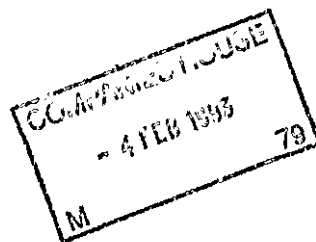


**QUAKER OATS LIMITED**

**1992**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**



**The company's registered number is 64262.**

## **QUAKER OATS LIMITED**

### **REPORT OF THE DIRECTORS**

#### **FOR THE YEAR ENDED 30 JUNE 1992**

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 30 June 1992.

#### **PRINCIPAL ACTIVITY**

The principal activity of the Company is the processing and sale of grocery products.

The results for the prior year incorporate the trading activities of the Fisher Price Toys Division up to the time of the demerger of this division on 9 November 1990 (See Note 7).

#### **RESULTS AND BUSINESS REVIEW**

Turnover for the total company decreased by £3,959,000 compared with the prior year, which included sales of the Fisher Price Toys Division for approximately 4½ months of that year.

Grocery Division turnover increased by £18,640,000 (13%) and operating profit by £2,234,000 (43%) due largely to a successful cost reduction programme and the fact that the previous years' operating profits were adversely affected by a number of non-recurring items.

Net interest costs reduced by £1,888,000 (62%) due partly to improved working capital control. It was therefore decided to repay £3,000,000 of the intercompany borrowings made by The Quaker Oats Company, Inc., the ultimate parent company of Quaker Oats Limited.

An interim dividend of £8,145,000 was paid in respect of the year ended 30 June 1992. No further dividend is proposed. The dividend shown in the prior year financial statements relates to the demerger of the Fisher Price Toys Division.

Retained profits of £22,736,000 will be carried forward. The directors expect the level of activity to increase during the current year.

#### **FIXED ASSETS**

Information regarding tangible fixed assets is given in Note 9. The directors are of the opinion that the value of the freehold land exceeds its net book value, but, as there is no intention to dispose of it, consider that the expense of a professional valuation would bring no benefit to the company.

## **DIRECTORS**

The directors who served during the year were:

R.S. Thomason	(Chairman) resigned 31 December 1991
G. Sewell	
J. Atkins (USA)	
M.P. Dobson	Resigned 9 December 1991
R.D. Jaquith (USA)	Resigned 3 August 1992
G.G. Jewell	
R.G. Lagden	
B.J. Nolan	Appointed 12 August 1991
P. Farrand	Appointed 9 December 1991
K. Lawton	Appointed 9 December 1991

Directors retiring by rotation at the next annual general meeting are Mr. J. Atkins and Mr. G.G. Jewell, who being eligible offer themselves for re-election.

None of the directors had any beneficial shareholdings in the Company at any time during the year.

## **CHARITABLE DONATIONS**

The Company made donations to charitable organisations during the year amounting to £19,989 (1991 - £2,998).

## **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 considerable value on employee involvement and recognises that employees have high expectations of being informed on those issues affecting the Company's performance, the business environment and employees themselves.

To this end, a system of briefing meetings operates throughout the Company. Through this process an open style of management is encouraged, which enables staff at all levels to clarify their understanding of issues and to challenge them where appropriate, thus providing a two-way communication process.

The Company continues to invest in the training of employees to facilitate this process as well as enhancing skills and encouraging personal development.

Company information is also disseminated through in-house magazines.

## AUDITORS

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

BY ORDER OF THE BOARD,

  
D C Edwards  
Company Secretary

6 October 1992

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

# ARTHUR ANDERSEN

London

To the members of Quaker Oats Limited:

We have audited the financial statements on pages 5 to 22 in accordance with Auditing Standards.

