

Sara Lee UK Holdings PLC

Consolidated accounts 30 June 1996
together with directors' and auditors' reports

Registered number: 1558575



Directors' report

For the year ended 30 June 1996

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the year ended 30 June 1996.

Principal activities and business review

The company's principal activities are the manufacture and marketing of branded hosiery products and acting as an investment holding company.

The principal activities of the group are the manufacture and marketing of branded products in the markets of household products, toiletries, hosiery, ladies foundation garments, coffee products and frozen cakes and desserts.

The turnover of the group from continuing activities increased by 7% (1995:20%), reflecting improvements in all of the markets in which the group operates except for those for coffee products which remained stable. Losses in the hosiery business were considerably reduced.

The strategy of the group is to build brands in new channels and in new ways, to achieve and maintain low cost production, and to concentrate development and marketing efforts behind high margin value added products.

On 28 June 1996 the company acquired the entire share capital of Douwe Egberts Coffee Systems Limited from Sara Lee/DE NV, a fellow group undertaking. The consideration given was 7,864,000 'B' ordinary shares of £1 each. This group reconstruction was accounted for in accordance with the principles of merger accounting, with the result that all of the prior year group comparatives have been restated as if the transaction had occurred on 30 June 1994.

Results and dividends

Group results are as follows:

	£'000
Group retained profit at beginning of year, as restated	80,829
Group loss for the financial year after taxation	(8,297)
Transfer from other reserves	555
Goodwill written off	(257)
Currency translation differences on foreign currency net investments	839
Group retained profit at end of year	<u>73,669</u>

The directors do not recommend the payment of a dividend.

Directors' report (continued)

Directors and their interests

The directors who served during the year are as shown below:

O.P. Livingston

A.J.M. van Bilsen

R. Ward Dyer (Resigned 31 May 1996)

D. Kennedy (Appointed 23 January 1996)

The directors who held office at 30 June 1996 had no beneficial interests in the shares of the company requiring disclosure under Schedule 7 of the Companies Act 1985.

J.A.N. van Dijk was appointed to the Board on 1 July 1996.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit and loss of the group for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group 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 group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Charitable donations

The group donated £7,360 (1995: £7,920) to charities during the year.

Disabled employees

It is the group's policy to give full and fair consideration to applications for employment by disabled persons, having regard to their particular experience, aptitudes and abilities and mindful that the willingness and conscientiousness of many disabled persons goes far to counterbalance their disability. It is also the group's policy, where appropriate, to train, promote and develop the careers of disabled employees.

Directors' report (continued)

Employee consultation

Throughout the group, management view positively the need to achieve a satisfactory degree of employee involvement in their businesses and have worked for several years to establish and develop activities to bring about this objective. The activities are those which are appropriate to each company and to each group of employees within the companies. They encompass the regular transmission of information on matters of concern to employees, including trading performance, by the publication of news bulletins, circularising and displaying notices, and both formal and informal consultative arrangements.

Payment of creditors

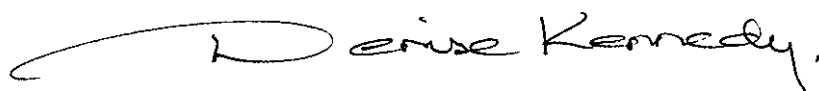
The group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

225 Bath Road
Slough
Berkshire
SL1 4AU

By order of the Board,

A handwritten signature in black ink, reading "Denise Kennedy", with a large, sweeping initial "D".

D. Kennedy

17 December 1996

Secretary

Auditors' report

Reading

To the Shareholders of Sara Lee UK Holdings PLC:

We have audited the accounts on pages 5 to 36 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

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

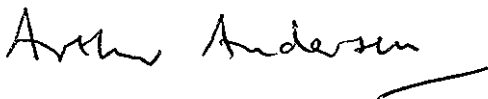
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company and of the group, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 30 June 1996 and of the group's loss 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 Auditors

Abbots House
Abbey Street
Reading
Berkshire
RG1 3BD

17 December 1996

Consolidated profit and loss account

For the year ended 30 June 1996

	Notes	1996		1995	
		£'000	£'000	As restated (see Note 1c)	
				£'000	£'000
Turnover					
Continuing operations			349,145		327,432
Discontinued operations			91,622		98,349
	2		<u>440,767</u>		<u>425,781</u>
Cost of sales	3		(280,575)		(268,520)
Gross profit			<u>160,192</u>		<u>157,261</u>
Operating expenses	3		(151,248)		(152,356)
Operating profit from continuing operations		2,175		3,266	
Operating profit from discontinued operations		<u>6,769</u>		<u>1,639</u>	
Total operating profit			8,944		4,905
(Loss) profit on disposal of discontinued operations	5		(8,458)		180
Investment income	6		8,426		9,395
Interest payable and similar charges	7		(13,857)		(12,770)
(Loss) profit on ordinary activities before taxation			<u>(4,945)</u>		<u>1,710</u>
Tax on (loss) profit on ordinary activities	10		(3,273)		(3,973)
Loss on ordinary activities after taxation			<u>(8,218)</u>		<u>(2,263)</u>
Minority interests			<u>(79)</u>		<u>(138)</u>
Loss attributable to members, being the loss for the financial year and the retained loss for the year			<u>(8,297)</u>		<u>(2,401)</u>

A statement of movements on reserves is given in Note 20 to the accounts.

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

Consolidated statement of total recognised gains and losses

For the year ended 30 June 1996

	1996	1995
		As restated
	£'000	(see Note 1c)
		£'000
Loss for the financial year	(8,297)	(2,401)
Currency translation differences on foreign currency net investments	839	1,856
Revaluation of land and buildings	2,744	-
Total recognised gains and losses relating to the year	<u>(4,714)</u>	<u>(545)</u>

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

No note of historical cost profit and losses has been presented as the directors are of the opinion that the reported result is not materially different from the result which would have been reported using the historical cost basis.

