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ARA COFFEE CLUB LIMITED

ACCOUNTS --- 30 SEPTEMBER 1989

TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS

ARA COFFEE CLUB LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 1989

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 30 September 1989.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW:

The principal activity of the company continues to be the provision of refreshment services to industry and commerce.

Turnover increased by £407,196 during the year. Profit on ordinary activities before taxation improved by £116,369.

On 1 October 1989 the company disposed of its assets and liabilities at net book value to ARA Services Limited, the company's immediate holding company.

RESULTS AND DIVIDENDS:

Retained profit, beginning of year	£ 47,617
Profit on ordinary activities after taxation	491,295
Dividends paid	(490,000)

Retained profit, end of year	£ 48,912
	=====

DIRECTORS AND THEIR INTERESTS:

The directors who served during the year were -

W.S.D. McCall

J.V. Devlin

P.L. Thornton (resigned 28 February 1989)

There are no directors' interests which require disclosure under Schedule 7 of the Companies Act 1985.

FIXED ASSETS:

Information relating to changes in tangible fixed assets is given in Note 7 to the accounts.

AUDITORS:

The directors will place a resolution before the annual general meeting to re-appoint Arthur Andersen & Co. as auditors for the ensuing year.

BY ORDER OF THE BOARD:

R.F. Richmond
Secretary

30 March 1990

ARTHUR ANDERSEN & Co

ST PAUL'S HOUSE
PARK SQUARE
LEEDS LS1 2PJ

Auditors' report to the Members of ARA COFFEE CLUB LIMITED:

We have audited the financial statements on pages 4 to 12 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 at 30 September 1989 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen & Co.

30 March 1990

ARA COFFEE CLUB LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 1989

	<u>Note</u>	<u>1989</u>	<u>1988</u>
TURNOVER	2	£ 5,094,039	£ 4,686,843
Cost of sales		1,479,557	1,394,821
GROSS PROFIT		3,614,482	3,292,022
Other operating expenses	3	2,860,226	2,654,135
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	754,256	637,887
Tax on profit on ordinary activities	6	262,961	210,447
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		491,295	427,440
Dividends paid		(490,000)	(420,000)
RETAINED PROFIT, beginning of year		47,617	40,177
RETAINED PROFIT, end of year		£ 48,912	£ 47,617

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

BALANCE SHEET -- 30 SEPTEMBER 1989

SIGNED ON BEHALF OF THE BOARD:

30 March 1990

W: Ben Call
J. V. Devlin.

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ARA COFFEE CLUB LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 30 SEPTEMBER 1989

	<u>1989</u>	<u>1988</u>
SOURCE OF FUNDS		
Profit on ordinary activities after taxation	£ 491,295	£ 427,440
Add (deduct) items not involving the movement of funds during the year		
- depreciation of tangible fixed assets	205,244	218,201
- profit on sale of tangible fixed assets	(3,824)	(3,313)
- deferred taxation	(4,969)	(47,291)
	<hr/>	<hr/>
Total funds from operations	687,746	595,037
	<hr/>	<hr/>
Proceeds from sale of tangible fixed assets	14,890	9,757
Decrease in net current assets, as shown below	119,939	255,558
	<hr/>	<hr/>
	£ 822,575	£ 860,352
	<hr/>	<hr/>
APPLICATION OF FUNDS		
Dividends paid on ordinary and deferred ordinary shares	£ 490,000	£ 420,000
Purchase of tangible fixed assets	331,998	419,358
Intra group fixed asset transfers at net book value	577	20,994
	<hr/>	<hr/>
	£ 822,575	£ 860,352
	<hr/>	<hr/>
INCREASE (DECREASE) IN NET CURRENT ASSETS		
Stocks	£ 14,946	£ 58,499
Debtors	(156,190)	286,254
Creditors falling due within one year (other than bank overdraft)	21,005	(621,403)
	<hr/>	<hr/>
	(120,239)	(276,650)
	<hr/>	<hr/>
Movement in net liquid funds	300	4,120
- cash at bank and in hand	-	16,972
- bank overdraft	<hr/>	<hr/>
	£(119,939)	£(255,558)
	<hr/>	<hr/>

The accompanying notes are an integral part of this statement.

ARA COFFEE CLUB LIMITED

NOTES TO ACCOUNTS -- 30 SEPTEMBER 1989

1. ACCOUNTING POLICIES:

The principal accounting policies are -

a. Basis of accounting

The accounts are prepared under the historical cost convention.

b. Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business.

c. Pension costs

It is the general policy of the company to provide for pension liabilities, on the advice of external actuaries, by payments to a managed fund. Payments made to the fund and charged in the accounts comprise current and past service contributions. Independent actuarial valuations on a going concern basis are carried out every three years. Any resulting deficits are charged to the profit and loss account in the year in which they are identified.

d. Taxation

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

Deferred taxation is provided to the extent that the directors believe it is likely to become payable in the foreseeable future.

e. Operating leases

Rental under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

f. Tangible fixed assets

Tangible fixed assets are shown 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 estimated useful life, as follows -

Plant, machinery and equipment - 2 - 15 years

g. Stocks

Stocks are stated at the lower of first-in, first-out cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

2. SEGMENT INFORMATION:

All turnover arose within the United Kingdom.

