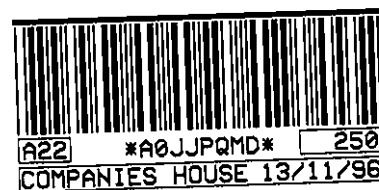


**TETLEY GB LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**2 MARCH 1996**

**REGISTERED NUMBER: 3019950**



# **TETLEY GB LIMITED**

## **REPORT OF THE DIRECTORS**

The directors present their report and the audited financial statements for the trading period from 28 July 1995 to 2 March 1996.

### **INCORPORATION AND CHANGE OF NAME**

The company was incorporated on 9 February 1995 under the name of 3025th Single Member Shelf Trading company Limited. The name was changed to Tetley GB Limited on 25 July 1995.

### **RESULTS, BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

On 28 July 1995 the company completed the acquisition of the UK tea business of J Lyons and Co from Allied Domecq plc and trading commenced on that date. Goodwill arising on the transaction was £81.6m. Fair value adjustments totalling £4.6m were made to the assets acquired, primarily reflecting the writedown of fixed assets in line with their economic value.

Sales of £113.4 million and the result for the seven months of trading were in line with expectations. Mainstream tea bag manufacturing has now been integrated into a single production facility.

The company expects to remain profitable in the 1996/7 trading year and to build on the reorganisation initiatives started in 1995/6.

### **PRINCIPAL ACTIVITIES**

The principal activities of the company are the manufacture, marketing and distribution of tea.

### **SHARE CAPITAL**

Details of the movements in share capital are provided in note 16 to the accounts.

### **DIVIDENDS**

The directors do not recommend the payment of a dividend for the period under review.

### **TAXATION**

The company is subject to the close company provisions of the Income and Corporation Taxes Act 1988.

### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The company has liability cover in place for the directors and certain employees, as permitted by the Companies Act 1985.

### **DISABLED PERSONS**

It is the policy of the company to employ disabled persons, whenever possible, in jobs suited to their individual circumstances and to give them, together with employees who become disabled while employed, full and fair consideration at all times in career development, and for training and promotion.

### **RESEARCH AND DEVELOPMENT EXPENDITURE**

The company continues to develop new product and market opportunities.

### **CHARITABLE AND POLITICAL CONTRIBUTIONS**

Contributions were made for charitable purposes of £5,573. No political donations were made.

# **TETLEY GB LIMITED**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **EMPLOYEE INVOLVEMENT**

The company considers that regular communication with its employees, particularly in times of change, is of paramount importance. The regular house magazine "The World of Tetley" and circulars on business developments are designed to ensure that all employees are well informed about the business. Employees of the company were offered the opportunity of becoming involved in the financial performance of The Tetley Group Limited, the parent company, through share offers.

### **FIXED ASSETS**

The movements in tangible fixed assets are set out in note 9 to the accounts.

### **DIRECTORS AND THEIR INTERESTS**

The directors during the period were as follows:

LR Allen	(appointed 31 May 1995)
RA Price	(appointed 23 June 1995)

Loviting Limited and Serjeants Inn Nominees Limited were both appointed as directors upon incorporation and resigned on 31 May 1995.

At no time during the period has any director of the company, directly or indirectly, had any material interest in any shares of the company or contract with the company in relation to its business. The interests of the directors in the share capital of the parent company are shown in The Tetley Group Limited's directors report.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **GOING CONCERN**

The directors confirm that they have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and, having received the assurances referred to in note 14 in respect of the borrowings from The Tetley Group Limited, they have adopted the going concern basis in preparing the accounts.

# **TETLEY GB LIMITED**

## **REPORT OF THE DIRECTORS (CONTINUED)**

### **AUDITORS**

The auditors, Price Waterhouse, were appointed by the directors during the period and have indicated their willingness to continue in office. A resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board



JN Temple  
Secretary

31 July 1996

# **TETLEY GB LIMITED**

## **AUDITORS' REPORT TO THE MEMBERS OF TETLEY GB LIMITED**

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 5.

### **Respective responsibilities of directors and auditors**

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

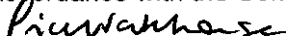
### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 2 March 1996 and of the loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Price Waterhouse  
Chartered Accountants  
and Registered Auditors  
London

31 July 1996

# **TETLEY GB LIMITED**

## **STATEMENT OF ACCOUNTING POLICIES**

### **Accounting date**

The company's accounts are drawn up for periods of 52 weeks (and, when necessary, 53 weeks) ending on the Saturday closest to 28 February. These accounts are for the trading period from 28 July 1995 to 2 March 1996.