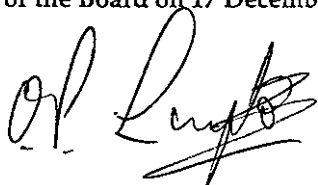
Consolidated balance sheet

30 June 1996

	Notes	1996 £'000	1995 As restated (see Note 1c) £'000
Fixed assets			
Intangible assets	11	51,537	78,039
Tangible assets	12	65,846	75,983
Investments	13	1,894	1,894
		<u>119,277</u>	<u>155,916</u>
Current assets			
Stocks	14	50,604	71,540
Debtors - Amounts falling due within one year	15	77,657	132,210
- Amounts falling due after more than one year	15	20,284	21,059
Cash at bank and in hand		3,645	9,636
		<u>152,190</u>	<u>234,445</u>
Creditors: Amounts falling due within one year	16	(95,295)	(198,968)
Net current assets		<u>56,895</u>	<u>35,477</u>
Total assets less current liabilities		<u>176,172</u>	<u>191,393</u>
Creditors: Amounts falling due after more than one year	17	(51,581)	(65,211)
Provisions for liabilities and charges	18	(3,446)	(4,703)
Net assets		<u>121,145</u>	<u>121,479</u>
Capital and reserves			
Called-up share capital	19	38,953	37,550
Share premium	20	4,807	1,401
Revaluation reserve	20	4,035	1,291
Other reserves	20	11,506	12,061
Profit and loss account	20	73,669	80,829
Merger reserve	20	(11,973)	(11,973)
Equity shareholders' funds	21	<u>120,997</u>	<u>121,159</u>
Equity minority interests	20	148	320
		<u>121,145</u>	<u>121,479</u>

Signed on behalf of the Board on 17 December 1996

O.P. Livingston
Director



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

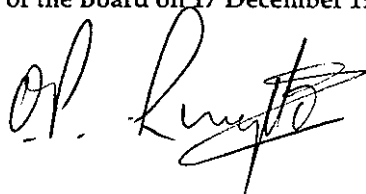
Company balance sheet

30 June 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	12	10,456	9,544
Investments	13	85,629	41,765
		<u>96,085</u>	<u>51,309</u>
Current assets			
Stocks	14	15,832	18,527
Debtors - Amounts falling due within one year	15	6,743	59,593
- Amounts falling due after more than one year	15	3,144	3,090
Cash at bank and in hand		1,807	-
		<u>27,526</u>	<u>81,210</u>
Creditors: Amounts falling due within one year	16	(26,052)	(48,535)
Net current assets		<u>1,474</u>	<u>32,675</u>
Total assets less current liabilities		<u>97,559</u>	<u>83,984</u>
Creditors: Amounts falling due after more than one year	17	(50,729)	(50,712)
Net assets		<u>46,830</u>	<u>33,272</u>
Capital and reserves			
Called-up share capital	19	38,953	29,686
Share premium	20	4,807	1,401
Profit and loss account	20	3,070	2,185
Equity shareholders' funds	21	<u>46,830</u>	<u>33,272</u>

Signed on behalf of the Board on 17 December 1996

O.P. Livingston
Director



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

Consolidated cash flow statement

For the year ended 30 June 1996

	Notes	1996		1995	
		£'000	£'000	As restated (see Note 1c) £'000	£'000
Net cash inflow from operating activities	23		29,886		16,585
Returns on investments and servicing of finance					
Interest received		2,751		1,725	
Interest paid		(13,469)		(11,345)	
Interest element of finance lease rentals		(165)		(224)	
Dividends paid to minority interests		(51)		(27)	
Net cash outflow from returns on investments and servicing of finance			(10,934)		(9,871)
Taxation					
Corporation tax paid			(4,049)		(2,340)
Investing activities					
Purchase of tangible fixed assets		(14,100)		(12,283)	
Purchase of subsidiary undertakings and other businesses	24	-		(41)	
Purchase of intangible fixed assets		(145)		-	
Sale of tangible fixed assets		233		1,367	
Payments associated with the sale of discontinued operations	25	-		(550)	
Receipts from redemption of shares in subsidiary undertaking	26	(4,300)		-	
Net cash outflow from investing activities			(18,312)		(11,507)
Net cash outflow before financing			(3,409)		(7,133)
Financing					
New loans to other group undertakings		(2,656)		(40,695)	
Repayment of loans (to) from other group undertakings		(962)		5,866	
Capital element of finance lease rental payments		(774)		(833)	
Receipt from issue of guaranteed bonds		-		50,681	
Issue of ordinary share capital		4,809		1,977	
Net cash inflow from financing	29		417		16,996
(Decrease) increase in cash and cash equivalents	28		(2,992)		9,863

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to accounts

30 June 1996

1 Statement of accounting policies

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

a) Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of land and buildings, and in accordance with applicable accounting standards.

b) Basis of consolidation

The group accounts consolidate the accounts of Sara Lee UK Holdings PLC and all of its subsidiary undertakings made up to 30 June 1996. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

The group reorganisation which took place on 28 June 1996 and resulted in the acquisition of Douwe Egberts Coffee Systems Limited and the 1992 acquisitions of the Kiwi Holdings Limited group and the Sara Lee (UK) Limited group have been accounted for in accordance with the principles of merger accounting.

No profit and loss account is presented for Sara Lee UK Holdings PLC, as provided by Section 230 of the Companies Act 1985. The company's retained profit for the financial year, as defined by the Act, was £885,000 (1995: £893,000)

c) Prior year comparatives

Group prior year comparatives have been restated to incorporate the Douwe Egberts Coffee Systems Limited group in accordance with the principles of merger accounting (see Note 4).

d) Goodwill

Purchased goodwill and goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is considered separately for each acquisition and is either amortised over a period of up to 40 years or written off immediately to reserves, depending on the directors' assessment of its likely future value to the group.

e) Investments

Fixed asset investments in subsidiary undertakings are shown at cost less provisions for permanent diminution in value. Where advantage is taken of merger relief under Section 131 of the Companies Act 1985, investments are shown at the nominal value of the shares issued plus the fair value of any other consideration given. Only dividends received or receivable are included in the company's profit for the year. Where advantage is taken of group reconstruction relief under Section 132 of the Companies Act 1995, investments are shown at the nominal value of the shares issued plus the fair value of any other consideration given plus a minimum share premium which is the amount by which the base value of the net assets transferred exceeds the nominal value of the shares allotted.

Notes to accounts (continued)

1 Statement of accounting policies (continued)

e) *Investments (continued)*

Treasury notes are shown at market value and are revalued annually. Where market value is less than cost, movements in value are taken to the profit and loss account. Where market value exceeds cost, the excess is taken to a revaluation reserve.

f) *Tangible fixed assets*

Tangible fixed assets are recorded at historical cost or subsequent valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or value of each asset over its expected useful life by equal annual instalments. The principal rates presently used are:

Freehold buildings	2.5% per annum
Leasehold improvements	33 ¹ / ₃ % per annum
Plant and machinery	5%-20% per annum
Office equipment	10%-50% per annum

g) *Stocks and work in progress*

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

Costs represents expenses incurred in bringing each product to its present location and condition and includes a reasonable level of labour and manufacturing overheads based on normal levels of activity.