3. OTHER OPERATING EXPENSES:

	<u>1989</u>	<u>1988</u>
Distribution and service costs	£ 1,643,481	£ 1,535,673
Administrative expenses	1,216,745	1,118,462
	<u>£ 2,860,226</u>	<u>£ 2,654,135</u>

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION:

Profit on ordinary activities before taxation is stated after charging (crediting) -

	<u>1989</u>	<u>1988</u>
Depreciation of tangible fixed assets	£ 205,244	£ 218,201
Profit on disposal of tangible fixed assets	(3,824)	(3,313)
Hire of motor vehicles under operating leases	132,928	138,425
Auditors' remuneration	5,000	5,000
Staff costs (Note 5)	<u>1,208,479</u>	<u>1,109,102</u>

5. STAFF COSTS:

Particulars of employees are shown below -

Employee costs during the year amounted to -

	<u>1989</u>	<u>1988</u>
Wages and salaries	£ 1,081,989	£ 995,994
Social security costs	93,477	88,427
Other pension costs	33,013	24,681
	<u>£ 1,208,479</u>	<u>£ 1,109,102</u>

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

	<u>Number</u>	<u>Number</u>
Distribution	89	87
Administration	44	46
	<u>133</u>	<u>133</u>
	=====	=====

No directors' remuneration was paid during the year (1988 - £Nil).

6. TAX ON PROFIT ON ORDINARY ACTIVITIES:

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

	<u>1989</u>	<u>1988</u>
Corporation tax at 35% (1988 - 35%)	£ 267,930	£ 257,738
Deferred taxation	(4,969)	(47,291)
	<u>£ 262,961</u>	<u>£ 210,447</u>
	=====	=====

7. TANGIBLE FIXED ASSETS:

The movement in the year was as follows -

	<u>Plant, machinery and equipment</u>
COST	
Beginning of year	£ 1,148,843
Additions	331,998
Transfers from group companies	794
Disposals	(43,227)
End of year	<u>1,438,408</u>
DEPRECIATION	
Beginning of year	553,480
Charge	205,244
Transfers from group companies	217
Disposals	(32,161)
End of year	<u>726,780</u>
NET BOOK VALUE, beginning of year	<u>£ 595,363</u>
	=====
NET BOOK VALUE, end of year	<u>£ 711,628</u>
	=====

8. STOCKS:

	<u>1989</u>	<u>1988</u>
Goods for resale	£ 129,951	£ 149,734
Spare parts	146,142	111,413
	<u>£ 276,093</u>	<u>£ 261,147</u>

The estimated replacement cost of stocks does not materially exceed their balance sheet value.

9. DEBTORS:

Amounts falling due within one year -

	<u>1989</u>	<u>1988</u>
Trade debtors	£ 493,595	£ 518,684
VAT	25,366	-
ACT recoverable	43,111	207,441
Other debtors	1,281	581
Prepayments and accrued income	47,572	40,409
	<u>£ 610,925</u>	<u>£ 767,115</u>

10. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR:

	<u>1989</u>	<u>1988</u>
Trade creditors	£ 185,442	£ 189,675
Amounts owed to other group companies	794,072	896,166
Other creditors		
- UK corporation tax payable	309,659	108,218
- ACT on dividends paid	-	140,000
- VAT	-	2,615
- social security and PAYE	31,356	14,590
Accruals and deferred income	231,585	221,855
	<u>£ 1,552,114</u>	<u>£ 1,573,119</u>

11. PROVISION FOR LIABILITIES AND CHARGES:

This comprises full provision for deferred taxation, attributable to the excess of tax allowances over book depreciation of fixed assets.

	<u>1989</u>	<u>1988</u>
The movement on deferred taxation was as follows -		
Beginning of year	£ 4,969	£ 52,260
Credited to profit and loss account	(4,969)	(47,291)
End of year	<u>£ -</u>	<u>£ 4,969</u>

12. CALLED UP SHARE CAPITAL:

	<u>1989</u>	<u>1988</u>
Authorised -		
1,000 ordinary shares of £1 each	£ 1,000	£ 1,000
1,000 deferred ordinary shares of £1 each	1,000	1,000
4,000 preference shares of £1 each	4,000	4,000
	-----	-----
	£ 6,000	£ 6,000
	=====	=====

Issued and paid up -

1,000 ordinary shares of £1 each, fully paid	£ 1,000	£ 1,000
1,000 deferred ordinary shares of £1 each, fully paid	1,000	1,000
4,000 preference shares of £1 each, 1p paid	40	40
	-----	-----
	£ 2,040	£ 2,040
	=====	=====

13. GUARANTEES AND OTHER FINANCIAL COMMITMENTS:

a. At the end of the year capital commitments were -

	<u>1989</u>	<u>1988</u>
Contracted for but not provided for	£ 6,711	£ -
Authorised but not contracted for	-	323
	=====	=====

b. There is a cross guarantee between the company, a fellow subsidiary and ARA Services Limited for all the liabilities of these companies to the group's principal bankers.

c. The company has entered into operating lease agreements in respect of motor vehicles, the payments for which extend over a period of up to four years. The agreements provide that the company will pay all insurance, maintenance and repairs.

The annual rentals under these leases are as follows -

	<u>1989</u>	<u>1988</u>
Operating leases which expire:		
- within 1 year	£ 1,082	£ -
- within 2-5 years	106,438	323,537
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	£ 107,520	£ 323,537
	=====	=====

14. POST BALANCE SHEET EVENT:

The company's assets and liabilities were acquired at net book value on 1 October 1989 by ARA Services Limited.

15. ULTIMATE HOLDING COMPANY:

The company is a wholly owned subsidiary of ARA Services Limited, incorporated in England, and its ultimate holding company is ARA Holding Company, incorporated in the State of Delaware, USA.