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MATTHEW GLOAG & SON LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31 AUGUST 1978



REPORT OF THE DIRECTORS

The directors present their report and accounts for the year ended 31 August 1978 for submission to the fortieth annual general meeting of the company, to be held at 33 Kinnoull Street, Perth, on 16 November 1978 at 10.15 a.m.

ACTIVITIES AND EXPORTS

The principal activity of the company is that of blending and selling Scotch whisky. The direct exports from the United Kingdom for the year amounted to £1,584,522 (1977 - £1,161,495).

RESULTS AND DIVIDEND

The trading results are as set out in the profit and loss account on page 3.

The directors recommend payment of a final dividend of 77.36 pence in respect of the year under review. (1977 - 24.72 pence). An interim dividend of 37.5 pence has been paid during the year (1977 - nil).

DIRECTORS AND THEIR INTERESTS

The directors listed below held office throughout the year and had no interest in the shares of the company at 31 August 1978 or 31 August 1977.

J.A.R. Macphail
J.M. Goodwin
J.A. Sherriff
M.I. Gloag
R.H.H. Bignell
R.S.S. Gillies
A. Kettles

The interests in the shares of the parent company of those directors who are also directors of The Highland Distilleries Company Limited are shown in the directors' report of that company. Other directors' interests in the shares of the parent company at the beginning and end of the year were as follows:-

	<u>Ordinary stock units of 20p</u>	
	<u>31 August 1978</u>	<u>31 August 1977</u>
M.I. Gloag	Nil	Nil
J.A. Sherriff	36,300	37,900
R.H.H. Bignell	Nil	Nil
R.S.S. Gillies	Nil	Nil
A. Kettles	Nil	Nil

Under the Articles of Association no director retires at this time.

FIXED ASSETS

In the opinion of the directors the market value of freehold property is in excess of book value, but it is not considered that the margin is significant.

AUDITORS/

REPORT OF THE DIRECTORS (Continued)

AUDITORS

Thornton Baker, Chartered Accountants, have expressed their willingness to stand for re-election as auditors of the company at the next annual general meeting.

By order of the board,

A. Kettles

Secretary.

13 November 1978.

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 AUGUST 1978

	Notes	1978	1977
		£	£
TURNOVER	1	<u>34,761,353</u>	<u>23,823,870</u>
PROFIT BEFORE TAXATION after charging:		932,710	409,046
Depreciation		32,996	27,954
Bank overdraft interest		118,967	95,620
Directors' remuneration	2	62,805	47,116
Pension to former director		6,014	5,491
Audit fee		<u>3,500</u>	<u>3,000</u>
and crediting:			
Interest received		<u>61,093</u>	<u>27,183</u>
Taxation	3	<u>185,617</u>	<u>68,013</u>
PROFIT AFTER TAXATION		747,093	341,033
Regional development grant release		<u>2,772</u>	<u>2,179</u>
EARNINGS FOR YEAR		<u>749,865</u>	<u>343,212</u>
Retained earnings at 1 September 1977		399,583	399,583
Prior year adjustment	4	<u>169,015</u>	<u>23,542</u>
As restated at 1 September 1977		568,598	423,125
Surplus for year		<u>749,865</u>	<u>343,212</u>
		1,318,463	766,337
Interim dividend		300,000	-
Proposed final dividend	5	<u>618,880</u>	<u>197,739</u>
		<u>918,880</u>	<u>197,739</u>
RETAINED EARNINGS AT 31 AUGUST 1978		<u>399,583</u>	<u>568,598</u>

AUDITORS' REPORT TO THE MEMBERS OF MATTHEW GLOAG & SON LIMITED

We report on the accounts set out on pages 3 to 9. These have been prepared under the historical cost convention.

In our opinion the accounts give, under the accounting convention stated above, a true and fair view of the state of affairs at 31 August 1978, of the results and source and application of funds for the year ended on that date, and comply with the Companies Acts 1948 and 1967.

Thernton Baker,
Chartered Accountants,
Glasgow.