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.

h) *Pension costs*

For defined benefit schemes the amount charged to the profit and loss account in respect of pensions costs and other post-retirement benefits 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 future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are either externally funded, with the assets of the scheme held separately from those of the group in separate trustee administered funds, or are unfunded. Differences between amounts charged to the profit and loss account and amounts funded or paid directly to members of unfunded schemes are shown as either provisions or prepayments in the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Notes to accounts (continued)

1 Statement of accounting policies (continued)

i) *Foreign currency*

In the accounts of individual undertakings, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

For the purposes of consolidation the closing rate method is used, under which translation gains or losses are shown as a movement on reserves. Profit and loss accounts and cashflows of overseas subsidiary undertakings are translated at the closing exchange rate.

j) *Turnover*

Group turnover comprises the value of sales (excluding VAT and similar taxes and trade discounts) of goods and services in the normal course of business.

k) *Leases*

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate. Rentals under operating leases are charged on a straight line basis over the lease term. Further information on charges in the year and future commitments is given in Note 22b to the accounts.

l) *Revaluation Reserve*

Surpluses or deficits arising on the revaluation of individual fixed assets are credited or charged to a non-distributable reserve known as the revaluation reserve (see also Note 20). Revaluation deficits in excess of the amount of prior revaluation surpluses on the same asset are charged to the profit and loss account.

m) *Taxation*

Tax payable is provided on taxable profits at the rate ruling in the relevant taxing authority. 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 timing differences, which will probably reverse at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

n) *Capital instruments*

Loans payable are initially recorded at the fair value of the consideration received net of costs incurred directly in connection with the issue of the loan. These costs are amortised as interest expense over the period for which the directors expect the loan to be outstanding. This period is determined by reference to the scheduled repayment of the loan and the possibility and likelihood of early repayment.

Notes to accounts (continued)

2 Segment information

	1996 £'000	1995 £'000
By geographical destination:		
United Kingdom	295,702	275,193
Rest of Europe	30,591	28,637
Africa	106,257	112,455
Other	8,217	9,496
	<u>440,767</u>	<u>425,781</u>

Sales in Africa include discontinued activities of £91,622,000 (1995: £98,349,000). Additional segmental information has been omitted as, in the opinion of the directors, its inclusion would be seriously prejudicial to the interests of the group.

3 Analysis of continuing and discontinued operations

Operating expenses may be analysed as follows:

	1996			1995		
	Continuing £'000	Discontinued £'000	Total	Continuing £'000	Discontinued £'000	Total
Cost of sales	<u>227,061</u>	<u>53,514</u>	<u>280,575</u>	<u>213,330</u>	<u>55,190</u>	<u>268,520</u>
Operating expenses:						
Distribution costs	35,591	5,878	41,469	39,866	5,319	45,185
Sales and administrative expenses	<u>84,318</u>	<u>25,461</u>	<u>109,779</u>	<u>70,970</u>	<u>36,201</u>	<u>107,171</u>
	<u>119,909</u>	<u>31,339</u>	<u>151,248</u>	<u>110,836</u>	<u>41,520</u>	<u>152,356</u>

Discontinued operations arose on the redemption of the group's investment in Vlijmense Belegging Maatschappij BV (VBM) on 28 June 1996, as a result of which VBM and its subsidiary undertakings ceased to be members of the group.

Notes to accounts (continued)

4 Analysis of operations of merged entities

The results for the current and prior year may be analysed between the Sara Lee UK Holdings PLC group (SLUKHP) and the Douwe Egberts Coffee Systems Limited group (DECS) as set out below. The group reconstruction occurred on 28 June 1996 and there were no material transactions in either group from that date to year end. All of the discontinued activities arose in the SLUKHP group and are detailed separately in Note 3.

	1996			1995		
	SLUKHP £'000	DECS £'000	Total £'000	SLUKHP £'000	DECS £'000	Total £'000
Turnover	384,454	56,313	440,767	369,589	56,192	425,781
Operating profit	5,963	2,981	8,944	2,369	2,536	4,905
(Loss) profit on disposal of discontinued activities	(8,458)	-	(8,458)	180	-	180
(Loss) profit before taxation	(7,696)	2,751	(4,945)	(658)	2,368	1,710
Taxation	(1,820)	(1,453)	(3,273)	(2,755)	(1,218)	(3,973)
Minority interests	(79)	-	(79)	(138)	-	(138)
Net assets	101,844	19,301	121,145	103,476	18,003	121,479

Statement of total recognised gains and losses

	1996			1995		
	SLUKHP £'000	DECS £'000	Total £'000	SLUKHP £'000	DECS £'000	Total £'000
Retained (loss) profit for the year	(9,595)	1,298	(8,297)	(3,551)	1,150	(2,401)
Currency translation differences on foreign currency net investments	839	-	839	1,856	-	1,856
Revaluation	2,744	-	2,744	-	-	-
Total recognised gains and losses relating to the year	(6,012)	1,298	(4,714)	(1,695)	1,150	(545)

Notes to accounts (continued)

4 Analysis of operations of merged entities (continued)

Adjustments to consolidated profit and loss account

	1996			1995		
	SLUKHP £'000	DECS £'000	Total £'000	SLUKHP £'000	DECS £'000	Total £'000
Beginning of year	69,575	11,254	80,829	70,784	10,104	80,888
Currency differences on foreign currency net investments	839	-	839	1,856	-	1,856
Goodwill written off	(257)	-	(257)	-	-	-
Transfer from other reserves	555	-	555	486	-	486
Retained (loss) profit for the year	(9,595)	1,298	(8,297)	(3,551)	1,150	(2,401)
End of year	61,117	12,552	73,669	69,575	11,254	80,829

Adjustment to merger reserve

	£'000
As previously stated at 30 June 1995	10,858
Difference on merger arising on group reconstruction	1,115
As restated at 30 June 1995	11,973

5 (Loss) profit on disposal of discontinued operations

	1996 £'000	1995 £'000
Loss on redemption of investment in the VBM Group (see Note 26)	(8,458)	-
Release of unused provisions for future costs associated with the sale of the pharmaceutical business	-	180
	<u>(8,458)</u>	<u>180</u>
Related taxation:		
UK corporation tax at 33% (1995: 33%)		
- current	-	-
- deferred	-	(59)
	<u>-</u>	<u>(59)</u>

Notes to accounts (continued)

6 Investment income

Investment income comprises:

	1996 £'000	1995 £'000
Interest receivable from other group undertakings	775	729
Other interest receivable	528	1,543
Exceptional item: Amortisation of receipt under covenant not to compete, net of related costs	7,123	7,123
	<u>8,426</u>	<u>9,395</u>

During the year ended 30 June 1992, the group received US\$60 million under a non-competition agreement associated with the sale of the pharmaceutical business. This income is being recognised over the 5 year life of the agreement.

