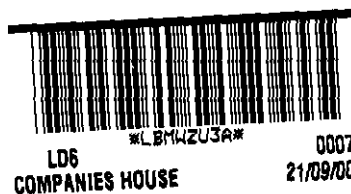


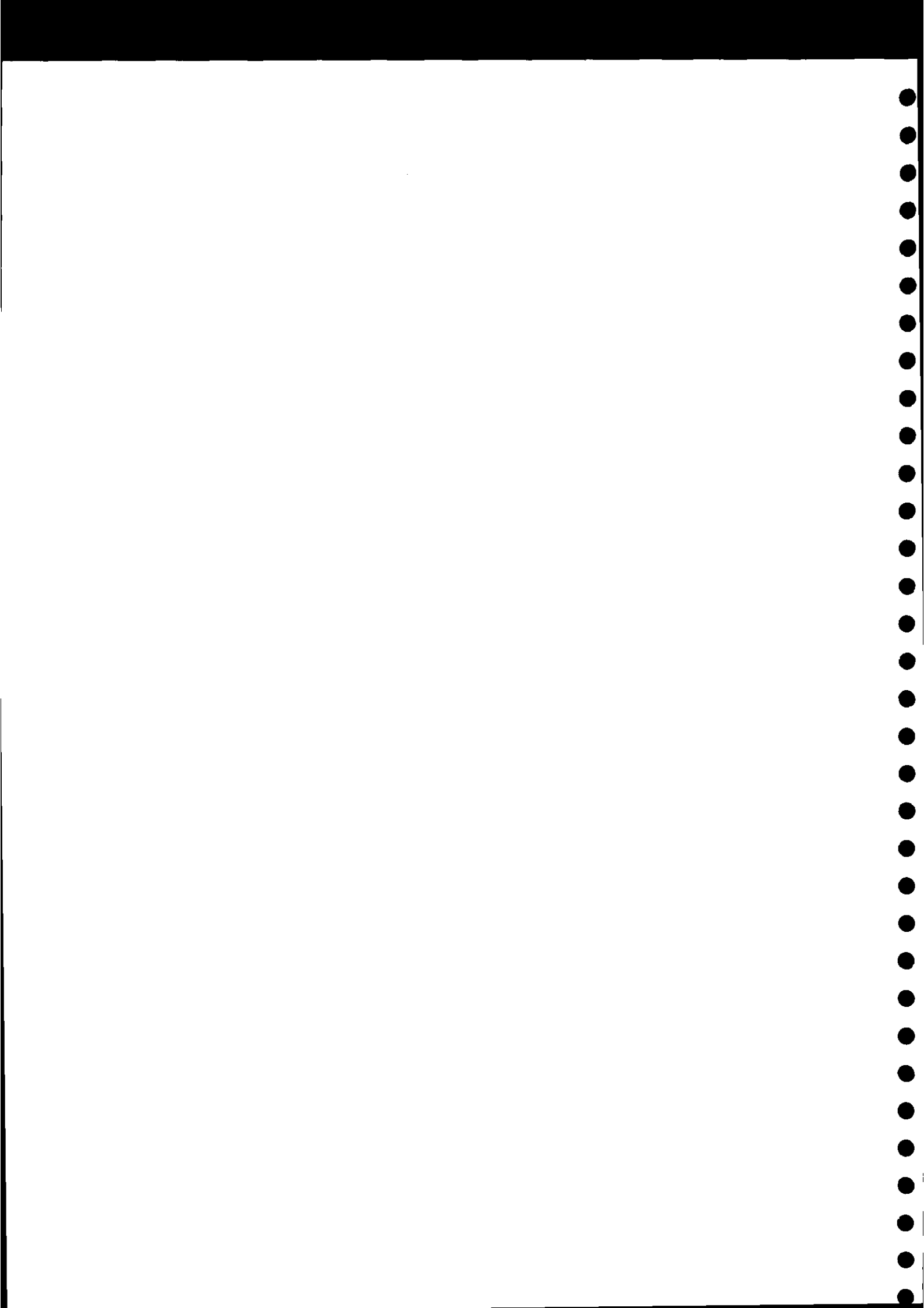
ARTHUR ANDERSEN

Quaker Oats Limited

Financial statements for the year ended 31 December 1999
together with directors' and auditors' reports

Registered number: 64262





Directors' report

For the year ended 31 December 1999

The directors have pleasure in presenting their annual report, together with the audited financial statements, for the year ended 31 December 1999.