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 30 June 1992 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen  
Chartered Accountants and Registered Auditor  
1 Surrey Street  
London WC2R 2PS

6 October 1992

# QUAKER OATS LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 1992

	Notes	1992 £'000	1991 £'000
<b>TURNOVER</b>	1e&2	166,393	170,352
Cost of sales		(76,086)	(84,106)
<b>GROSS PROFIT</b>		<u>90,307</u>	<u>86,246</u>
Selling and distribution costs		(52,559)	(49,005)
Administrative expenses		(30,276)	(31,983)
<b>OPERATING PROFIT</b>		<u>7,472</u>	<u>5,258</u>
Interest receivable		393	135
Interest payable	3	(1,530)	(3,160)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	4	<u>6,335</u>	<u>2,233</u>
Tax on profit on ordinary activities	6	(2,224)	1,386
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u>4,111</u>	<u>3,619</u>
<b>DIVIDENDS</b>	7	(8,145)	(16,380)
<b>RETAINED LOSS FOR THE YEAR</b>		<u>(4,034)</u>	<u>(12,761)</u>
<b>RETAINED PROFIT, at beginning of year</b>		22,660	35,421
Transfer from revaluation reserve	16	4,110	-
<b>RETAINED PROFIT, at end of year</b>	16	<u>22,736</u>	<u>22,660</u>

A statement of movements on reserves is given in Note 16.

The accompanying notes are an integral part of this profit and loss account.

# QUAKER OATS LIMITED

## BALANCE SHEET - 30 JUNE 1992

	Notes	1992 £'000	1991 £'000
<b>FIXED ASSETS</b>			
Intangible assets	8	870	960
Tangible assets	9	36,716	37,758
		<u>37,586</u>	<u>38,718</u>
<b>NON-CURRENT ASSETS</b>			
Debtors , due after more than one year	10	3,607	3,622
<b>CURRENT ASSETS</b>			
Stocks	11	10,712	11,486
Debtors	12	14,916	13,264
Cash at bank and in hand		1,279	4,335
		<u>26,907</u>	<u>29,085</u>
<b>CREDITORS: Amounts falling due within one year</b>	13	<u>(37,791)</u>	<u>(36,739)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(10,884)</u>	<u>(7,654)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>30,309</u>	<u>34,686</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	14	<u>(7,073)</u>	<u>(7,416)</u>
<b>NET ASSETS</b>		<u>23,236</u>	<u>27,270</u>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	15	500	500
Revaluation reserve	16	-	4,110
Profit and loss account	16	22,736	22,660
<b>TOTAL CAPITAL EMPLOYED</b>		<u>23,236</u>	<u>27,270</u>

SIGNED ON BEHALF OF THE BOARD ON 6 OCTOBER 1992

G. Sewell *G. Sewell* Director

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

**QUAKER OATS LIMITED**

**CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 30 JUNE 1992**

	Notes	1992		1991	
		£'000	£'000	£'000	£'000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	19a		15,059		15,800
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>					
Dividend paid		(8,145)		-	
Interest received		392		134	
Interest paid		(1,528)		(3,160)	
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			(9,281)		(3,026)
<b>TAXATION</b>					
Corporation tax paid (including advance corporation tax)			(883)		(1,662)
<b>INVESTING ACTIVITIES</b>					
Payments to acquire tangible fixed assets		(5,218)		(4,941)	
Proceeds from sale of tangible fixed assets		225		153	
Assignment of overdraft to Fisher Price Toys Division on demerger		-		15,259	
<b>NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES</b>			(4,993)		10,471
<b>NET CASH (OUTFLOW) INFLOW BEFORE FINANCING</b>			(98)		21,649
<b>FINANCING</b>					
Parent company loan injection		12,000		15,000	
Parent company loan repayment		(15,000)		-	
<b>NET CASH (OUTFLOW) INFLOW FROM FINANCING</b>			(3,000)		15,000
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	19b		(3,098)		36,649



# QUAKER OATS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 1992

### 1. STATEMENT OF ACCOUNTING POLICIES:

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and with the preceding year, 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.