13 November 1978.

MATTHEW GLOAG & SON LIMITED

BALANCE SHEET

31 AUGUST 1978

	Notes	1978 £	1977 £
EMPLOYMENT OF CAPITAL			
Fixed assets	6	388,706	374,756
Investment in subsidiaries	7	-	-
Current assets:			
Stock and work in progress		1,787,760	1,054,212
Debtors		2,602,467	2,296,654
Taxation recoverable		4,343	-
Cash and bank balances		54,293	48,698
		4,448,863	3,399,564
Less: current liabilities			
Creditors		1,906,202	1,580,271
Amount due to parent company		170,526	25,838
Bank overdrafts		331,083	482,654
Corporation tax payable		2,544	17,821
Proposed dividend	5	618,880	197,739
		3,529,235	2,304,323
Net current assets		919,628	1,095,241
		1,308,334	1,469,997
CAPITAL EMPLOYED			
Share capital	8	800,000	800,000
Reserves		399,583	568,598
		1,199,583	1,368,598
Deferred taxation	9	84,684	76,647
Regional development grant		24,067	24,732
		1,308,334	1,469,997

Matthew Gloag Director

M. Spaul Director

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED 31 AUGUST 1978

	<u>1978</u>		<u>1977</u>	
	£	£	£	£
Source of funds				
Profit before tax		932,710		409,046
Adjustments for items not involving the movement of funds:				
Depreciation	32,996		27,954	
(Gain)/loss on sale of fixed assets	<u>(322)</u>		<u>134</u>	
		<u>32,674</u>		<u>28,088</u>
Total generated from operations		965,384		437,134
Funds from other sources				
Regional development grants received		4,530		8,100
Proceeds of sale of fixed assets		7,251		5,715
Corporation tax recovered		-		57,981
Repayment from the parent company for A.C.T. not utilised		<u>505</u>		<u>2,128</u>
		977,670		511,058
Application of funds				
Tax paid	(19,170)		(82,024)	
Purchase of fixed assets	(53,975)		(152,573)	
Payment for A.C.T. surrendered	-		(35,000)	
Payment for group relief	(178,555)		-	
Dividend paid	<u>(497,739)</u>		<u>-</u>	
		<u>(749,339)</u>		<u>(269,527)</u>
		228,331		241,531
Increase/(decrease) in working capital:				
(Increase) in stocks	(733,548)		(334,898)	
(Increase) in debtors	(308,235)		(183,408)	
Increase in creditors	325,931		502,310	
Increase/(decrease) in amount due to parent company	144,687		(413,605)	
Increase in amount due to subsidiaries	<u>-</u>		<u>78</u>	
		<u>(571,165)</u>		<u>(429,515)</u>
Movement in net liquid funds		<u>(342,834)</u>		<u>(187,984)</u>
Represented by:				
(Increase) in net bank borrowings		<u>(342,834)</u>		<u>(187,984)</u>

ACCOUNTING POLICIES

DEPRECIATION

The depreciation provided is designed to spread the cost of the assets on a straight line basis over their estimated useful life in equal monthly instalments at the following rates:-

Freehold land	nil
Freehold property	two per cent per annum
Equipment	ten per cent per annum
Vehicles	twenty per cent per annum

DEFERRED TAXATION

Deferred taxation represents the deferred liability to corporation tax at 52% only on the excess of the net book value of capital assets over the corresponding taxation written down values.

STOCK AND WORK IN PROGRESS

Stocks are valued at the lower of cost and the estimated amount realisable from disposal in the normal course of business. Cost comprises expenditure directly incurred in purchasing or manufacturing the stock and bringing it to its current condition and location plus an allocation of normal overhead expenditure attributable to the processes through which it has passed.

REGIONAL DEVELOPMENT GRANTS

Regional development grants are being credited to profit and loss account in equal annual instalments over the estimated useful life of the fixed assets to which they relate. The deferred credit shown in the balance sheet represents total grants receivable to date less amounts credited to profits.

FOREIGN CURRENCIES

Assets and liabilities in foreign currencies have been converted at the rate ruling at 31 August 1978.

NOTES ON ACCOUNTS

1. TURNOVER

Turnover, which excludes value added tax, represents the aggregate amounts receivable in respect of goods sold during the year including duty, less returns and excluding sales to the parent company.

2. DIRECTORS' REMUNERATION

	<u>1978</u>	<u>1977</u>
	£	£
Fees	Nil	Nil
Other emoluments	62,805	47,116

Particulars of directors' emoluments excluding pension contributions:-

Chairman	Nil	Nil
Highest paid director	13,500	10,816

Other...

2. DIRECTORS' REMUNERATION (Continued)

	<u>1978</u>	<u>1977</u>
	<u>Number</u>	<u>Number</u>
Other directors		
Nil - £2,500	1	1
£5,001 - £7,500	-	2
£7,501 - £10,000	2	2
£10,001 - £12,500	2	-

3. TAXATION

The taxation charge is made up as follows:-

On profits for year at 52%:

	<u>1978</u>	<u>1977</u>
	<u>£</u>	<u>£</u>
Corporation tax	177,600	52,821
Deferred taxation	<u>2,462</u>	<u>20,496</u>
	180,062	73,317
Taxation overprovision from previous year	-	(5,304)
Deferred taxation in respect of prior years	<u>5,555</u>	<u>-</u>
	<u>185,617</u>	<u>68,013</u>

On the basis of the revised policy of accounting for deferred taxation (note 4) the charge for taxation has been reduced by £312,876 (1977 £145,473).