### **Basis of accounting**

The accounts are prepared under the historical cost convention and comply with applicable UK accounting standards.

Group accounts are not required as the company is a wholly owned subsidiary of The Tetley Group Limited, whose accounts include the accounts of the company and its subsidiary undertakings. The company's investments in its subsidiary undertakings are held at cost and, in the opinion of the directors, their value is not less than the aggregate amount shown in the balance sheet.

### **Goodwill**

The results and net assets of acquired businesses are accounted for under the acquisition method of accounting from the date of acquisition. Goodwill arising is the difference between the fair value of the consideration given and the fair value of net assets acquired. The goodwill arising in respect of the tea business acquired during the period is being amortised systematically on a straight line basis over a period of 10 years from acquisition. This period has been chosen by the directors having regard to its useful economic life.

### **Turnover**

Turnover is shown before deducting trade discounts and excludes value added tax.

### **Pension arrangements**

Pension costs are reflected in the profit and loss account on a systematic basis over the service life of employees. Further details on the company's pension schemes are given in note 19.

### **Depreciation**

No depreciation is provided on land. Freehold buildings are depreciated over 50 years or their remaining life, if less. Leasehold buildings are depreciated over the remaining term of the lease. Other fixed assets are depreciated over their expected remaining useful lives at the following rates:

Plant and machinery	5 to 12 years
Commercial and motor vehicles	4 to 6 years
Office furniture and fittings	10 years
Computer hardware	3 to 5 years

### **Research and development**

Such expenditure is written off to the profit and loss account as incurred.

### **Stocks**

Stocks are valued at the lower of cost and net realisable value. Cost comprises that expenditure which has been incurred in the normal course of business in bringing the product to its present location and condition, including attributable overheads.

### **Deferred tax**

Account is taken, on the liability basis, for the tax effect arising from all timing differences to the extent that it is probable that a liability or asset will crystallise.

### **Foreign currencies**

Transactions in foreign currencies are translated at the average of month end exchange rates. Any exchange differences are dealt with in the profit and loss account.

# TETLEY GB LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 2 MARCH 1996

	Note	£'000
<b>TURNOVER</b>	2	113,451
<b>OPERATING LOSS</b>	2, 3	(17,969)
Net interest payable and similar charges	5	(6,910)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(24,879)
Tax on ordinary activities	7	-
<b>LOSS FOR THE FINANCIAL PERIOD</b>	17	(24,879)

There is no difference between the results as disclosed in the profit and loss account and the result on an historical cost basis.

All recognised gains and losses relating to the period are included above.

All amounts shown above relate to the businesses acquired on 28 July 1995.

The notes on pages 8 to 14 form part of these financial statements.

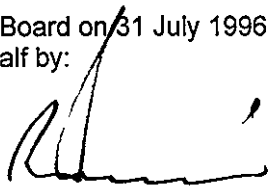
**TETLEY GB LIMITED**

**BALANCE SHEET AS AT 2 MARCH 1996**

	Note	£'000	£'000
<b>FIXED ASSETS</b>			
Intangible assets	8		76,696
Tangible assets	9		14,561
Investments	10		66
			91,323
<b>CURRENT ASSETS</b>			
Stocks	11	16,201	
Debtors	12	21,221	
Cash at bank and in hand		727	
			38,149
<b>CREDITORS (amounts falling due within one year)</b>	13		(26,745)
<b>NET CURRENT ASSETS</b>			11,404
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			102,727
<b>CREDITORS (amounts falling due after more than one year)</b>			
Borrowings	14		(116,348)
Provisions for liabilities and charges	15		(11,258)
			(24,879)
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16		-
Profit and loss account	17		(24,879)
<b>SHAREHOLDERS' FUNDS</b>			(24,879)

Approved by the Board on 31 July 1996 and  
signed on its behalf by:

RA Price  
Director



The notes on pages 8 to 14 form part of these financial statements.



# TETLEY GB LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 1 ACQUISITION OF BUSINESS

On 28 July 1995 the company acquired the tea business of Allied Domecq plc. The net assets of the acquired business as at the date of acquisition, together with the fair value adjustments made, can be summarised as follows:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
<b>Net assets acquired:</b>			
Tangible fixed assets	20,804	(5,258)	15,546
Investments	66	-	66
Stocks	18,389	-	18,389
Debtors	22,416	-	22,416
Creditors	(22,322)	705	(21,617)
<b>Total fair values acquired</b>			<b>34,800</b>
<b>Goodwill</b>			<b>81,566</b>
<b>Consideration</b>			<b>116,366</b>

The fair value adjustments principally relate to the revaluation of properties and other plant and equipment to reflect their economic value.