Group financial statements have not been prepared as the company had no trading subsidiary undertakings at 30 June 1992.

#### *b) Reclassifications*

Certain reclassifications have been made by the company to the reported 1991 figures in order to conform with the company's 1992 classifications.

#### *c) Tangible fixed assets*

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost, 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	-	14.3% to 33.3%
Motor vehicles	-	25%

#### *d) Stocks*

Stocks are stated at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on-

Raw materials	-	purchase cost on a quarterly rolling average cost basis, including transport
Work-in-progress and finished goods	-	cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. STATEMENT OF ACCOUNTING POLICIES (Continued):

#### *d) Stocks (continued)*

Net realisable value is based on estimated normal 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 comprises the value of sales (less returns and value added tax but before trade discounts) in the normal course of business.

#### *f) Taxation*

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

Advance corporation tax payable on dividends paid in the year has been offset against the current year corporation tax liability.

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

#### *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 year, and for the two defined benefit schemes is the estimated regular cost of providing the benefits accrued in the year, 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 on the face of the balance sheet.

Further information on pension costs is provided in Note 17c.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1. STATEMENT OF ACCOUNTING POLICIES (Continued):

#### *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 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.

#### *i) Leases*

The company enters into operating leases as described in Note 17b.

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 17b.

### 2. SEGMENT INFORMATION:

#### *a) Turnover by activity*

	1992 £'000	1991 £'000
Grocery products	166,393	147,753
Toys	-	22,599
	<hr/> 166,393	<hr/> 170,352

#### *b) Turnover by geographical area*

	1992 £'000	1991 £'000
United Kingdom	152,342	142,760
Other European countries	13,640	26,931
Other	411	661
	<hr/> 166,393	<hr/> 170,352

All turnover and profits originated in the United Kingdom, being the sole location of the company's assets. A major proportion of European sales relates to sales to fellow group undertakings.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3. INTEREST PAYABLE:

	1992 £'000	1991 £'000
On bank loans and overdrafts, and other loans:		
- repayable within five years, not by instalments	<u>1,530</u>	<u>3,160</u>

### 4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION:

Profit on ordinary activities before taxation is stated after charging-

	1992 £'000	1991 £'000
a) Exceptional items		
- redundancy costs	1,853	128
- amounts written off tangible fixed assets (in excess of normal depreciation)	1,288	176
b) Amortisation of goodwill	90	319
c) Depreciation of tangible fixed assets	4,777	4,059
d) Hire of plant and machinery	153	87
e) Auditors' remuneration	58	61
f) Staff costs (see Note 5)	20,817	23,985
g) Management charges from parent company	1,644	877
h) Loss on translation of foreign currency balances	<u>67</u>	<u>214</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### STAFF COSTS:

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

Employee costs during the year amounted to-

	1992 £'000	1991 £'000
Wages and salaries	18,468	21,517
Social security costs	1,519	1,861
Other pension costs (see also Note 17c)	830	607
	<u>20,817</u>	<u>23,985</u>

The average weekly number of persons employed by the company during the year was as follows-

	1992	1991
Manufacturing	738	1,053
Selling & Distribution	78	112
Administration	165	179
	<u>981</u>	<u>1,344</u>

### Directors' remuneration-

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

	1992 £'000	1991 £'000
Emoluments (including pension contributions)	<u>606</u>	<u>557</u>

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

	1992 £'000	1991 £'000
Chairman (who is also the highest paid director)	<u>148</u>	<u>125</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 5. STAFF COSTS (Continued);

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

	1992	1991
£ Nil - £ 5,000	3	5
£ 20,001 - £ 25,000	-	1
£ 35,001 - £ 40,000	1	-
£ 40,001 - £ 45,000	1	-
£ 45,001 - £ 50,000	1	-
£ 70,001 - £ 75,000	1	1
£ 75,001 - £ 80,000	-	2
£ 80,001 - £ 85,000	1	-
£ 115,001 - £120,000	-	1
£ 120,001 - £125,000	-	1
£ 125,001 - £130,000	1	-
£ 145,001 - £150,000	1	-
	<hr/>	<hr/>