Related taxation on the exceptional item:

	1996 £'000	1995 £'000
Deferred taxation at 33% (1995: 33%)	<u>(2,351)</u>	<u>(2,351)</u>

7 Interest payable and similar charges

	1996 £'000	1995 £'000
On loans repayable within five years:		
- bank loans and overdrafts	1,507	2,309
- loans from group undertakings	7,333	7,751
On finance leases	165	216
On 9.43 % guaranteed bonds due 2004	4,777	2,178
On all other loans	43	300
Amortisation of debt issue costs	32	16
	<u>13,857</u>	<u>12,770</u>

Notes to accounts (continued)

8 (Loss) profit on ordinary activities before taxation

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

	1996 £'000	1995 £'000
a) Depreciation and amounts written off		
i. consolidation goodwill	1,139	1,139
ii. purchased goodwill and other intangibles	3,876	3,833
iii. tangible fixed assets		
- owned	10,471	9,809
- leased	684	940
b) Hire of plant and machinery	2,176	1,669
c) Other operating lease rentals	2,463	3,250
d) Auditors' remuneration - audit services	437	476
- other services	137	168
e) Staff costs (see Note 9)	76,892	81,403

9 Staff costs

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

	1996 £'000	1995 £'000
Employee costs during the year amounted to:		
Wages and salaries	68,631	73,619
Social security costs	5,015	4,616
Other pension costs (see also Note 22c)	3,246	3,168
	<u>76,892</u>	<u>81,403</u>

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

	1996 Number employed	1995 Number employed
Production	5,883	6,084
Sales and administration	1,352	1,356
	<u>7,235</u>	<u>7,440</u>

Notes to accounts (continued)

9 Staff costs (continued)

Directors' remuneration:

The directors of the company received remuneration from subsidiary undertakings as follows:

	1996 £'000	1995 £'000
Directors' fees	23	-
Other emoluments (including benefits in kind and pension contributions)	493	338
	<u>516</u>	<u>338</u>

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

	1996 £'000	1995 £'000
Highest paid director	<u>285</u>	<u>240</u>

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

	1996 Number	1995 Number
£Nil - £5,000	-	1
£20,001 - £25,000	1	-
£75,001 - £80,000	1	-
£95,001 - £100,000	-	1
£105,001 - £110,000	1	-
£240,001 - £245,000	-	1
£280,001 - £285,000	<u>1</u>	<u>-</u>

10 Tax on (loss) profit on ordinary activities

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

	1996 £'000	1995 £'000
UK corporation tax at 33% (1995: 33%)	1,143	821
Deferred taxation	(1,191)	1,600
Overseas taxation	<u>3,008</u>	<u>2,190</u>
	2,960	4,611
Adjustment of current taxation in respect of prior years	313	(533)
Adjustment of deferred taxation in respect of timing differences from prior years	<u>-</u>	<u>(105)</u>
	<u>3,273</u>	<u>3,973</u>

Notes to accounts (continued)

10 Tax on (loss) profit on ordinary activities (continued)

An overseas tax charge arises as certain overseas members of the group have generated profits against which the surplus losses of other group undertakings cannot be offset. The profits of the UK members of the group have been offset in part by the surplus losses of other UK group members and the utilisation of brought forward losses.

11 Intangible fixed assets

The movement in the year was as follows:

	Consolidation goodwill £'000	Purchased goodwill and other intangibles £'000	Total £'000
Cost			
Beginning of year	45,583	50,183	95,766
Foreign exchange adjustment	-	(2,379)	(2,379)
Additions	-	145	145
Disposals	(9,473)	(15,205)	(24,678)
End of year	<u>36,110</u>	<u>32,744</u>	<u>68,854</u>
Amounts written off			
Beginning of the year	8,276	9,451	17,727
Foreign exchange adjustment	-	(391)	(391)
Amortisation	1,139	3,876	5,015
Disposals	(592)	(4,442)	(5,034)
End of year	<u>8,823</u>	<u>8,494</u>	<u>17,317</u>
Net book value			
Beginning of year	<u>37,307</u>	<u>40,732</u>	<u>78,039</u>
End of year	<u>27,287</u>	<u>24,250</u>	<u>51,537</u>

Disposals arose as a result of the redemption of the group's investment in VBM (see Note 3).

Notes to accounts (continued)

12 Tangible fixed assets

Group	Land and buildings		Office equipment £'000	Plant and machinery £'000	Assets in the course of construction £'000	Total £'000
	Freehold £'000	Leasehold improve- ments £'000				
Cost or valuation						
Beginning of year	34,799	939	8,401	79,163	1,444	124,746
Exchange adjustment	(366)	(88)	(229)	(2,122)	(43)	(2,848)
Additions	565	57	2,443	9,377	1,479	13,921
Revaluation	1,345	-	-	-	-	1,345
Disposals	(2,138)	(400)	(3,419)	(17,166)	(32)	(23,155)
Transfers	38	-	150	1,329	(1,517)	-
End of year	<u>34,243</u>	<u>508</u>	<u>7,346</u>	<u>70,581</u>	<u>1,331</u>	<u>114,009</u>
Depreciation						
Beginning of year	3,501	212	4,794	40,256	-	48,763
Exchange adjustment	(9)	(14)	(136)	(434)	-	(593)
Charge	984	84	1,768	8,319	-	11,155
Revaluation	(1,399)	-	-	-	-	(1,399)
Disposals	(130)	(92)	(2,670)	(6,871)	-	(9,763)
End of year	<u>2,947</u>	<u>190</u>	<u>3,756</u>	<u>41,270</u>	<u>-</u>	<u>48,163</u>
Net book value						
Beginning of year	<u>31,298</u>	<u>727</u>	<u>3,607</u>	<u>38,907</u>	<u>1,444</u>	<u>75,983</u>
End of year	<u>31,296</u>	<u>318</u>	<u>3,590</u>	<u>29,311</u>	<u>1,331</u>	<u>65,846</u>

