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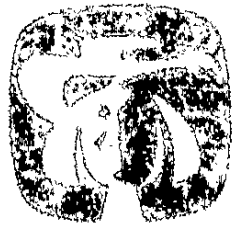


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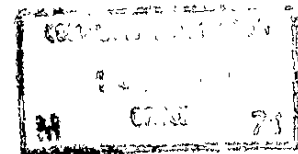


QUAKER

QUAKER OATS LIMITED

1987

REPORT AND ACCOUNTS



QUAKER OATS LIMITED AND SUBSIDIARIES

1987

REPORT AND ACCOUNTS

QUAKER OATS LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30th JUNE, 1987

The directors have pleasure in presenting their report together with the Audited accounts for the year ended 30th June, 1987.

PRINCIPAL ACTIVITIES:

The principal activities of the Group are the processing and sale of grocery products and the manufacture of toys.

RESULTS AND BUSINESS REVIEW:

Group turnover increased by £12,616,000 (10%) during the year, whilst Group operating profit increased by £5,460,000 (56%) partly as a result of favourable exchange gains.

Grocery division turnover increased by 4% whilst operating profit increased by £195,000. This improvement in performance continues to reflect the benefits from increased efficiency as a result of the division's investment in modern processing facilities and generally stable raw and packaging material costs. The combined effect of these benefits has enabled the division to make increased marketing investments to support key brands and launch new products.

Fisher Price Toys increased turnover in 1987 by 28% including the benefit of favourable exchange rates, with both the domestic and export markets performing well. Profit before taxation improved reflecting increased turnover and improved efficiency in manufacturing operations.

The directors expect the level of activity at both divisions to continue to improve in the current year.

Net interest received for the year increased by £327,000 reflecting increased liquidity.

FIXED ASSETS:

Changes in fixed assets are dealt with in Note 5 to the accounts.

The directors believe that there is no material difference between the book and the current value of interests in land and buildings.

DIRECTORS:

The directors who served during the year were:-

R.G. Lagden	Resigned as Chairman 30th June, 1987
R.S. Thomason	Managing Director
C.J. Arnold-Baker	Resigned 15th September, 1986
J.B. Pickersgill	
R.F. Savage	
G. Sewell	
C.J. Silberman (Spain)	appointed 15th September, 1986
J.I. Sinclair	appointed 15th September, 1986
R.D. Jaquith (U.S.A.)	
C.E. Murphy (U.S.A.)	
J.A. Rodriguez (U.S.A.)	
G.J. Yapp (U.S.A.)	

Directors retiring by rotation are Mr. R.D. Jaquith, Mr. C.E. Murphy and Mr. J.A. Rodriguez who, being eligible, offer themselves for re-election.

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

CHARITABLE DONATIONS:

The Group made donations to charitable organisations during the year amounting to £6,590 (1986 - £1,273)

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 training is arranged whenever possible.

It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be no different from that of any other employee.

EMPLOYEE CONSULTATION:

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

To this end, a system of Briefing Meetings operates which involves each and every employee throughout the Group. 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 Group has invested considerably in the training of employees to facilitate this process as well as enhancing skills and encouraging personal development.

Group information is also disseminated through in-house magazines.

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,



D.P. Lillycrop
Company Secretary

DATE: 16th December, 1987

Registered Office:
Bridge Road,
Southall,
Middlesex.

QUAKER OATS LIMITED AND SUBSIDIARIES

REPORT OF THE AUDITORS

To the Members of Quaker Oats Limited:

We have audited the accounts on pages 5 to 16 in accordance with approved Auditing Standards.

In our opinion, the accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of affairs of the Company and of the Group at 30th June, 1987 and of the Group profit and source and application of funds for the year then ended, and comply with the Companies Act 1985.

Arthur Andersen & Co

16th December, 1987

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

QUAKER OATS LIMITED AND SUBSIDIARIES
GROUP PROFIT AND LOSS ACCOUNTS
FOR THE YEARS ENDED 30th JUNE, 1987 AND 1986

	<u>Notes</u>	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
TURNOVER	1.h) & 2	140,461	127,845
COST OF SALES		<u>(69,824)</u>	<u>(65,878)</u>
GROSS PROFIT		70,637	60,967
DISTRIBUTION COSTS		<u>(4,622)</u>	<u>(4,158)</u>
ADMINISTRATIVE EXPENSES		<u>(50,867)</u>	<u>(47,121)</u>
OPERATING PROFIT		15,148	9,688
INTEREST RECEIVABLE AND SIMILAR INCOME		1,250	971
INTEREST PAYABLE AND SIMILAR CHARGES		<u>(10)</u>	<u>(58)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE 2 & 3 TAXATION		<u>16,388</u>	<u>10,601</u>
TAX ON PROFIT ON ORDINARY ACTIVITIES 4		<u>(5,823)</u>	<u>(3,692)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>10,565</u>	<u>6,909</u>
DIVIDENDS PROPOSED/PAID		<u>-</u>	<u>(7,000)</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER DIVIDENDS		10,565	(91)
RETAINED PROFIT, at beginning of year		<u>37,113</u>	<u>37,204</u>
RETAINED PROFIT, at end of year		47,578 *****	37,113 *****

The notes on pages 8 to 16 are an integral part of these financial statements.