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES:

The tax charge/(credit) is based on the profit for the year and comprises-

	1992 £'000	1991 £'000
Corporation tax at 33% (1991:33.75%)	2,497	1,098
Deferred taxation (see Note 14)		
- capital allowances	(323)	(252)
- other timing differences	(20)	168
Group relief surrendered by former group members (for nil consideration)	-	(2,000)
Adjustment of current taxation in respect of prior years	70	72
	<hr/>	<hr/>
	2,224	(1,386)
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 7. DIVIDENDS:

During the prior year, the directors of the company and the Board of its ultimate US parent, the Quaker Oats Company Inc. distributed the UK Fisher Price Division, including Kiddicraft Limited and Fisher Price Toys Limited (formerly Felix Petfoods Limited) to the shareholders of the Quaker Oats Company Inc. as part of an overall exercise to demerge the worldwide operations of Fisher Price from Quaker Oats.

The transfer of the assets and liabilities of the Fisher Price Toys Division was shown in the Profit and Loss account as a dividend of £16,380,000 in the prior year.

In the current year, an interim ordinary dividend of £8,145,000 was paid.

### 8. INTANGIBLE FIXED ASSETS:

The net book value of intangible fixed assets comprises purchased goodwill of £870,000 (1991 - £960,000).

The movement in the year was as follows-

	£'000
<b>COST-</b>	
At 1 July 1991	2,274
Additions	-
	<hr/>
At 30 June 1992	2,274
	<hr/>
<b>AMOUNTS WRITTEN OFF-</b>	
At 1 July 1991	1,314
Written off during year	90
	<hr/>
At 30 June 1992	1,404
	<hr/>
<b>NET BOOK VALUE</b>	
At 30 June 1992	870
	<hr/>
<b>NET BOOK VALUE</b>	
At 1 July 1991	960
	<hr/>

# NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 9. TANGIBLE FIXED ASSETS:

The following are included in the net book value of tangible fixed assets:-

	1992 £'000	1991 £'000
Freehold land and buildings	7,802	7,599
Plant, machinery and vehicles	25,255	27,972
Assets in course of construction	3,659	2,187
Net tangible fixed assets	<u>36,716</u>	<u>37,758</u>

The movement in the year was as follows:-

	Total £'000	Freehold land and buildings £'000	Plant, machinery and vehicles £'000	Assets in course of construction £'000
<b>COST-</b>				
At 1 July 1991	55,683	10,117	43,379	2,187
Additions	5,218	-	183	5,035
Disposals	(3,026)	(5)	(3,021)	-
Transfers	-	457	3,106	(3,563)
At 30 June 1992	<u>57,875</u>	<u>10,569</u>	<u>43,647</u>	<u>3,659</u>
<b>DEPRECIATION-</b>				
At 1 July 1991	17,925	2,518	15,407	-
Charge	4,777	251	4,526	-
Disposals	(1,543)	(2)	(1,541)	-
At 30 June 1992	<u>21,159</u>	<u>2,767</u>	<u>18,392</u>	<u>-</u>
<b>NET BOOK VALUE</b>				
At 30 June 1992	<u>36,716</u>	<u>7,802</u>	<u>25,255</u>	<u>3,659</u>
<b>NET BOOK VALUE</b>				
At 30 June 1991	<u>37,758</u>	<u>7,599</u>	<u>27,972</u>	<u>2,187</u>



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 10. DEBTORS:

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

	1992 £'000	1991 £'000
Prepaid pension cost (see Note 17c)	<u>3,607</u>	<u>3,622</u>

### 11. STOCKS:

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

	1992 £'000	1991 £'000
Raw materials	4,592	4,533
Work-in-progress	183	136
Finished goods	<u>5,937</u>	<u>6,817</u>
	<u>10,712</u>	<u>11,486</u>

The estimated replacement cost of the above categories of stock is not materially different from their balance sheet value.