Notes to accounts (continued)

12 Tangible fixed assets (continued)

Company	Freehold land and buildings £'000	Plant and machinery £'000	Office equipment £'000	Total £'000
Cost				
Beginning of year	4,291	18,389	4,011	26,691
Additions	-	2,304	923	3,227
Disposals	-	(994)	(816)	(1,810)
End of year	<u>4,291</u>	<u>19,699</u>	<u>4,118</u>	<u>28,108</u>
Depreciation				
Beginning of year	569	14,584	1,994	17,147
Charge	141	1,310	582	2,033
Disposals	-	(925)	(603)	(1,528)
End of year	<u>710</u>	<u>14,969</u>	<u>1,973</u>	<u>17,652</u>
Net book value				
End of year	<u>3,581</u>	<u>4,730</u>	<u>2,145</u>	<u>10,456</u>
Beginning of year	<u>3,722</u>	<u>3,805</u>	<u>2,017</u>	<u>9,544</u>

a) Revalued assets

Group

The value of certain land and buildings in the United Kingdom was reviewed on 31 March 1996 by an independent valuer, Hickman Shearer Chartered Surveyors. The resulting revaluation, on an existing use open market value basis, amounted to £16,850,000 including property enhancements and was reflected in the consolidated accounts at 30 June 1996.

The original cost and aggregate depreciation based on cost of land and buildings included at valuation is:

	1996 Freehold £'000	1995 Freehold £'000
Original cost	15,069	14,790
Depreciation based on cost	<u>(3,475)</u>	<u>(3,017)</u>
	<u>11,594</u>	<u>11,773</u>

Notes to accounts (continued)

12 Tangible fixed assets (continued)

b) Leased assets

The net book value of assets capitalised under finance leases is as follows:

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Included within plant and machinery	1,226	1,907	85	185

c) Freehold land

Group and company

Freehold land amounting to £635,000 has not been depreciated.

13 Fixed asset investments

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Subsidiary undertakings	-	-	85,629	41,765
Other investments	1,894	1,894	-	-
	<u>1,894</u>	<u>1,894</u>	<u>85,629</u>	<u>41,765</u>

a) Principal group investments

The company has investments in the following subsidiary undertakings. Investments held by subsidiary undertakings are shown inset under their immediate holding company. Unless otherwise stated, the company holds a 100% interest in the ordinary share capital of its subsidiary undertakings.

Name	Country of registration	Principal activity
Kitchens of Sara Lee UK Ltd	England and Wales	Manufacturer of frozen cakes and desserts
Hanes UK Ltd	England and Wales	Importing, selling and distribution of cotton knitwear products
Aris Isotoner UK Ltd	England and Wales	Importing and distribution of haberdashery products
Coach (UK) Ltd	England and Wales	Selling and marketing of leather goods
Pretty Polly Ltd (formerly Pretty Polly (Sales) Ltd)	England and Wales	(D)
Elbeo Ltd (formerly Master Models Ltd)	England and Wales	(D)
Sara Lee Direct Marketing UK Ltd	England and Wales	Retail distribution of knitwear and hosiery
Champion UK Ltd	England and Wales	Importing, selling and distribution of sportswear products

Notes to accounts (continued)

13 Fixed asset investments (continued)

a) Principal group investments (continued)

Name	Country of registration	Principal activity
Inter Food Service Ltd	England and Wales	Importation and marketing of food products
Playtex Ltd	England and Wales	(A)
Playtex Trading Ltd	England and Wales	(D)
Kiwi Holdings Ltd	England and Wales	(B)
Sara Lee (UK Investments) Ltd	England and Wales	(B)
Sara Lee Household & Personal Care UK Ltd	England and Wales	(C)
APD Chemicals Ltd	England and Wales	Export of raw materials to overseas group undertakings
Kiwi Caribbean Ltd	England and Wales	(C)
Kiwi Overseas Investments Ltd	England and Wales	(D)
Kiwi (Nigeria) Ltd (40% holding)	Nigeria	(C)
Kiwi (East Africa) Ltd	Kenya	(D)
Kiwi Brands Ltd	Zambia	(C)
Kiwi (EA) Ltd	England and Wales	(B)
Kiwi Brands Ltd	Kenya	(C)
Kiwi Brands (Private) Ltd	Zimbabwe	(C)
Douwe Egberts Coffee Systems Ltd	England and Wales	Distribution of beverage concentrates
Douwe Egberts (UK) Ltd	England and Wales	Distribution of coffee
Beverage Dispensing Systems Ltd	England and Wales	(D)
Jaffafarm Ltd	England and Wales	(D)
Jaffa-Lux Ltd	England and Wales	(D)
Laurentis UK Ltd	England and Wales	(D)
MacLachlan Catering Supplies Ltd	England and Wales	(D)
Mocomat (Leasing) Ltd	England and Wales	(D)
Paramount Refrigeration Services Ltd	England and Wales	(D)
Rasco Foods Ltd	England and Wales	(D)
R.A.S Jaffa Foods Ltd	England and Wales	(D)
Ashe Ltd	England and Wales	(C)
A.C.P. (UK) Ltd	England and Wales	(D)
Ashe Chemicals Ltd	England and Wales	(D)
Ashe Laboratories Ltd	England and Wales	(D)
Bath Road Ltd	England and Wales	(D)
Intec Proprietaries Ltd	England and Wales	(D)
Ipevet Ltd	England and Wales	(D)
NED-CF Holdings Ltd	England and Wales	(D)
Temana International Ltd	England and Wales	Development and supply of consumer insecticidal and air freshner products

Notes to accounts (continued)

13 Fixed asset investments (continued)

a) Principal group investments (continued)

- (A) These companies are all involved in the manufacture and distribution of hosiery and ladies foundation products.
- (B) These companies are all investment holding companies.
- (C) These companies are all involved in the manufacture or marketing of household products, cosmetics and toiletries.
- (D) These companies are all dormant.