QUAKER OATS LIMITED AND SUBSIDIARIES

BALANCE SHEETS -- 30th JUNE, 1987 AND 1986

	Notes	GROUP		COMPANY	
		1987 £'000	1986 £'000	1987 £'000	1986 £'000
FIXED ASSETS:					
Intangible assets	7	1,320	1,410	1,320	1,410
Tangible assets	5	33,206	33,305	32,975	32,061
Investments in subsidiaries	6	-	-	334	875
		<u>34,526</u>	<u>34,715</u>	<u>34,629</u>	<u>34,346</u>
CURRENT ASSETS:					
Stocks	8	18,092	16,662	18,092	16,662
Debtors	9	19,168	14,676	19,229	13,959
Cash at bank and in hand		15,436	6,627	15,436	6,627
		<u>52,696</u>	<u>37,365</u>	<u>52,757</u>	<u>36,648</u>
CREDITORS: amounts falling due within one year	10	(29,901)	(24,663)	(30,092)	(24,611)
NET CURRENT ASSETS		<u>22,795</u>	<u>12,702</u>	<u>22,665</u>	<u>12,037</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		57,321	47,417	57,294	47,383
PROVISIONS FOR LIABILITIES AND CHARGES : Deferred Taxation	11	(9,143)	(9,802)	(9,116)	(9,770)
NET ASSETS		<u>48,178</u>	<u>37,613</u>	<u>48,178</u>	<u>37,613</u>
CAPITAL AND RESERVES:					
Called up share capital					
Authorised, issued and fully paid		500	500	500	500
500,000 shares of £1 each		-	-	334	875
Revaluation reserve	12	-	-	-	-
Profit and loss account	12	47,678	37,113	47,344	36,238
		<u>48,178</u>	<u>37,613</u>	<u>48,178</u>	<u>37,613</u>

Approved by the Board on 15th December, 1987

R.S. THOMASON

G. SEWELL

)
) Directors

R.S. Thomason
G. Sewell

The notes on pages 8 to 16 are an integral part of these financial statements.

QUAKER OATS LIMITED AND SUBSIDIARIES
GROUP STATEMENTS OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEARS ENDED 30th JUNE, 1987 AND 1986

	1987 <u>£'000</u>	1986 <u>£'000</u>
SOURCES OF FUNDS:		
Operations -		
Profit for the financial year	10,565	6,909
Add/(deduct) items not involving cash flow during the year -		
Depreciation	3,743	3,461
Amortisation of goodwill	90	90
Net (decrease) in deferred taxation	(661)	(1,180)
Net loss on disposal of property, plant and equipment	579	240
Total funds from operations	<u>14,316</u>	<u>9,520</u>
Proceeds from sale of property, plant and equipment	205	310
Total funds provided	<u>14,521</u>	<u>9,830</u>
USES OF FUNDS:		
Purchase of property, plant and equipment	(4,428)	(3,100)
Dividend Paid	-	(7,000)
Increase/(Decrease) in net current assets	<u>10,093</u>	<u>(270)</u>
Reflecting -		
INCREASE/(DECREASE) IN NET CURRENT ASSETS:		
Net liquid funds -		
Cash at bank and in hand	8,809	1223
Bank overdrafts and loans	(37)	443
	<u>8,772</u>	<u>1,666</u>
Debtors	4,492	2,685
Stocks	2,030	946
Creditors: due within one year	(5,201)	(5,567)
	<u>10,093</u>	<u>(270)</u>

The notes on pages 8 to 16 are an integral part of these financial statements.

QUAKER OATS LIMITED AND SUBSIDIARIES

NOTES TO ACCOUNTS -- 30th JUNE, 1987 AND 1986

1. SUMMARY OF ACCOUNTING POLICIES:

- a) Basis of presentation and consolidation -
The accompanying group accounts have been prepared under the historical cost convention and include the accounts of the Company and its wholly-owned subsidiaries. The effect of all significant intercompany transactions and balances has been eliminated.

