	(12,170)
At 31 December 1995	<u>4,483</u>	<u>23,824</u>	<u>2,152</u>	<u>30,459</u>
Depreciation				
At 27 January 1995	2,677	16,384	-	19,061
Charge	117	2,097	-	2,214
Disposals	(99)	(477)	-	(576)
Write off (i)	(1,428)	(3,616)	-	(5,044)
At 31 December 1995	<u>1,267</u>	<u>14,388</u>	<u>-</u>	<u>15,655</u>
Net book value				
At 27 January 1995	<u>6,149</u>	<u>16,205</u>	<u>431</u>	<u>22,785</u>
At 31 December 1995	<u>3,216</u>	<u>9,436</u>	<u>2,152</u>	<u>14,804</u>

- i) Following the sale of the pet food business to the Dalgety Group plc, the directors undertook a detailed review of the plant and machinery retained by the cereals business. As a result of the review a write-off and write down of plant and machinery totalling £7,126,000 was made.

13 Stocks

The following are included in the net book value of stocks:

	31 December 1995 £'000	27 January 1995 £'000
Raw materials	2,933	2,900
Work-in-progress	81	144
Finished goods	-	2,126
	<u>3,014</u>	<u>5,170</u>

Notes to financial statements (continued)

14 Debtors: amounts falling due within one year

The following are included in the net book value of debtors falling due within one year:

	31 December 1995 £'000	27 January 1995 £'000
Trade debtors	-	4,399
Amounts due from related entities	12,274	10,954
Other debtors		
- VAT receivable	532	-
- UK corporation tax recoverable	400	-
- Other	113	1,972
Prepayments and accrued income	241	521
	<u>13,560</u>	<u>17,846</u>

The amounts due from related entities are interest free and repayable on demand.

15 Debtors: amounts falling due after more than one year

The following item represents the net book value of debtors falling due after more than one year:

	31 December 1995 £'000	27 January 1995 £'000
Prepaid pension cost (see note 20c)	-	1,396
	<u>-</u>	<u>1,396</u>

Notes to financial statements (continued)

16 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	31 December 1995 £'000	27 January 1995 £'000
Trade creditors	596	6,761
Amounts owed to related entities	4,996	-
Other creditors		
- UK corporation tax payable	-	6,393
- VAT payable	-	153
- social security and PAYE	236	588
Accruals and deferred income	7,213	945
	<u>13,041</u>	<u>14,840</u>

Amounts owed to related entities are interest free and repayable on demand.

17 Provisions for liabilities and charges

The movement on provisions in the periods was as follows:

	Provisions arising from fundamental restructuring			
	Redundancy provision £'000	Site separation and reorganisation provision £'000	Deferred taxation £'000	Total £'000
At 28 January 1995	-	-	4,405	4,405
Charged/(credited) to profit and loss account	3,704	3,979	(2,575)	5,108
Cost incurred in period	-	(1,120)	-	(1,120)
Transferred to parent company	(3,704)	-	-	(3,704)
At 31 December 1995	<u>-</u>	<u>2,859</u>	<u>1,830</u>	<u>4,689</u>

Deferred tax has been provided on the full provision basis on the grounds of prudence as the directors are unable to conclude that the timing differences giving rise to the deferred tax will not reverse.

Notes to financial statements (continued)

17 Provisions for liabilities and charges (continued)

	31 December 1995 £'000	27 January 1995 £'000
Excess of tax allowances over book depreciation of fixed assets	1,830	3,942
Other timing differences	-	2
Provision in respect of pension prepayment (see note 20c)	-	461
	<u>1,830</u>	<u>4,405</u>

The movement on deferred taxation comprises:

	31 December 1995 £'000	27 January 1995 £'000
Beginning of period	4,405	7,316
Charged (credited) to profit and loss, in respect of		
- capital allowances	(2,112)	(148)
- pensions	(461)	(163)
- other timing differences	(2)	2
Disposal to related party (see note 2)	-	(2,602)
End of period	<u>1,830</u>	<u>4,405</u>

The movement on the deferred tax liability relating to pensions arises from timing differences between the pension charge and pension payments of £33k and the release of the remaining liability of £428k to the profit and loss on the transfer of the pension asset to the parent company at period end (see note 20c).

18 Called-up share capital

	31 December 1995 £'000	27 January 1995 £'000
<i>Authorised, allotted, called-up and fully-paid</i>		
500,000 ordinary shares of £1 each	<u>500</u>	<u>500</u>

19 Reconciliation of movement in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
Beginning of period	500	27,879	28,379
Retained loss for the financial year	-	(13,853)	(13,853)
End of period	<u>500</u>	<u>14,026</u>	<u>14,526</u>

Notes to financial statements (continued)

20 Guarantees and other financial commitments

a) Capital commitments

At the end of the period, capital commitments were:

	31 December 1995 £'000	27 January 1995 £'000
Contracted for but not provided for	-	87
Authorised but not contracted for	927	2,289
	<u>927</u>	<u>2,379</u>

b) Lease commitments

The company has entered into a number of leases in respect of plant and machinery, the payments for which extend over a period of up to 5 years. The total annual rental for 1995 was £86,669 (period to 27 January 1995 - £18,000).