The directors have concluded that, on the basis of a control contract between a subsidiary undertaking and Kiwi (Nigeria) Limited, it is appropriate to consolidate the results of Kiwi (Nigeria) Limited as if it were a subsidiary undertaking.

b) Investment in subsidiary undertakings

	1996 £'000	1995 £'000
Cost		
Beginning of year	41,765	48,740
Additions at cost	43,864	63,289
Disposal of subsidiary undertakings	-	(70,264)
End of year	<u>85,629</u>	<u>41,765</u>

During the year, the following significant events and movements in fixed asset investments took place:

- i) On 24 July 1995 the company subscribed at par for a further 30,000,000 ordinary shares of £1 each issued by its subsidiary undertaking Kitchens of Sara Lee UK Limited.
- ii) On 27 July 1995 the company subscribed at par for a further 2,500,000 ordinary shares of £1 each issued by its subsidiary undertaking Playtex Limited.
- iii) On 8 September 1995, the company subscribed at par for a further 3,500,000 ordinary shares of £1 each issued by its subsidiary undertaking Coach (UK) Limited.
- iv) On 28 June 1996 the company acquired the entire share capital of Douwe Egberts Coffee Systems Limited from Sara Lee/DE NV, a fellow group undertaking. The consideration given was 7,864,000 'B' ordinary shares of £1 each (see Note 19). The fair value of the shares issued, in the opinion of the directors, is £21,000,000.

Notes to accounts (continued)

13 Fixed asset investments (continued)

c) Other investments

	1996 £'000	1995 £'000
Cost or valuation		
Beginning and end of year	<u>1,894</u>	<u>1,894</u>

Other investments comprise UK government treasury stocks with an original cost of £990,000 (1995: £990,000), which are valued at market value, and bank deposits of £1,000,000 (1995: £1,000,000).

14 Stocks

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Raw materials and consumables	8,658	17,112	2,025	2,167
Work in progress	8,687	16,241	6,358	7,003
Finished goods and goods for resale	33,259	38,187	7,449	9,357
	<u>50,604</u>	<u>71,540</u>	<u>15,832</u>	<u>18,527</u>

15 Debtors

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Amounts falling due within one year:				
Trade debtors	44,179	61,002	5,502	6,880
Amounts owed by other group undertakings	28,789	62,054	276	51,623
VAT	545	1,163	-	-
Other debtors	1,356	3,814	703	-
Prepayments and accrued income	2,735	4,133	-	1,025
Corporation tax recoverable	53	44	-	-
Deferred tax asset	-	-	137	65
Assets held for resale	-	-	125	-
	<u>77,657</u>	<u>132,210</u>	<u>6,743</u>	<u>59,593</u>
Amounts falling due after more than one year:				
Pension prepayment	20,284	21,059	3,144	3,090
	<u>97,941</u>	<u>153,269</u>	<u>9,887</u>	<u>62,683</u>

The company's deferred tax asset arises from timing differences relating to the payment of interest.

Notes to accounts (continued)

16 Creditors: Amounts falling due within one year

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Obligations under finance leases	612	911	25	181
Bank overdraft	4,047	11,657	50	1,046
Trade creditors	27,820	38,407	5,338	7,134
Amounts owed to other group undertakings	28,156	102,484	16,293	35,292
Other creditors				
- corporation tax payable	6,251	6,501	-	-
- other taxation and social security payable	2,280	2,984	307	436
- VAT	2,047	1,606	872	915
- other creditors	1,068	523	-	-
- dividends payable to minority interests	19	51	-	-
Accruals and deferred income	22,995	33,844	3,167	3,531
	<u>95,295</u>	<u>198,968</u>	<u>26,052</u>	<u>48,535</u>

The bank overdraft is unsecured and is repayable upon demand.

Deferred income of £1,233,000 (1995: £7,123,000) included within creditors falling due within one year and £Nil (1995: £1,233,000) included within creditors falling due after one year, relates to income from a non competition agreement associated with the sale of the pharmaceutical business (see Note 6).

17 Creditors: Amounts falling due after more than one year

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
9.43% guaranteed bonds due 2004	50,729	50,697	50,729	50,697
Obligations under finance leases	852	1,327	-	15
Amounts owed to group undertakings	-	11,500	-	-
Other creditors	-	454	-	-
Deferred income (see Note 16)	-	1,233	-	-
	<u>51,581</u>	<u>65,211</u>	<u>50,729</u>	<u>50,712</u>

On 13 January 1995 the company issued at par, less related issue costs of £319,000, £51,000,000 of 9.43% bonds redeemable at par on 15 December 2004. These bonds are listed on the London Stock Exchange, and they have been guaranteed by Sara Lee Corporation, the company's ultimate parent undertaking. Under the terms and conditions of the bonds in certain circumstances the company has the option to redeem the bonds prior to maturity.

Obligations under finance leases fall due within five years.

Notes to accounts (continued)

18 Provisions for liabilities and charges

Provisions for liabilities and charges comprise:

	Group	
	1996	1995
	£'000	£'000
Deferred taxation	2,926	4,183
Provisions for future costs associated with the sale of the pharmaceutical business	520	520
	<u>3,446</u>	<u>4,703</u>

Deferred taxation comprises:

	Group	
	1996	1995
	£'000	£'000
Excess of tax allowances over book depreciation of fixed assets	(321)	1,505
Other timing differences related to		
- pensions	5,657	5,931
- provisions for future costs associated with the sale of the pharmaceutical business	(172)	(172)
- deferred income associated with the sale of the pharmaceutical business	(406)	(2,757)
- other	(1,832)	(324)
	<u>2,926</u>	<u>4,183</u>

The movement on deferred taxation comprises:

	Group	
	1996	1995
	£'000	£'000
Beginning of year	4,183	2,693
Exchange differences	(34)	(5)
Redemption of investment in VBM	(32)	-
(Credited) charged to profit and loss account	(1,191)	1,495
End of year	<u>2,926</u>	<u>4,183</u>

Notes to accounts (continued)

18 Provisions for liabilities and charges (continued)

A deferred tax asset relating to losses available for offset against future profits has not been recognised in the accounts. Provision has not been made for taxes that would arise if land and buildings were to be disposed of at their book values as, in the opinion of the directors, there is no likelihood of properties being disposed of in the foreseeable future giving rise to significant tax liabilities.