No profit and loss account is prepared for Quaker Oats Ltd., in accordance with the provisions of section 228 of the Companies Act 1985.

- 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 rates ruling at that date. Any resultant gains or losses are reported in the profit and loss account.

- c) Stocks (Note 8) -
Raw materials stocks for grocery products (£3,615,000 : 1986 £3,041,000) are valued at the lower of actual cost and net realisable value. Other stocks including all stocks relating to the toys division (£14,477,000 : 1986 £13,022,000) are stated at the lower of first-in first out cost and net realisable value.

- d) Intangible fixed assets -
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 is being amortised on a straight line basis over twenty years.

- e) Investments in subsidiaries -
Investments in subsidiaries are stated at the Company's equity in the net assets of the subsidiaries, less advances from non-trading subsidiaries.

f) Tangible fixed assets -

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

Land (leasehold)	-	1.0%
Land (freehold) and construction-in-progress	-	N/A
Buildings	-	2.5%
Plant, Equipment and Vehicles		
Plant and machinery	-	6% to 12.5%
Office furniture and equipment	-	10%
Computer equipment	-	14% to 33.3%
Motor vehicles	-	25%
Moulds and tooling equipment	-	25% to 33.3%

g) Government grants -

Regional development grants are credited to the cost of the assets concerned. Accordingly they are amortised to profit and loss over the lives of the related assets.

Selective assistance grants are reflected in the profit and loss account when received and when the Company meets the conditions under which the grant was given.

h) Turnover -

Turnover represents the invoiced value of shipments to customers, less returns, allowances and Value Added Tax.

i) Taxation (Note 4) -

The charge for corporation tax is based on the profit on ordinary activities before taxation adjusted for expenses not allowable for tax.

Provision is made for deferred taxation under the liability method except in respect of any tax reduction which, on reasonable evidence, can be expected to continue for the foreseeable future. Deferred taxes that have been provided are set out in note 11.

j) Pension costs -

It is the general policy of the Group to fund pension liabilities by payments to the Group's independent pension schemes, on the advice of external actuaries. Payments made to the funds and charged in the accounts comprise current and past service contributions. Independent actuarial valuations on a going concern basis are carried out every two years.

2. SEGMENTAL INFORMATION:

a)	<u>Group Turnover</u>		<u>Profit on ordinary activities</u>	
			<u>before taxation</u>	
	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<u>Class of business</u>				
Grocery products	98,580	95,224	6,799	6,604
Toys	41,881	32,621	8,349	3,084
	<u>140,461</u>	<u>127,845</u>	<u>15,148</u>	<u>9,688</u>
Group Interest (net)			1,240	913
			<u>16,388</u>	<u>10,601</u>

The 1986 profit figures shown for Toys included an amount of £45,000 in respect of Government grants received. No grants were received in 1987.

b) <u>Turnover by geographical market</u>	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
United Kingdom	123,009	113,175
Europe	17,193	13,923
Other	259	747
	<u>140,461</u>	<u>127,845</u>

3. SUPPLEMENTARY INFORMATION:

- a) Profit on ordinary activities before taxation has been determined after accounting for the following items -

	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
Wages and salaries	18,801	18,484
Social Security costs	1,361	1,287
Other pension costs	1,003	926
Amortisation of goodwill	30	90
Depreciation	3,743	3,461
Auditors' remuneration	66	59
Hire of equipment	109	149
Management charges from holding company	388	395
Interest on loans and bank overdrafts repayable within 5 years	10	58
(Gain) on retranslation of foreign currency balances	(780)	(318)
	<u>22,617</u>	<u>22,512</u>

- b) The average weekly number of employees including part timers was 3312 (1986-3472). The analysis of employees by activity is as follows -

	<u>1987</u>	<u>1986</u>
Manufacturing	1079	1131
Selling & Distribution	1865	1976
Administration	368	365
	<u>3312</u>	<u>3472</u>

The full time equivalent of these figures is 1942 (1986 - 2023).

- c) The aggregate emoluments of all directors for management services, including pension contributions, was £464,831 (1986 - £476,000).

The emoluments of the Chairman, excluding pension contributions, amounted to £298 (1986 - £5,914). The emoluments of the highest-paid director, excluding pension contributions, amounted to £128,422 (1986 - £124,040).

