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MATTHEW GLOAG & SON LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 1985

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MATTHEW CLOAG & SON LIMITED

1.

DIRECTORS REPORT

FOR THE YEAR ENDED 31 AUGUST 1985

The Directors submit their report together with financial statements for the year ended 31 August 1985 for submission to the Forty Seventh Annual General Meeting of the company to be held at Bordeaux House, 33 Kinnoull Street, Perth on 19 November 1985 at 10.35.a.m.

Principal Activities and Review of the Business

The company's principal activities during the year were the blending, bottling and marketing of Scotch Whisky.

The Directors regard the results of the company as satisfactory.

Results and Dividends

The profit for the year after taxation amounted to £11,409 (1984 - £34,355) from which the directors recommended a dividend of 0.95 pence (1984 - 2.86 pence) per share, totalling £11,409 (1984 - £34,355).

Tangible Fixed Assets

The changes in tangible fixed assets during the year are summarised in note 8 to the financial statements.

In the opinion of the Directors, the market value of freehold property is in excess of book value but the excess has not been professionally quantified.

Directors and their Interests

The Directors in office at 31 August 1985 are listed below. All served on the Board throughout the year. No Director had any interest in the shares of the company at 1 September 1984 or at 31 August 1985.

J.A.R. Macphail

J.M. Goodwin

J.A. Sherriff

M.I. Gloag

R.H.H. Signell

R.S.S. Gillies

A. Kettles

The/...

MATTHEW GLOAG & SON LIMITED

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DIRECTORS REPORT (Continued)

FOR THE YEAR ENDED 31 AUGUST 1985

The interests of Directors who are also Directors of the holding company are disclosed in the holding company's financial statements. The interest of the other Directors in the shares of the holding company, at 1 September 1984 and at 31 August 1985, were as follows:-

	<u>Ordinary Shares of 20p</u>	
	<u>1985</u>	<u>1984</u>
M.I. Gloag	3,301	1,664*
R.H.H. Bignell	2,931	800*
R.S.S. Gillies	3,383	1,800*
A. Kettles	2,852	800*

A. Kettles as a trustee of the Highland Distilleries Profit Sharing Share Scheme has a non-beneficial interest in 345,375 Highland Distilleries Company plc ordinary shares. Under the Highland Distilleries Savings Related Share Option Scheme, M.I. Gloag has an option to subscribe for 2,514 ordinary shares and R.H.H. Bignell, R.S.S. Gillies and A. Kettles each have options to subscribe for 8,380 Highland Distilleries Company plc ordinary shares of 20p each at an option price of 52.5 pence. These options are exercisable between 10 May and 10 November 1991. R.H.H. Bignell has a further option exercisable between 10 May and 10 November 1992 at an option price of 60.5 pence for 7,272 ordinary shares. R.S.S. Gillies has a further option exercisable between 10 May and 10 November 1990 at an option price of 60.5 pence on 6,115 ordinary shares.

\* Adjusted for bonus issue of 1 for 1.

Auditors

In terms of Section 384 (1) of the Companies Act 1985, Thornton Baker, Chartered Accountants, offer themselves for re-appointment as Auditors of the Company.

By order of the Board



A. Kettles  
Secretary  
21 October 1985

REPORT OF THE AUDITORS TO THE MEMBERS OF

3.

MATTHEW GLOAG & SON LIMITED

We have audited the financial statements on pages 4 to 13 in accordance with approved Auditing Standards.

In our opinion the financial statements, which have been prepared under the historical cost convention give a true and fair view of the state of the company's affairs at 31 August 1985 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Thornton Baker  
Chartered Accountants,  
Glasgow.  
21 October 1985

ACCOUNTING POLICIES

YEAR ENDED 31 AUGUST 1985

The financial statements have been prepared under the historical cost convention. The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

DEPRECIATION

Depreciation is provided on all tangible fixed assets other than freehold land at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:-

Freehold Property	2% per annum
Equipment & Fittings	10% per annum
Motor Vehicles	20% per annum
Computer Equipment	20% per annum

STOCK

Stocks and work in progress 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.