The minimum future annual rentals under the foregoing leases are as follows:

	31 December 1995 £'000	27 January 1995 £'000
Operating leases which expire		
- within 1 year	17	5
- within 2-5 years	40	18
- after 5 years	-	4
	<u>57</u>	<u>27</u>

c) Pension arrangements

The company provides three pension schemes. Entry into the principal scheme is available to all employees. Entry into the other two schemes is subject to certain age and seniority qualifications.

At 27 January 1995, as part of the transfer of trade and assets of the pet food business to Quaker Limited, a proportion of the deferred pension asset as at 27 January 1995, was also transferred.

It was then expected that those employees transferred with the pet food business would ultimately transfer out of the Quaker Pension Schemes into the pension scheme of the ultimate purchaser of the pet food business, Dalgety Group plc. An actuarial review was performed as at 1 May 1995, to assess the funding position of the schemes on the basis that all those people entitled to transfer to the Dalgety Pension Fund opt to transfer.

Notes to financial statements (continued)

20 Guarantees and other financial commitments (continued)

c) Pension arrangements

With effect from 1 July 1995, the company became a wholly owned subsidiary of Quaker Trading Limited. At 31 December 1995, the deferred pension asset and surpluses arising under SSAP 24 on the Quaker pension schemes were transferred to the parent company. Accordingly the remaining deferred pension asset in the company on this date was transferred to the Quaker Trading Limited at net book value.

The pension charges disclosed in (i) and (ii) below, relate to the regular charges recognised by the company in the periods to 27 January 1995 and 31 December 1995 adjusted by the amortisation of the surplus for the period prior to the transfer of the deferred pension asset to Quaker Trading Limited.

i. Defined contribution scheme

The pension cost charge relating to this scheme for the period was £203,993 (period to 27 January 1995 - £207,281).

ii. Defined benefit schemes

The combined pension cost charge relating to these schemes for the period was £496,000 (period to 27 January 1995 - £788,000).

In accordance with SSAP 24, the benefit of the combined actuarial surplus of both schemes is being recognised over the assumed average remaining service lives of the employees. As a result, the net charge to the company for this period was £496,000 (period to 27 January 1995 - £788,000), made up of a regular pension cost of £513,000 (period to 27 January 1995 - £825,000) and amortisation of the surplus of £86,000 (period to 27 January 1995 - £37,000).

An amount of £nil (period to 27 January 1995 - £1,396,000) is shown as a separately identified prepaid pension asset on the face of the balance sheet. On 20 July 1995 the company became a wholly owned subsidiary of Quaker Trading Limited. At 31 December 1995 the remaining deferred pension asset was transferred to the parent company at net book value. From this date funding of the scheme under SSAP 24 will be recognised in the company and funded through the Intercompany account with the parent company.

The reduction in the pension prepayment of £1,396,000 (period to 27 January 1995 - £861,000) in the year is made up of the net charge of £428,000 (period to 27 January 1995 - £788,000) noted above, less the cash funding provided by the company of £327,020 (period to 27 January 1995 - £294,000) during the period, and the transfer of the deferred asset of £1,295,020. In the period to 27 January 1995, there was a transfer of the deferred pension asset of £367,000 relating to the pet food operations.

d) Commitments and contingencies

The company is subject to litigation, claims and other actions in the normal course of its business operations. In the opinion of the directors, the ultimate outcome of such actions, after considering any insurance recoveries, will not have a material adverse effect on the company's financial position.

Notes to financial statements (continued)

21 Ultimate parent company

The largest group in which the results of the company are consolidated is that headed by The Quaker Oats Company Inc which is incorporated in the State of New Jersey, USA. The consolidated financial statements of this group are available to the public and may be obtained from The Quaker Oats Company Inc.(QOC), P.O. Box 9001, Chicago, Illinois, 60604-9001, USA.

On 27 January 1995, the company was sold to Quaker Limited (QL), a wholly owned subsidiary of QOC. On 24 April 1995, QL transferred its shares in the company to Grocery International Holdings Inc. for \$90m. The company was then transferred to Quaker Trading Limited from an effective date of 1 July 1995.

The smallest group in which the results of the company are consolidated is that headed by Quaker Trading Limited. The consolidated financial statements of the group are available to the public and may be obtained from PO Box 24, Bridge Road, Southall, Middlesex UB2 4AG.