The emoluments of the remaining directors fell into the following brackets -

			Number of directors	
			1987	1986
£NIL	-	£ 5,000	4	6
£15,000	-	£20,000	1	1
£25,001	-	£30,000	-	-
£35,001	-	£40,000	1	-
£40,001	-	£45,000	-	1
£45,001	-	£50,000	-	1
£50,001	-	£55,000	2	1
£55,001	-	£60,000	-	-
£60,001	-	£65,000	1	-
£65,001	-	£70,000	1	1
£70,001	-	£75,000	-	-
£75,001	-	£80,000	-	1
			=====	=====

The remuneration of employees receiving over £30,000, excluding pension contributions, fell into the following brackets -

			1987	1986
£30,001	-	£35,000	8	8
£35,001	-	£40,000	5	7
£40,001	-	£45,000	2	-
£45,001	-	£50,000	-	1
£50,001	-	£55,000	1	-
			=====	=====

4. Tax on profit on ordinary activities:

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

	1987	1986
Corporation Tax at 35.00% (1986 : 35.00%)	6441	4797
Prior year adjustments	42	(398)
Deferred Tax arising on		
- Capital Allowances	(764)	(695)
- Other Timing Differences	104	(12)
	<u>5823</u>	<u>3692</u>

5. TANGIBLE FIXED ASSETS:

Tangible fixed assets comprise -

	Group		Company	
	1987 £'000	1986 £'000	1987 £'000	1986 £'000
Land & buildings	121	124	121	124
- Long Leasehold	10,978	10,900	10,978	10,900
- Freehold	20,747	21,092	20,516	20,848
Plant, machinery and vehicles	1,360	1,189	1,360	1,189
Assets in course of construction	33,206	33,305	32,975	33,061
Net tangible fixed assets				

Movement on these accounts for the Company and the Group during the year ended 30th June, 1987 was as follows -

a) COMPANY -

	Total £'000	Long Leasehold Land £'000	Freehold Land & Buildings £'000	Plant & Equipment £'000	Assets in course of construction £'000
<u>Cost -</u>					
At 1st July, 1986	47,696	147	12,959	53,401	1,189
Additions	4,303	-	98	1,491	2,714
Retirements	(2,213)	-	(7)	(2,163)	(43)
Transfers	289	-	335	2,454	(2,500)
At 30th June, 1987	<u>50,075</u>	<u>147</u>	<u>13,385</u>	<u>55,183</u>	<u>1,360</u>
<u>Accumulated depreciation -</u>					
At 1st July, 1986	14,635	23	2,059	12,553	-
Provision	3,664	3	350	3,311	-
Retirements	(1,455)	-	(2)	(1,453)	-
Transfers	256	-	-	256	-
At 30th June, 1987	<u>17,100</u>	<u>26</u>	<u>2,407</u>	<u>14,667</u>	<u>-</u>
Net book value 30th June, 1986	<u>33,061</u>	<u>124</u>	<u>10,900</u>	<u>20,848</u>	<u>1,189</u>
Net book value 30th June, 1987	<u>32,975</u>	<u>121</u>	<u>10,978</u>	<u>20,516</u>	<u>1,360</u>

b) GROUP -

<u>Cost -</u>					
At 1st July, 1986	48,050	147	12,959	33,755	1,189
Additions	4,332	-	98	1,520	2,714
Retirements	(2,258)	-	(7)	(2,208)	(43)
Transfers	352	-	335	2,517	(2,500)
At 30th June, 1987	<u>50,476</u>	<u>147</u>	<u>13,335</u>	<u>35,584</u>	<u>1,360</u>
<u>Accumulated depreciation -</u>					
At 1st July, 1986	14,745	23	2,059	12,663	-
Provision	3,743	3	350	3,390	-
Retirements	(1,474)	-	(2)	(1,472)	-
Transfers	256	-	-	256	-
At 30th June, 1987	<u>17,270</u>	<u>26</u>	<u>2,407</u>	<u>14,837</u>	<u>-</u>
Net book value 30th June, 1986	<u>33,305</u>	<u>124</u>	<u>10,900</u>	<u>21,092</u>	<u>1,189</u>
Net book value 30th June, 1987	<u>33,206</u>	<u>121</u>	<u>10,978</u>	<u>20,747</u>	<u>1,360</u>

Freehold land and buildings includes £323,000 in respect of land (1986 : £323,000)

6. INVESTMENT IN SUBSIDIARIES:

The company has one operating subsidiary, Merchandising and Sales Services Limited which is wholly owned and incorporated in England. It has also five non-trading subsidiaries - Felix Catfood Limited, Fisher-Price Toys Limited, Felix Pet Foods Limited, A & R Scott Limited, Sutherlands Foods Limited.