DEFERRED TAXATION

Deferred taxation is the taxation attributable to timing differences between profits computed for taxation purposes and profits as stated in the financial statements. Provision is made for deferred taxation except to the extent that there is a reasonable probability of the tax not falling due for payment in the foreseeable future.

FOREIGN CURRENCIES

Assets and liabilities in foreign currencies have been converted at the rate ruling at the balance sheet date.

GROUP FINANCIAL STATEMENTS

The company is a wholly owned subsidiary of The Highland Distilleries Company plc and has therefore not prepared consolidated financial statements.

MATTHEW GLOAG & SON LIMITED

5.

PROFIT AND LOSS ACCOUNTYEAR ENDED 31 AUGUST 1985

	<u>Notes</u>	<u>1985</u> £	<u>1984</u> £
Turnover	1	92,601,990	85,028,896
Cost of Sales		<u>91,136,763</u>	<u>83,741,453</u>
Gross Profit		1,465,227	1,287,443
Distribution Costs		927,840	896,987
Administrative Expenses		25,500	23,500
		<u>953,340</u>	<u>920,487</u>
Operating Profit	2	511,887	366,956
Interest Receivable	3	27,926	29,708
Interest Payable	4	<u>(418,456)</u>	<u>(304,967)</u>
Profit on ordinary activities before taxation		121,357	91,697
Tax on profit on ordinary activities	6	<u>109,948</u>	<u>10,500</u>
Profit on ordinary activities after taxation		11,409	81,197
Extraordinary item		-	46,842
		11,409	34,355
Proposed dividend	7	<u>11,409</u> =====	<u>34,355</u> =====

The accounting policies on page 4 and the notes on pages 7 to 12 form part of these financial statements.

MATTHEW GLOAG & SON LIMITED

6.

BALANCE SHEET

YEAR ENDED 31 AUGUST 1985

	<u>Notes</u>	<u>1985</u>	<u>1984</u>
		£	£
<u>Fixed Assets</u>			
Tangible Assets	8	1,117,660	947,057
Investments	9	700	11,358
		<u>1,118,360</u>	<u>958,415</u>
<u>Current Assets</u>			
Stocks	10	3,263,266	3,408,515
Debtors	11	10,328,881	8,465,526
Cash at Bank and on Hand		149,326	220,749
		<u>13,741,473</u>	<u>12,094,790</u>
Creditors: amounts falling due within one year	12	<u>13,635,062</u>	<u>11,806,363</u>
Net Current Assets		<u>106,411</u>	<u>288,427</u>
Total Assets less Current Liabilities		1,224,771	1,246,842
Provision for liabilities and charges	13	<u>24,771</u>	<u>46,842</u>
		<u>1,200,000</u>	<u>1,200,000</u>
		=====	=====
<u>Capital</u>			
Called up share capital	14	<u>1,200,000</u>	<u>1,200,000</u>
		=====	=====

These financial statements were approved by the Directors on 21 October 1985 and signed on behalf of the Board by:-

.....Director

.....Director

The accounting policies on page 4 and the notes on pages 7 to 12 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTSYEAR ENDED 31 AUGUST 19851. TURNOVER

Turnover represents the invoiced amount of goods sold during the year including duty but excluding Value Added Tax.  
An analysis of turnover by geographical market is not provided as the Directors believe that it would be prejudicial to the interests of the company to provide this information.

2. <u>OPERATING PROFIT</u>	<u>1985</u>	<u>1984</u>
This is stated after charging:-	£	£
Audit Fee	12,500	10,500
Depreciation	<u>110,489</u> =====	<u>118,799</u> =====
3. <u>INTEREST RECEIVABLE</u>		
Amounts received from parent company	13,396	26,262
Bank interest	<u>14,530</u>	<u>3,446</u>
	<u>27,926</u> =====	<u>29,708</u> =====
4. <u>INTEREST PAYABLE</u>		
Interest payable on bank overdrafts and loans repayable within five years	105,349	97,446
Interest payable to parent company	<u>313,107</u>	<u>207,521</u>
	<u>418,456</u> =====	<u>304,967</u> =====
5. <u>DIRECTORS AND EMPLOYEES COSTS</u>		
Staff costs during the year		
Wages and Salaries	911,016	813,797
Social Security	56,107	61,333
Other pension costs	<u>139,789</u>	<u>132,114</u>
	<u>1,106,912</u> =====	<u>1,007,244</u> =====

Employee/....