19 Called-up share capital

	1996 £'000	1995 £'000
<i>Authorised:</i>		
Nil (1995: 100,000,000) ordinary shares of £1 each	-	100,000
92,135,538 (1995: Nil) A ordinary shares of £1 each	92,136	-
7,864,462 (1995: Nil) B ordinary shares of £1 each	7,864	-
	<u>100,000</u>	<u>100,000</u>

Allotted, called-up and fully paid:

	1996 £'000	1995 £'000 As restated (see Note 1c)
<i>Group:</i>		
31,089,447 (1995: 29,686,421) A ordinary shares of £1 each	31,089	29,686
7,864,462 (1995: 7,864,462) B ordinary shares of £1 each	7,864	7,864
	<u>38,953</u>	<u>37,550</u>

	1996 £'000	1995 £'000
<i>Company:</i>		
Nil (1995: 29,686,421) ordinary shares of £1 each	-	29,686
31,089,447 (1995: Nil) A ordinary shares of £1 each	31,089	-
7,864,462 (1995: Nil) B ordinary shares of £1 each	7,864	-
	<u>38,953</u>	<u>29,686</u>

During the year, the company divided its authorised share capital into 92,135,538 A ordinary shares and 7,864,462 B ordinary shares.

Notes to accounts (continued)

19 Called-up share capital (continued)

On 28 June 1996 7,864,462 B shares were issued to Sara Lee/DE NV as consideration for the acquisition of Douwe Egberts Coffee Systems Limited. This transaction has been accounted for as a group reconstruction in accordance with FRS 6 (Acquisitions and Mergers). As a result, the group share capital has been restated as if the transaction had occurred on 30 June 1994. The rights of the A and B shareholders are governed by a shareholders' agreement. The A shares relate to the Sara Lee UK Holdings PLC (SLUKHP) business prior to the merger with Douwe Egberts Coffee Systems Limited (DECS) and the B shares relate to the DECS business. Dividends and any surplus on winding up are to be paid to each class of share based on the results of the respective businesses as determined by non audited accounts drawn up analysing the combined group into these two businesses.

On 17 January 1995 the company entered into a conditional share subscription agreement with Oegstgeest Capital BV, a company incorporated in The Netherlands. Under the terms of this agreement, upon notice of redemption of the bonds issued during the year and provided that the fair market value of the shares at the date of redemption exceeds the subscription price as determined by the agreement, Oegstgeest Capital BV will be required to subscribe for £1 'A' ordinary shares in the company for cash consideration of £51,000,000 in order to finance the redemption of the bonds. Details of the redemption terms of these bonds are given in Note 17 above. The subscription price for the shares will be determined by reference to an agreed formula, and the number of shares to be issued will be calculated accordingly.

On 17 January 1995 the company entered into a further share subscription agreement with Oegstgeest Capital BV. Under the terms of this agreement, Oegstgeest Capital BV is required to subscribe for a number of ordinary shares for a total cash consideration of £1,977,157 on 15 June 1995 and £2,404,650 on 15 December and 15 June of each subsequent year for which the bonds are in issue in order to finance the interest payments on the bonds, at a subscription price which is determined by an agreed formula.

In accordance with the terms of this latter agreement, on both 15 December 1995 and 15 June 1996 the company issued 701,513 £1 ordinary shares for £3.43 each in cash.

Notes to accounts (continued)

20 Reserves

Group	Share premium £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000	Merger reserve £'000	Minority interests £'000
Beginning of year						
as restated	1,401	1,291	12,061	80,829	(11,973)	320
Premium on allotment	3,406	-	-	-	-	-
Retained loss for the year	-	-	-	(8,297)	-	-
Transfer to profit and loss account	-	-	(555)	555	-	-
Profit attributable to minority interests	-	-	-	-	-	79
Minority interests in dividends declared by subsidiary undertakings	-	-	-	-	-	(19)
Currency translation differences on foreign currency net investments	-	-	-	839	-	(232)
Revaluation of tangible fixed assets	-	2,744	-	-	-	-
Goodwill written off (see Note 24)	-	-	-	(257)	-	-
End of year	<u>4,807</u>	<u>4,035</u>	<u>11,506</u>	<u>73,669</u>	<u>(11,973)</u>	<u>148</u>

The other reserves brought forward result from the recognition of a pension surplus on the implementation of SSAP24 (Accounting For Pension Costs) in a group company and are considered non-distributable. Further details are given in Note 22c to the accounts.

The movement on reserves arising from the merger of the Douwe Egberts Coffee Systems group is detailed in Note 4 to the accounts.

Company	Share premium £'000	Profit and loss account £'000
Beginning of year	1,401	2,185
Premium on allotment	3,406	-
Retained profit for the year	-	878
End of year	<u>4,807</u>	<u>3,063</u>

Notes to accounts (continued)

21 Reconciliation of movements in shareholders' funds

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Retained (loss) profit for the financial year	(8,297)	(2,401)	885	893
Other recognised gains and losses	3,583	1,856	-	-
New share capital subscribed	4,809	1,977	12,673	1,977
Goodwill written off	(257)	-	-	-
Net (reductions in) additions to shareholders' funds	(162)	1,432	13,558	2,870
Opening shareholders' funds	121,159	119,727	33,272	30,402
Closing shareholders' funds	120,997	121,159	46,830	33,272

22 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments were as follows:

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Contracted for but not provided for	807	636	591	502

b) Lease commitments

The minimum annual rentals under operating leases are as follows:

	Group		Company	
	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
1996				
Operating leases which expire:				
- within 1 year	-	127	-	-
- within 2-5 years	129	1,057	16	81
- after 5 years	389	10	211	-
	518	1,194	227	81
1995				
Operating leases which expire:				
- within 1 year	-	1,789	-	-
- within 2-5 years	346	2,864	49	82
- after 5 years	361	237	206	-
	707	4,890	255	82

Notes to accounts (continued)

22 Guarantees and other financial commitments (continued)

c) Pensions

The group operates a number of pension schemes. The major schemes which cover significantly all of its UK employees are of the funded defined benefit type. The assets for these schemes are held in separate trustee administered funds.

Actuarial valuations of the schemes are carried out by professionally qualified actuaries at regular intervals. The latest actuarial valuations were carried out between 1 January 1994 and 1 January 1995 and used the projected unit method. The assumptions which had the most significant effect on the results of the valuations were:

Investment returns	8% - 10%	per annum
Salary increases	6.5% - 8%	per annum
Pension increases	2.5% - 5%	per annum

There are actuarial differences which have been taken to prepayments, accruals and reserves. At 30 June 1996 the prepayment was £20,284,000 (1995: £21,059,000) and the accrual was £303,000 (1995: £2,000). The differences are being amortised over the expected remaining service life of the relevant scheme's members.