In the financial year to March 1994 the acquired business reported a profit after tax of £18m. In the subsequent pre acquisition period of seventeen months the result was as follows:

	£'000
Turnover	231,382
Operating profit	22,144
Interest (net)	1,941
Profit before and after tax	24,085

The total recognised gains less losses of the business in the pre acquisition period were not materially different from the result shown above. All pre acquisition results are shown using the accounting policies and group structure adopted at that time.

## TETLEY GB LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 2 TURNOVER AND PROFIT INFORMATION

The principal operation of the company is the manufacture, marketing and distribution of tea, which is regarded by the directors as a single class of business. The origin and destination of the company's turnover is principally within the United Kingdom.

	£'000
Turnover	113,451
Cost of sales	(87,601)
Gross profit	25,850
Selling and distribution costs	(24,747)
Administrative expenses	(19,072)
Operating loss	(17,969)

#### 3 OPERATING LOSS

The operating loss is stated after charging:	£'000
Staff costs:	
Wages and salaries	13,364
Social security costs	1,221
Other pension costs	1,522
Auditors remuneration	81
Auditors fees for non audit services	8
Depreciation and amortisation of fixed assets	6,922
Operating lease rentals	
- hire of plant and machinery	245
- other, including land and building	269
Research and development costs	1,371
Loss on disposal of tangible fixed assets	29
Exceptional items (see note 4)	25,642

#### 4 EXCEPTIONAL ITEMS

The company has committed to a reorganisation programme to restructure the acquired tea business. Costs are expected to be incurred in the 1995/6 and 1996/7 financial reporting periods and arise from relocating and improving manufacturing and distribution facilities, together with rationalising certain support and administrative functions. Costs relate primarily to redundancy payments, machinery transfer costs and fixed asset write offs.

The charge for the period includes fixed assets written off, as shown in note 9, amounting to £2,017,000, the balance being cash costs incurred or expected to be incurred in future periods.

Within the exceptional item is an amount of £6,815,000 representing costs incurred by the company in acquiring the tea business.

# TETLEY GB LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 5 NET INTEREST PAYABLE AND SIMILAR CHARGES

	£'000
Bank borrowings wholly repayable within 5 years	350
Group borrowings	6,581
Interest receivable	(21)
	6,910

### 6 DIRECTORS AND EMPLOYEES

The average number of persons (full time equivalent) employed, principally in the United Kingdom, during the period was:

	Number
Manufacturing	742
Distribution	111
Sales and marketing	192
Administration	189
	1,234

The directors did not receive any emoluments in the period directly from the company. The emoluments of the directors for their services to the Tetley Group as a whole, including Tetley GB Limited, are shown in the accounts of The Tetley Group Limited for the period ended 2 March 1996.

### 7 TAXATION

No tax charge arises for the period owing to the reported loss. The company has tax losses available to be carried forward against future taxable profits.

### 8 INTANGIBLE ASSETS

	£'000
<b>Cost</b>	
Goodwill arising on acquisition	81,566
<b>Amortisation</b>	
Charge for the period	4,870
<b>Net book amount</b>	
At 2 March 1996	76,696

# TETLEY GB LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 9 TANGIBLE ASSETS

Group	Freehold land and buildings £'000	Short leasehold buildings £'000	Plant, machinery, fixtures, fittings and equipment £'000	Commercial and motor vehicles £'000	Capital work in progress £'000	Total £'000
<b>Cost</b>						
At acquisition	1,190	30	11,144	2,411	771	15,546
Additions	-	-	20	178	3,076	3,274
Disposals	-	-	(44)	(218)	-	(262)
Assets written off	-	-	(2,017)	-	-	(2,017)
At 2 March 1996	1,190	30	9,103	2,371	3,847	16,541
<b>Depreciation</b>						
Charge for the period	22	1	1,279	750	-	2,052
Disposals	-	-	(12)	(60)	-	(72)
At 2 March 1996	22	1	1,267	690	-	1,980
<b>Net book amount</b>						
At 2 March 1996	1,168	29	7,836	1,681	3,847	14,561

Depreciation is not provided on capital work in progress until it is transferred to the relevant fixed asset category.

### 10 INVESTMENTS

	Shares in group undertakings £'000	Other unlisted investments £'000	Total £'000
<b>Cost</b>			
At acquisition and at 2 March 1996	57	9	66
<b>Provisions for diminution in value</b>			
At 2 March 1996	-	-	-
<b>Net book amount</b>			
At 2 March 1996	57	9	66

The company's shares in group undertakings are represented by 100 per cent equity holdings in four dormant companies which did not trade during the period and which are incorporated in the UK. Further details are provided in the company's Annual Return.