NOTES TO THE FINANCIAL STATEMENTS (Continued)YEAR ENDED 31 AUGUST 1985

5. <u>DIRECTORS AND EMPLOYEES COSTS (continued)</u>	<u>1985</u>	<u>1984</u>
EMPLOYEES PROFIT SHARING SHARE SCHEME	£	£
Allocations during the year to the employees profit sharing share scheme amounted to:		
Initial allocation based on number of years' service	-	22,542
Current year's allocation	<u>38,000</u>	<u>46,000</u>
	38,000	68,542
	=====	=====
All employees were engaged in the Scotch Whisky Trade and the average weekly number of employees during the year was	<u>No.</u>	<u>No.</u>
	91	87
	==	==
Directors' emoluments were as follows:-	£	£
Directors' Remuneration	208,200	179,479
Pension to former Director	<u>10,887</u>	<u>10,276</u>
	219,087	189,755
	=====	=====

The emoluments of the Chairman, excluding pension contributions, were £Nil (1984: £Nil) and of the highest paid Director, excluding pension contributions, £44,519 (1984: £37,458). Other Directors emoluments, excluding pension contributions, fell within the following ranges:-

	<u>1985</u>	<u>1984</u>
	<u>No.</u>	<u>No.</u>
£Nil - £ 5,000	1	1
£20,001 - £25,000	-	2
£25,001 - £30,000	2	-
£30,001 - £35,000	-	2
£35,001 - £40,000	2	-

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

YEAR ENDED 31 AUGUST 19856. TAXATION

The taxation charge which is based on the profits of the year is made up as follows:

	<u>1985</u> £	<u>1984</u> £
Corporation tax (At 42.92%) - current year	124,580	10,500
- prior year	7,439	-
Deferred tax release	<u>(22,071)</u>	<u>-</u>
	<u>109,948</u> =====	<u>10,500</u> =====

7. DIVIDEND

Proposed final dividend of 0.95 pence per share (1984 - 2.86p)

<u>11,409</u> =====	<u>34,355</u> =====
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8. TANGIBLE FIXED ASSETS

<u>Cost:</u>	<u>Freehold Land &amp; Property</u>	<u>Equipment &amp; Vehicles</u>	<u>Total</u>
	£	£	£
At 1 September 1984	619,846	787,199	1,407,045
Additions	-	316,998	316,998
Disposals	<u>-</u>	<u>55,594</u>	<u>(65,594)</u>
At 31 August 1985	<u>619,846</u>	<u>1,03</u>	<u>1,658,449</u>
<u>Depreciation:</u>			
At 1 September 1984	70,987	389,001	459,988
Charge for year	8,345	102,144	110,489
Disposals	<u>-</u>	<u>(29,688)</u>	<u>(29,688)</u>
At 31 August 1985	<u>79,332</u>	<u>461,457</u>	<u>540,789</u>
Net book value at 31 August 1985	<u>540,514</u> =====	<u>577,146</u> =====	<u>1,117,660</u> =====
Net book value at 31 August 1984	<u>548,859</u> =====	<u>398,198</u> =====	<u>947,057</u> =====

NOTES TO THE FINANCIAL STATEMENTS (Continued)YEAR ENDED 31 AUGUST 19859. INVESTMENTS

£

## Subsidiary companies

Shares at cost less amounts written off

At 1 September 1984

11,358

Additions

200

Disposals

(10,858)

At 31 August 1985

700

=====

The company holds 100% of the ordinary shares of the following companies, all of which are registered in Scotland and are involved in the Scotch Whisky Trade:-

Name of Company

Reneller's Blending Company Limited

The Famous Grouse Company Limited

Corrie Blending Company Limited

Matthew Gloag (UK) Limited

Torrabeg Limited

Matthew Gloag (Overseas) Limited

Grouse Limited

10. STOCKS19851984

£

£

Raw materials and consumables

822,558

950,876

Finished goods

2,440,7082,457,639

3,263,266

3,408,515

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11./....