Principal activity

The principal activity of the company was the processing and sale of grocery products. Substantially all products have been sold to the parent company, Quaker Trading Limited.

Results and business review

Turnover for the year ended 31 December 1999, was £34,658,000 (1998 - £35,222,000) and the profit before taxation for the year was £2,082,000 (1998 - £2,124,000).

The dividend paid during the year was nil. (1998 - £13,200,000).

Payment of suppliers

The company's policy is to pay suppliers at the end of the month following that in which the supplier's invoice is received, and this policy is made known to all suppliers on request. The number of suppliers' days outstanding at the year end was 34 days (1998 - 40 days). This has been based on the year end trade creditors of £3,077,000 (1998 - £3,734,000) divided by amounts invoiced by suppliers of £33,225,000 (1998 - £34,350,000) as a proportion of 365 days.

Year 2000

The board formed a working party to assess the actions required to ensure that the group would continue to operate effectively in the Year 2000. Based on these efforts, the board is confident that the group is millennium compliant. No problems have been experienced since the balance sheet date.

Directors

The directors who served during the year and subsequently were:

M. Welch (USA)

G. Sewell

D. Singer (resigned on 5 May 1999)

K. O'Byrne (resigned on 1 February 2000)

R. Bouchier (appointed on 1 February 2000)

None of the directors had any beneficial shareholdings in the company at any time during the year and an exemption from the requirement to disclose interests in the shares of Quaker Oats Company Inc has been taken.

Directors' report (continued)

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; and
- 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 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.

Disabled employees

Applications for employment from registered disabled persons are dealt with on the basis of aptitude and ability for the job concerned. In the event of employees becoming disabled, continuity of employment and relevant training are arranged whenever possible. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be no different from those of any other employee.

Employee Consultation

The company places a high value on employee contribution to business success. Teamwork in the organisation is promoted through training workshops, the use of multifunctional groups, and the involvement of all levels of employees in contributing ideas and solutions to projects.

The communication of company goals and business performance is actively encouraged.


Directors' report (continued)

Auditors

Arthur Andersen have indicated that they are willing to continue as auditors and, accordingly, a resolution will be proposed to reappoint them at the annual general meeting reconvened to approve these accounts.

P.O. Box 24
Bridge Road
Southall
Middlesex
UB2 4AG

By order of the Board,



Director

G. Sewell

9 August
2000

Auditors' report

To the Shareholders of Quaker Oats Limited:

We have audited the financial statements on pages 5 to 16 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 the company's affairs as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

9 August 2000

Profit and loss account

For the year ended 31 December 1999

	Notes	1999 £'000	1998 £'000
Turnover	2	34,658	35,222
Cost of sales		(24,470)	(24,948)
Gross profit		10,188	10,274
Administrative expenses		(8,189)	(8,257)
Operating profit		1,999	2,017
Interest receivable and similar income	3	83	107
Profit on ordinary activities before taxation	4	2,082	2,124
Tax profit on ordinary activities	6	(464)	(340)
Profit for the financial year		1,618	1,784
Dividends paid and proposed	7	-	(13,200)
Retained profit (loss) for the year	15	1,618	(11,416)

Statement of total recognised gains and losses

For the year ended 31 December 1999

All activities are derived from continuing operations. There are no recognised gains or losses other than the profit for the year of £1,618,000 (1998 - £1,784,000)

The accompanying notes are an integral part of these statements.

Balance sheet

31 December 1999

	Notes	1999 £'000	1998 £'000
Fixed assets			
Intangible assets	8	132	192
Tangible assets	9	15,373	15,168
		<u>15,505</u>	<u>15,360</u>
Current assets			
Stocks	10	3,065	2,591
Debtors	11	1,530	3,671
Cash at bank and in hand		1,337	-
		<u>5,932</u>	<u>6,262</u>
Creditors: amounts falling due within one year	12	<u>(6739)</u>	<u>(8,480)</u>
Net current liabilities		<u>(807)</u>	<u>(2,218)</u>
Total assets less current liabilities		14,698	13,142
Provisions for liabilities and charges	13	<u>(2,302)</u>	<u>(2,365)</u>
Net assets		<u>12,396</u>	<u>10,777</u>
Capital and reserves			
Called up share capital	14	500	500
Profit and loss account	15	11,895	10,277
Equity shareholders' funds	15	<u>12,395</u>	<u>10,777</u>

The financial statements on pages 5 to 16 were approved by the board of directors on

And signed on its behalf by:

G. Sewell

Director

9 August 2000

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

Notes to financial statements

31 December 1999

1 Statement of accounting policies

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

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with FRS 1 (revised) no cashflow statement has been presented on the basis that the ultimate parent company is The Quaker Oats Company Inc. whose consolidated financial statements contain a cashflow statement, include those of the company and are available to the public, as detailed in note 17.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and provision for permanent diminution in value. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Buildings	2.0%
Plant and machinery	6% to 10%
Office furniture	10%
Computer equipment	33.3%

Residual value is calculated on prices prevailing at the date of acquisition.