### 12. DEBTORS:

The following are included in the net book value of debtors-

Amounts falling due within one year-

	1992 £'000	1991 £'000
Trade debtors	12,584	11,020
Amounts owed by group undertakings	1,076	904
VAT	46	96
Other debtors	661	1,018
Prepayments and accrued income	549	163
UK corporation tax receivable	-	63
	<u>14,916</u>	<u>13,264</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13. CREDITORS:

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

	1992 £'000	1991 £'000
Bank loans and overdrafts	690	648
Trade creditors	18,039	16,807
Loan from parent company	12,000	15,000
Amounts owed to other group undertakings	1,024	477
Other creditors		
- UK corporation tax payable	264	-
- ACT payable	1,358	-
- social security and PAYE	524	612
- other creditors	-	49
Accruals and deferred income	3,832	3,146
	<u>37,791</u>	<u>36,739</u>

The parent company loan is interest bearing at LIBOR + 1/4% and has a maturity date of 9 June 1993, although it can be repaid (without penalty) at any time subsequent to 9 March 1993.

### 14. PROVISIONS FOR LIABILITIES AND CHARGES:

Provisions for liabilities and charges comprises deferred taxation only. Deferred tax has been provided at the full potential amount 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.

	1992 £'000	1991 £'000
Excess of tax allowances over book depreciation of fixed assets	5,990	6,313
Other timing differences	(107)	(91)
Provision in respect of pension prepayment (see Note 17c)	1,190	1,194
	<u>7,073</u>	<u>7,416</u>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 14. PROVISIONS FOR LIABILITIES AND CHARGES (Continued):

The movement on deferred taxation comprises-

	1992 £'000	1991 £'000
Beginning of year	7,416	9,950
Charged (credited) to profit and loss, in respect of		
- capital allowances	(323)	(252)
- pensions	(4)	168
- other timing differences	(16)	12
- change in corporation tax rate	-	(472)
- elimination on demerger of Fisher Price Toys Division	-	(1,990)
End of year	<u>7,073</u>	<u>7,416</u>

### 15. CALLED-UP SHARE CAPITAL:

	1992 £'000	1991 £'000
Authorised, allotted, called-up and fully-paid-		
500,000 ordinary shares of £1 each	<u>500</u>	<u>500</u>

### 16. RESERVES:

	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
Beginning of year	4,110	22,660	26,770
Transfer of revaluation reserve	(4,110)	4,110	-
Retained loss for the year	-	(4,034)	(4,034)
End of year	<u>-</u>	<u>22,736</u>	<u>22,736</u>

The revaluation reserve has become realised following the demerger of the Fisher Price Toys Division in the prior year.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 17. GUARANTEES AND OTHER FINANCIAL COMMITMENTS:

#### a) *Capital commitments*

At the end of the year, capital commitments were-

	1992 £'000	1991 £'000
Contracted for but not provided for	425	616
Authorised but not contracted for	5,279	58
	<u>5,704</u>	<u>674</u>

#### b) *Lease commitments*

The company has entered into non-cancellable leases in respect of plant and machinery, the payments for which extend over a period of up to 6 years. The total annual rental (including interest) for 1992 was £40,000 (1991 - £36,000).

The minimum annual rentals under the foregoing leases are as follows-

	1992 £'000	1991 £'000
Operating leases which expire		
- within one year	10	-
- within two to five years	11	29
- after five years	6	7
	<u>27</u>	<u>36</u>

#### c) *Pension arrangements*

##### i) Defined contribution scheme

The pension cost charge relating to this scheme for the year was £337,000 (1991 - £329,000).