NOTES TO THE FINANCIAL STATEMENTS (Continued)YEAR ENDED 31 AUGUST 1985

11. <u>DEBTORS</u>	<u>1985</u>	<u>1984</u>
	£	£
Trade debtors	10,314,087	8,304,782
Amounts due from subsidiaries	-	148,872
Prepayments and accrued income	14,794	11,872
	<u>10,328,881</u>	<u>8,465,526</u>
	=====	=====

12. CREDITORS - Amounts falling due within one year

Trade creditors	4,004,817	4,860,351
Taxes and social security costs	3,356,017	2,846,666
Accruals	1,004,246	847,784
Amount due to parent company	3,502,880	3,217,207
Proposed dividend	11,409	34,355
Bank loans and overdrafts	1,755,693	-
	<u>13,635,062</u>	<u>11,806,363</u>
	=====	=====

13. PROVISION FOR LIABILITIES AND CHARGESDeferred taxation

Deferred taxation has been provided in full in the financial statements at 35% (1984 - 40%) and is made up as follows:

	<u>1985</u>	<u>1984</u>
	£	£
Accelerated capital allowances	129,771	126,842
Other timing differences	(105,000)	(80,000)
	<u>24,771</u>	<u>46,842</u>
	=====	=====

14./....

NOTES TO THE FINANCIAL STATEMENTS (Continued)YEAR ENDED 31 AUGUST 1985

<u>14. CALLED UP SHARE CAPITAL</u>	<u>1985</u>	<u>1984</u>
	£	£
Authorised, allotted, called-up and fully paid: 1,200,000 ordinary shares of £1 each	1,200,000 =====	1,200,000 =====

15. CAPITAL COMMITMENTS

	£	£
Contracted but not provided for in these financial statements	268,061 =====	401,220 =====
Authorised by the Directors but not contracted	- =====	- =====

16. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 August 1985 or at 31 August 1984.

17. PENSION COMMITMENTS

The company along with the other members of the Highland Distilleries Group operates two pension schemes which cover the pension arrangements of all full-time employees. The staff scheme is contributory and the works scheme is non-contributory.

Actuarial valuations were carried out on the staff scheme at 1 September 1982 and the works scheme at 1 May 1983. Both valuations demonstrated that the schemes' assets were sufficient to secure their liabilities on a discontinuance basis and that the current funding rate was adequate to meet future liabilities.

18. ULTIMATE HOLDING COMPANY

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

19. DIRECTORS' INTERESTS IN CONTRACTS

J.A.R. Macphail is deemed to have an indirect non-beneficial material interest in contracts entered into by the company and its parent company, The Highland Distilleries Company plc, as disclosed in the financial statements of the parent company.

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## STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 AUGUST 1985

	<u>1985</u>		<u>1984</u>	
<u>Source of Funds:</u>	£	£	£	£
Funds generated by trading				
Profit before tax	121,357		91,697	
Depreciation	<u>110,489</u>		<u>118,799</u>	
		231,846		210,496
<u>Funds from Other Sources</u>				
Sale of investments		<u>10,858</u>		<u>-</u>
Total Funds Generated		242,704		210,496
<u>Application of Funds</u>				
Dividends paid	34,355		100,449	
Tax paid	17,939		-	
Additions to tangible assets (net)	281,092		94,667	
Increase in investments	<u>200</u>		<u>883</u>	
		(333,586)		(195,999)
		(90,882)		14,497
<u>Movements in Working Capital</u>				
Stock	145,249		(521,861)	
Debtors	(1,863,355)		(339,530)	
Creditors	<u>(18,128)</u>		<u>1,041,850</u>	
		(1,736,234)		180,459
Movement in Net Liquid Funds		(1,827,116)		194,956
		=====		=====
Represented by:-				
Net bank borrowings		(1,827,116)		194,956
		=====		=====