# TETLEY GB LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 11 STOCKS

	£'000
Raw materials	12,203
Work in progress	534
Finished goods	3,464
	16,201

The difference between the amount shown above and replacement cost is not material.

### 12 DEBTORS

	£'000
Amounts due within one year:	
Trade debtors	14,834
Amounts owed by group undertakings	3,760
Other debtors, prepayments and accrued income	2,627
	21,221

### 13 CREDITORS (amounts falling due within one year)

	£'000
Bank borrowings (unsecured)	1,240
Trade creditors	18,221
Taxation and social security	659
Amounts owed to group undertakings	349
Other creditors and accruals	6,276
	26,745

### 14 BORROWINGS

Borrowings represent a loan from the parent company which was made available to finance the acquisition and related costs and to finance the company's trading requirements. The interest margin is currently 2.5% above LIBOR and the loan is unsecured. The loan agreement provides for the principal, and any accrued and unpaid interest, to be repaid on demand by the lender. The parent company has indicated to Tetley GB Limited that it will not require repayment of the loan however, in the normal course of events, until at least twelve months from the date that these accounts were approved. The borrowings have therefore been treated as repayable after more than one year from the balance sheet date. The parent company recharged certain financing costs to Tetley GB Limited to reflect the inter-group financing structure put in place at the time of the acquisition.

# TETLEY GB LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 15 PROVISIONS FOR LIABILITIES AND CHARGES

The provision relates to the costs of restructuring the acquired business, as detailed in note 4.

### 16 CALLED UP SHARE CAPITAL

	Number	£'000
<b>Allotted, called up and fully paid</b>		
Ordinary shares of £1 each	1	-
<b>Authorised</b>		
Ordinary shares of £1 each	100	-

The company issued 1 subscriber ordinary share upon incorporation.

### 17 PROFIT AND LOSS ACCOUNT

	£'000
Retained loss for the period	(24,879)

### 18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£'000
Loss for the financial period	(24,879)
New share capital issued	-
<b>Closing shareholders' funds</b>	<b>(24,879)</b>

### 19 PENSIONS

The company's defined benefit pension scheme arrangements for staff and executives are operated by Allied Domecq Pensions Limited ("the Allied Scheme"). As part of the agreement for the sale and purchase of the J Lyons tea business it was agreed that the company may continue to participate in the Allied Scheme in respect of members in service at the date of completion and now employed within the company, for a transitional period of two years following completion.

The Tetley Group Limited has undertaken to establish a UK pension scheme on or before the expiration of this two year period, subject to the receipt of the transfer amount on a fully funded basis determined in accordance with the sale and purchase agreement, for those employees who remain in service. During the transitional period the company is obliged to continue to pay employer contributions at the applicable rates for the relevant category of member employees.

In respect of employees joining the company at or following completion, not being able to participate in the Allied Scheme, it is intended to set up an appropriate pension scheme in 1996/7.

Total pension costs charged to the profit and loss account in the period were £1,522,000. The company took account at acquisition of the relevant circumstances in respect of funding arrangements.

## **TETLEY GB LIMITED**

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

#### **20 CONTINGENT LIABILITIES**

There were contingent liabilities at 2 March 1996 in respect of forward commodity purchase and sales contracts, forward exchange contracts, and outstanding letters of credit undertaken in the normal course of business.

The company is a wholly owned subsidiary of The Tetley Group Limited ("TGL"). The main financing for the group of companies owned by TGL is provided by a syndicate of banks to TGL and nominated subsidiaries. Under the terms, liabilities outstanding under this financing are supported by guarantees and various security provided by the principal subsidiaries of TGL, including the company. At 2 March 1996, total amounts outstanding under this arrangement were £98.5 million.

#### **21 OPERATING LEASES**

At 2 March 1996 the company had annual commitments under non-cancellable operating leases, as follows:

Commitment expires:	Land and buildings £'000
Within one year	-
Between one and five years	19
After five years	325
	<u>344</u>

#### **22 CAPITAL COMMITMENTS**

Commitments for capital expenditure not provided at 2 March 1996 are as follows:

	£'000
Authorised by the Board and not contracted for	1,412
Authorised by the Board and contracted	<u>507</u>

#### **23 POST BALANCE SHEET EVENTS**

There have been no significant post balance sheet events that affect the company.

#### **24 PARENT COMPANY**

The ultimate parent company is The Tetley Group Limited, incorporated in England. Copies of that company's accounts may be obtained from 325/347 Oldfield Lane North, Greenford, Middlesex, UB6 OAZ.