##### ii) Defined benefit schemes

The combined pension cost charge relating to these schemes for the year was £493,000 (1991 - £278,000).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 17. GUARANTEES AND OTHER FINANCIAL COMMITMENTS (Continued):

#### c) *Pension arrangements (Continued)*

##### ii) *Defined benefit schemes (Continued)*

The pension cost and related prepayment are assessed in accordance with the advice of a professionally qualified actuary. An actuarial valuation was made for accounting purposes as at 1 April 1991 on the projected unit credit method. The main actuarial assumptions used were:

Salary escalation	7.0% per annum	(1991 - 7.5%)
Investment return	9.5% per annum	(1991 - 10.5%)
Discount rate	9.5% per annum	(1991 - 10.5%)
Discretionary increase in pensions	5.0% per annum	
Average remaining employee service life	15 years	

At the date of the latest actuarial valuation, the combined market value of the assets of these schemes was £33.3m and the actuarial value of the assets was sufficient to cover 116% of the benefits that had accrued to members after allowing for expected future increases in earnings.

Given the volatility of investment returns in both the UK and international markets, the trustees and their actuarial advisors consider the surplus prudent to cover all foreseeable obligations of the funds.

In accordance with SSAP 24, the benefit of the actuarial surplus of both schemes is being recognised over the assumed average remaining service lives of the employees. As a result, the net charge this year was £493,000 (1991 - £278,000), made up of a regular pension cost of £976,000 and amortisation of the surplus of £483,000.

An amount of £3,607,000 (1991 - £3,622,000) is shown as a separately identified asset on the face of the balance sheet, being the prepaid pension expense.

The reduction in the surplus of £15,000 in the year is made up of the net charge of £493,000 noted above, less the cash funding provided by the company of £478,000 during the year.

#### d) *Commitments and contingencies*

The company is subject to litigation, claims and other actions in the normal course of its business operations. In management's opinion, 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 THE FINANCIAL STATEMENTS (Continued)

### 18. ULTIMATE PARENT COMPANY:

The company is a subsidiary undertaking of The Quaker Oats Company, Inc., which is incorporated in the State of New Jersey, USA.

The only group in which the results of the company are consolidated is that headed by The Quaker Oats Company, Inc. The consolidated financial statements of this group are available to the public and may be obtained from The Quaker Oats Company, PO Box 9001, Chicago, Illinois, 60604-9001, USA.

### 19. NOTES TO THE CASH FLOW STATEMENT:

#### a) Reconciliation of operating profit to net cash inflow from operating activities-

	1992 £'000	1991 £'000
Operating profit	7,472	5,258
Depreciation charge	4,777	4,059
Amortisation of goodwill	90	319
Amounts written off tangible fixed assets	1,288	176
Gain on sale of tangible fixed assets	(30)	(13)
Decrease in stocks	774	4,601
Increase in debtors	(1,715)	(7,187)
Increase in creditors	2,388	9,160
Decrease in pension surplus	15	(159)
Release of deferred tax reserve on demerger of Fisher Price Toys Division	-	(348)
	<u>15,059</u>	<u>15,866</u>

#### b) Analysis of changes in cash and cash equivalents during the year-

	£'000
Balance at 1 July 1991	3,687
Net cash outflow	(3,098)
Balance at 30 June 1992	<u>589</u>

# **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

## **19. NOTES TO THE CASH FLOW STATEMENT:**

- c) Analysis of the balances of cash and cash equivalents as shown in the balance sheet-

	1992 £'000	1991 £'000	Change in year £'000
Cash at bank and in hand	1,279	4,335	(3,056)
Bank overdrafts	(690)	(648)	(42)
	<u>589</u>	<u>3,687</u>	<u>(3,098)</u>

- d) Analysis of changes in financing during the year-

	Parent company loan £'000
Balance at 1 July 1991	15,000
Injection	12,000
Repayment	<u>(15,000)</u>
Balance at 30 June 1992	<u>12,000</u>