	1987 £'000	1986 £'000
a) Investment in subsidiary companies at 30th June, 1987 and 1986 comprises -		
Cost of shares	4,362	4,362
Increase in the underlying net assets since acquisition	4,444	4,985
Advances, interest free and with no fixed repayment date	(6,653)	(6,653)
Accumulated amortisation of goodwill	(1,320)	(1,410)
	<u>1,654</u>	<u>2,285</u>
b) The investment is analysed in the balance sheet of the Company as -		
Investment in subsidiaries	334	875
Goodwill (Note 7)	<u>1,320</u>	<u>1,410</u>
	<u>1,654</u>	<u>2,285</u>

7. INTANGIBLE ASSETS:

The movement on goodwill for the Company and Group during the year was:

	Group		Company	
	1987 £'000	1986 £'000	1987 £'000	1986 £'000
At 1st July, 1986	1,410	1,500	1,410	1,500
Amortisation	(90)	(90)	(90)	(90)
At 30th June, 1987	<u>1,320</u>	<u>1,410</u>	<u>1,320</u>	<u>1,410</u>

8. STOCKS:

Stocks comprise -

	Group		Company	
	1987 £'000	1986 £'000	1987 £'000	1986 £'000
Finished product	11,876	9,251	11,876	9,251
Work in progress	608	988	608	988
Raw materials	5,608	5,821	5,608	5,821
	<u>18,092</u>	<u>16,062</u>	<u>18,092</u>	<u>16,062</u>

In the opinion of the directors, the replacement cost of stocks is not materially different from their book value.

9. DEBTORS:
Debtors comprise -

	Group		Company	
	1987	1986	1987	1986
	£'000	£'000	£'000	£'000
Trade debtors	11,026	8,908	10,593	8,274
Amounts owed by fellow subsidiaries	5,271	4,437	5,271	4,437
Other debtors	1,654	1,155	1,570	1,075
Prepayments	217	178	210	173
Dividend due from Subsidiary	-	-	585	-
	<u>19,168</u>	<u>14,678</u>	<u>19,229</u>	<u>13,959</u>

10. CREDITORS :

	Group		Company	
	1987	1986	1987	1986
	£'000	£'000	£'000	£'000
Amounts falling due within one year comprise -				
Bank loans and overdrafts	39	2	4	-
Trade creditors	13,672	12,199	13,662	12,190
Due to holding company	1,753	1,442	1,753	1,442
Due to fellow subsidiaries	2,648	2,407	2,648	2,407
Due to subsidiaries	-	-	585	119
Social security and PAYE	356	447	356	447
Accruals and deferred income	4,022	4,150	3,705	4,031
UK Corporation Tax Payable	7,411	4,016	7,379	3,975
	<u>29,901</u>	<u>24,663</u>	<u>30,092</u>	<u>24,611</u>

11. DEFERRED TAXATION:

The deferred tax provision, which represents the full potential liability calculated at 35% (1986 - 35%), comprises amounts relating to -

	Group		Company	
	1987	1986	1987	1986
	£'000	£'000	£'000	£'000
Differences between book and tax depreciation	9,123	9,888	9,036	9,854
Short-term timing differences	20	(84)	20	(84)
	<u>9,143</u>	<u>9,804</u>	<u>9,116</u>	<u>9,770</u>

12. RESERVES:

The movements on reserves dealt with in the accounts of the Company for the financial year are as follows:

a) Profit and Loss Account

	<u>Company</u>	
	<u>1987</u>	<u>1986</u>
	<u>£'000</u>	<u>£'000</u>
At 1st July, 1986	36,238	36,329
Profit after tax	10,521	6,787
Dividend receivable from subsidiary	585	122
Dividend proposed/paid to holding company	-	(7,000)
At 30th June, 1987	<u>47,344</u>	<u>36,238</u>

b) Revaluation Reserve

At 1st July, 1986	875	875
Net Profit of subsidiary	(541)	-
At 30th June, 1987	<u>334</u>	<u>875</u>

13. PENSION PLANS:

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

The plans have been funded in accordance with the recommendations of the plans' actuaries and accepted by the trustees. In the opinion of the directors, no material unfunded past service liabilities exist as at the 30th June, 1987.

The Company has undertaken to continue to make such payments as the plans' actuaries may determine are necessary to fund the plans.

14(a) CAPITAL COMMITMENTS:

Capital commitments at 30th June, 1987 and 1986 for the Company and the Group were as follows:-

	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
Contracts for capital expenditure	255	1,223
Capital expenditure authorised by the Board of Directors but not contracted for	<u>220</u> <u>475</u>	<u>797</u> <u>2,020</u>

(b) LEASE COMMITMENTS:

The Group has entered into cancellable and non-cancellable operating leases in respect of plant and machinery, the payments for which extend over a period of up to 8 years. The total annual rental (including interest) for 1987 was £109,000 (1986 - £149,000).

15. ULTIMATE HOLDING COMPANY:

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