Where there has been an impairment in the book value of any tangible fixed assets, the impairment is charged to the profit and loss account in the period in which it is identified.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated 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.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business net of VAT, returns and trade discounts.

Notes to financial statements (continued)

1 Statement of accounting policies (continued)

Taxation

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

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities) has been calculated on the liability method. Deferred tax is provided at the rates of tax likely to be in force at the time that they will probably reverse on all timing differences, only to the extent that they are expected to reverse in the future.

Foreign currency

Transactions denominated in foreign currencies are recorded at the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the year end exchange rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the profit and loss account.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Purchased Goodwill

Purchased goodwill is stated at cost and is amortised over the shorter of 20 years and its estimated useful economic life.

Related party transactions

The company has taken advantage of the exemption conferred by Financial Reporting Standard Number 8 not to disclose details of transactions with companies in the same group on the grounds that it is a wholly owned subsidiary undertaking of The Quaker Oats Company Inc, a company whose consolidated accounts are available to the public, as detailed in note 17.

Pension costs

The company is a member of the Quaker Trading Ltd defined benefit and money purchase group pension schemes.

The amount charged to the profit and loss account for the defined contribution scheme represents the amount recharged from the company's immediate parent company, Quaker Trading Limited.

Notes to financial statements (continued)

2 Segment Information

Turnover of the company is generated from the manufacture and sale of breakfast cereal and related products.

Substantially all products were sold to the parent company in the current and prior year.

3 Interest receivable and similar income

	1999 £'000	1998 £'000
Other interest received	<u>83</u>	<u>107</u>

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1999 £'000	1998 £'000
Amortisation of goodwill	60	60
Depreciation of tangible fixed assets	1,829	1,765
Staff costs (see note 5)	<u>7,109</u>	<u>6,763</u>

Auditors' remuneration in the current and previous year has been borne by the immediate parent company.

Notes to financial statements (continued)

5 Staff costs

Employee costs during the year (including executive directors) are as follows:

	1999 £'000	1998 £'000
Wages and salaries	6,337	6,005
Social security costs	496	486
Other pension costs (see note 16c)	276	272
	<u>7,109</u>	<u>6,763</u>

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

	1999 Number	1998 Number
Manufacturing	212	196
Administration	47	53
	<u>259</u>	<u>249</u>

Directors' remuneration:

The remuneration of directors common to the company and the immediate parent undertaking is dealt with in the accounts of that immediate undertaking.

	1999 £'000	1998 £'000
Emoluments	<u>38</u>	<u>126</u>

Other directors received emoluments, in respect of services provided, from other group companies and these are disclosed in the accounts of those companies accordingly.

Notes to financial statements (continued)

5 Directors Remuneration (continued)

Pensions

The number of directors who were members of pension schemes was as follows:

	1999 Number	1998 Number
Defined benefit schemes	-	1

6 Tax on profit on ordinary activities

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

	1999 £'000	1998 £'000
Corporation tax at 30.25% (1998 – 31%)	630	681
Deferred taxation (see note 13)	(63)	(91)
	567	590
Adjustment of taxation in respect of prior years	(103)	(250)
	464	340

7 Dividend paid and proposed

No dividends were paid or proposed in respect of the year. (1998 - £13,200,000).

8 Intangible fixed assets

The net book value of intangible fixed assets comprises purchased goodwill relating to the purchase of the assets and trade of A.R. Scott Limited in 1991.