The close company provisions of the Income and Corporation Taxes Act do not apply to the company.

4. PRI TAR ADJUSTMENT

In years to accord with the requirements of Statement of Standard Accounting Practice No. 11, all tax deferred by the application of capital allowances on appreciation relief was provided for in full. In view of the publication of Statement of Standard Accounting Practice 15, the directors are of the opinion that this policy of full provision should be revised.

The directors' forecasts indicate that over the next three years there will be no reduction in the level of stockholding, and that as a result it is unlikely that tax deferred by stock relief will become payable. The directors have decided that no provision should be made for tax relieved by stock relief in the current year, and that deferred tax similarly provided in previous years should be written back to reserves. The provision of £169,015 at 1 September 1977 has been transferred at that date. The comparative figures in the profit and loss account and balance sheet have been adjusted.

Due to the change in the method of accounting for deferred taxation the profit after taxation for the year ended 31 August 1978 has been increased by £312,876.

5. PROPOSED FINAL DIVIDEND

	<u>1978</u>	<u>1977</u>
	<u>£</u>	<u>£</u>
Ordinary shares:		
Proposed dividend of 27.36 pence per share (1977 - 24.72 pence)	£18,380	197,737

6. FIXED ASSETS/

NOTES ON ACCOUNTS (Continued)

6. <u>FIXED ASSETS</u>	<u>Freehold land and property</u>	<u>Equipment and vehicles</u>	<u>Total</u>
	£	£	£
COST AND NET BOOK AMOUNT AT 31 JANUARY 1948			
At 1 September 1977	239,021	263,886	502,907
Disposals	-	(11,934)	(11,934)
Additions	<u>9,750</u>	<u>44,125</u>	<u>53,875</u>
At 31 August 1978	<u>248,771</u>	<u>296,077</u>	<u>544,848</u>
DEPRECIATION			
At 1 September 1977	35,563	92,588	128,151
Eliminated in respect of disposals	-	(5,005)	(5,005)
Charge for year	<u>5,080</u>	<u>29,916</u>	<u>32,996</u>
At 31 August 1978	<u>38,643</u>	<u>117,499</u>	<u>156,142</u>
NET BOOK AMOUNT			
At 31 August 1978	<u>210,128</u>	<u>178,578</u>	<u>388,706</u>
At 31 August 1977	<u>203,458</u>	<u>171,298</u>	<u>374,756</u>

7. <u>INVESTMENT IN SUBSIDIARIES</u>	<u>1978</u>	<u>1977</u>
	£	£
Investments at cost	300	300
Amounts payable	<u>300</u>	<u>300</u>
	-	-

At 31 August 1978 the following companies were subsidiaries:-

	<u>Class of shares</u>	<u>% shares held</u>	<u>% equity held</u>
Torrabeg Limited	Ordinary	100	100
Benellierie Blending Co. Ltd.	Ordinary	100	100
Corrie Blending Co. Ltd.	Ordinary	100	100

All.../

MATTHEW GLOAG & SON LIMITED
NOTES ON ACCOUNTS (Continued)

7. INVESTMENT IN SUBSIDIARIES (Continued)

All shares are held directly by the parent company.

The company is itself a wholly owned subsidiary of a company registered in Scotland and under Section 150(2) of the Companies Act 1948 is not required to submit group accounts. The above subsidiary companies did not trade throughout the year.

8. SHARE CAPITAL

Authorised, issued and fully paid
 Ordinary shares of £1 each

<u>1978</u>	<u>1977</u>
£	£
<u>800,000</u>	<u>800,000</u>

9. DEFERRED TAXATION

The deferred taxation account at 31 August 1978 represents in terms of tax at 52 per cent:

Accelerated capital allowances

<u>1978</u>	<u>1977</u>
£	£
<u>84,684</u>	<u>76,667</u>

The company's cumulative deferred liability attributable to stock relief is £481,891. (1977 - £169,015).

10. COMMITMENTS

Contracted capital expenditure amounts to £16,968 and has not been provided for in the accounts (1977 - £21,335).

11. ULTIMATE HOLDING COMPANY

The directors regard The Highland Distilleries Company Limited, a company registered in Scotland, as the ultimate holding company.