The market value of the assets at the date of their most recent valuation totalled £80,829,000 (1995: £80,829,000).

The pension charge may be analysed as follows:

	1996 £'000	1995 £'000
UK defined benefit	2,277	2,113
UK defined contribution	218	155
Overseas defined benefit	671	809
Overseas defined contribution	80	91
	<hr/> 3,246	<hr/> 3,168

The charge for group pension costs under its defined benefit schemes consisted of a regular cost of £3,668,000 (1995: £3,717,000) plus variations from regular cost of £1,163,000 (1995: £1,100,000) less interest on the prepayment of £1,883,000 (1995: £1,895,000).

d) Guarantees

Group companies have total contingent liabilities in respect of various third party guarantees of £985,000 (1995: £900,000).

The company is a party to a joint and several guarantee in favour of its bankers, entered into by the company and certain of its subsidiary undertakings.

The company has given letters of financial support to certain of its subsidiary undertakings.

Notes to accounts (continued)

23 Reconciliation of operating profit to net cash inflow from operating activities

	1996 £'000	1995 £'000
Operating profit	8,944	4,905
Depreciation charges	11,155	10,749
Amortisation of intangibles	5,015	4,972
Write off of tangible fixed assets	-	2,491
Loss on disposal of intangible fixed assets	-	418
Loss on sale of tangible fixed assets	286	728
Decrease (increase) in stocks	1,931	(3,139)
Increase in debtors	(8,501)	(21,209)
Increase in creditors	11,056	16,670
Net cash inflow from operating activities	<u>29,886</u>	<u>16,585</u>

24 Purchase of subsidiary undertakings and other businesses

	1996 £'000	1995 £'000
Net assets acquired/disposed of		
Fixed assets		
- intangible fixed assets	-	343
- tangible fixed assets	-	6
Current assets		
- stocks	358	-
- debtors	-	49
- cash at bank and in hand	-	34
	<u>358</u>	<u>432</u>
Goodwill	<u>257</u>	<u>(357)</u>
	615	75
Cash at bank and in hand acquired	-	(34)
Movement on intercompany account	(615)	-
Net cash outflow	<u>-</u>	<u>41</u>

During the year the group acquired a brand from a fellow group undertaking, through the purchase of stock and goodwill. The goodwill was written off to reserves.

In the prior year, a subsidiary undertaking acquired the entire share capital of Swissgarde (Proprietary) Limited. In addition, purchased goodwill was adjusted to reflect the proceeds on the disposal of certain fixed assets which had been written off to goodwill upon acquisition because they were not expected to realise any economic benefit to the group.

Notes to accounts (continued)

25 Payments associated with the sale of discontinued operations

	1996 £'000	1995 £'000
Profit on disposal of discontinued operations	-	180
Release of unused provisions for future costs associated with the sale of the healthcare business	-	(180)
Utilisation of provisions for future costs associated with the sale of the healthcare business	-	(550)
Net cash outflow	<u>-</u>	<u>(550)</u>

26 Receipt from redemption of shares in subsidiary undertaking

On 28 June 1996 the group's subsidiary undertaking Vlijmense Belegging Maatshappij BV redeemed the group's investment in its ordinary share capital for cash consideration.

The net liabilities and related proceeds were as follows:

	1996 £'000
Fixed assets	23,636
Current assets	91,509
Creditors	(115,179)
Net liabilities	<u>(34)</u>
Related goodwill	8,881
	<u>8,847</u>
Loss on redemption	(8,458)
Proceeds satisfied by cash	<u>389</u>

Net cash outflows comprised:

Cash consideration	389
Cash at bank and in hand	(7,056)
Bank overdrafts	2,367
	<u>(4,300)</u>

The Vlijmense Belegging Maatshappij BV group contributed £12,894,000 to the group's net operating cash flows, paid £8,324,000 in respect of net returns on investment and servicing of finance, paid £1,670,000 in respect of taxation, utilised £1,987,000 for investing activities and repaid financing of £221,000.

Notes to accounts (continued)

27 Analysis of changes in cash and cash equivalents as shown in the balance sheet

	1996 £'000	1995 £'000	Change in year £'000
Cash at bank and in hand	3,645	9,636	(5,991)
Bank overdrafts	(4,047)	(11,657)	7,610
	<u>(402)</u>	<u>(2,021)</u>	<u>1,619</u>

	1995 £'000	1994 £'000	Change in year £'000
Cash at bank and in hand	9,636	3,424	6,212
Bank overdrafts	(11,657)	(18,448)	6,791
	<u>(2,021)</u>	<u>(15,024)</u>	<u>13,003</u>

28 Analysis of changes in cash and cash equivalents during the year

	£'000
Balance at 30 June 1994	(15,024)
Net cash inflow before foreign exchange rate changes	9,863
Effect of foreign exchange rate changes	3,140
Balance at 30 June 1995	<u>(2,021)</u>
Net cash outflow before foreign exchange rate changes	(2,992)
Effect of foreign exchange rate changes	4,611
Balance at 30 June 1996	<u>(402)</u>

Notes to accounts (continued)

29 Analysis of changes in financing

	Share capital including share premium £'000	Finance leases £'000	Loans from other group undertakings £'000	Loans to other group undertakings £'000	9.43% guaranteed bonds due 2004 £'000
Beginning of year	38,951	2,238	5,568	(20,593)	50,697
Shares issued	4,809	-	-	-	-
Capital element of finance lease rental payments	-	(774)	-	-	-
Repayment of loans to other group undertakings	-	-	(962)	-	-
Redemption of investment in subsidiary undertakings	-	-	(821)	-	-
New loans to other group undertakings	-	-	-	(2,656)	-
Amortisation of debt issue costs	-	-	-	-	32
End of year	<u>43,760</u>	<u>1,464</u>	<u>4,408</u>	<u>(23,249)</u>	<u>50,729</u>

30 Ultimate holding company

The company's immediate parent company is Sara Lee International Corporation, a company incorporated in the State of Maryland, United States of America. The company's ultimate holding company is Sara Lee Corporation, which is incorporated in the State of Maryland, United States of America.

The only group in which these results are consolidated is that headed by the ultimate holding company. Copies of these accounts are available from Sara Lee Corporation, Three First National Plaza, Chicago, Illinois 60602-4260 USA.