The movement in the year was as follows:

	£'000
Cost	
At 31 December 1998 and at 31 December 1999	1,172
Amortisation	
At 31 December 1998	980
Charge during year	60
At 31 December 1999	1040
Net book value	
At 31 December 1998	192
At 31 December 1999	132

Notes to financial statements (continued)

9 Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings £'000	Plant and equipment £'000	Assets in course of construction £'000	Total £'000
Cost				
At 31 December 1998	5,323	25,780	1,036	32,139
Additions	-	-	2,202	2,202
Transfers	155	1,543	(1,698)	-
Disposals	(6)	(713)	-	(719)
At 31 December 1999	<u>5,472</u>	<u>26,610</u>	<u>1,540</u>	<u>33,622</u>
Depreciation				
At 31 December 1998	1,713	15,258	-	16,971
Charge in year	139	1,690	-	1,829
Disposals	(2)	(549)	-	(551)
At 31 December 1999	<u>1,850</u>	<u>16,399</u>	<u>-</u>	<u>18,249</u>
Net book value				
At 31 December 1998	<u>3,610</u>	<u>10,522</u>	<u>1,036</u>	<u>15,168</u>
At 31 December 1999	<u>3,623</u>	<u>10,211</u>	<u>1,540</u>	<u>15,373</u>

Freehold land and buildings of £69,454 (1998 - £69,454) has not been depreciated.

Stocks

	31 December 1999 £'000	31 December 1998 £'000
Raw materials	3,056	2,583
Work-in-progress	<u>9</u>	<u>8</u>
	<u>3,065</u>	<u>2,591</u>

Notes to financial statements (continued)

11 Debtors: amounts falling due within one year

	31 December 1999 £'000	31 December 1998 £'000
Trade debtors	110	116
Amounts due from group undertakings and other related undertakings	1,154	3,279
VAT receivable	227	208
Other debtors	-	4
Prepayments and accrued income	39	64
	<u>1,530</u>	<u>3,671</u>

The amounts due from group undertakings are interest free and repayable on demand.

12 Creditors: Amounts falling due within one year

	31 December 1999 £'000	31 December 1998 £'000
Bank overdraft	-	1,384
Trade creditors	3,077	3,734
UK corporation tax payable	585	783
Social security and PAYE	166	150
Accruals and deferred income	2911	2,429
	<u>6,739</u>	<u>8,480</u>

Notes to financial statements (continued)

13 Provisions for liabilities and charges

	Deferred Taxation £'000
At 31 December 1998	2,365
Released to profit and loss account	(63)
At 31 December 1999	<u>2,302</u>

There is no unprovided deferred tax since in the view of the directors all timing differences are expected to reverse. Deferred tax provided comprises the excess of tax allowances over book depreciation of fixed assets.

14 Called-up equity share capital

	31 December 1999 £'000	31 December 1998 £'000
<i>Authorised, allotted, called-up and fully-paid</i>		
500,000 ordinary shares of £1 each	<u>500</u>	<u>500</u>

15 Reconciliation of movement in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
Beginning of year	500	10,277	10,777
Retained profit for the financial year	-	1,618	1,618
End of year	<u>500</u>	<u>11,895</u>	<u>12,395</u>

Notes to financial statements (continued)

16 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, there were contracted capital commitments of £ 89,793 (1998 - £21,189).

b) Lease commitments

The company has entered into a number of leases in respect of plant and machinery, for which the minimum future annual rentals are as follows:

	31 December 1999 £'000	31 December 1998 £'000
Operating leases which expire		
- within 1 year	17	18
- within 2-5 years	160	185
	<u>177</u>	<u>203</u>

c) Pension arrangements

The company provides two pension schemes. Entry into the principal scheme is available to all employees. Entry into the other scheme is subject to certain age and seniority qualifications.

The pension charges disclosed in (i) and (ii) below, relate to the pension charges recharged by the company's parent.

i. Defined contribution scheme

The pension cost charge relating to this scheme for the period was £160,000 (1998 - £158,000).

ii. Defined benefit schemes

The combined pension cost charge relating to these schemes for the period was £116,000 (1998 - £114,000).

The company is a member of the Quaker Trading Ltd defined benefit and money purchase group pension schemes. Any pension costs charged are based on pension costs across the group as a whole, assessed by a qualified actuary. The costs recognised in the company are based upon contributions made and pension costs recharged by the parent company in the year. Full disclosure of the group pension scheme is included in the financial statements of Quaker Trading Limited.

Notes to financial statements (continued)

17 Ultimate parent company

The largest group in which the results of the company are consolidated is that headed by The Quaker Oats Company Inc which is incorporated in the State of New Jersey, USA. The consolidated financial statements of this group are available to the public and may be obtained from The Quaker Oats Company Inc., P.O. Box 9001, Chicago, Illinois, 60604-9001, USA.

The smallest group in which the results of the company are consolidated is that headed by Quaker Trading Limited. The consolidated financial statements of the group are available to the public and may be obtained from PO Box 24, Bridge Road, Southall, Middlesex UB2 4AG.