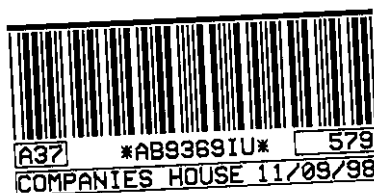


ARTHUR ANDERSEN

Quaker Oats Limited

Financial statements 31 December 1997
together with directors' and auditors' reports

Registered number: 64262



Directors' report

For the year ended 31 December 1997

The directors have pleasure in presenting their report, together with the audited financial statements, for the year ended 31 December 1997.

Principal activity

In the year to 31 December 1997, the principal activity of the company was the processing and sale of grocery products. All products have been sold to the parent company, Quaker Trading Limited.

Results and business review

Turnover for the year ended 31 December 1997, was £37,695,000 (year ended 31 December 1996 - £40,094,000) and the operating profit for the year was £2,166,000 (year ended 31 December 1996 - £7,487,000).

No dividend is proposed for the year (31 December 1996 - £nil).

Retained profits of £21,693,000 will be carried forward. The directors believe that the future prospects for the operations of the company are good.

Directors

The directors who served during the period were:

J. Cooper (USA)

J. Calhoun (USA)

D. Singer

G. Sewell

K. O'Byrne

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 involvement and teamwork

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.

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

By order of the Board,



21 July 1998

Auditors' report

London

To the Shareholders of Quaker Oats Limited:

We have audited the financial statements on pages 5 to 17 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. 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 the company's affairs as at 31 December 1997 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

21 July 1998

Profit and loss account

For the year ended 31 December 1997

	Notes	Year ended 31 December 1997 £'000	Year ended 31 December 1996 £'000
Turnover	2	37,695	40,094
Cost of sales		<u>(27,231)</u>	<u>(27,661)</u>
Gross profit		10,464	12,433
Net operating expenses	3	<u>(8,298)</u>	<u>(4,946)</u>
Operating profit		2,166	7,487
Interest receivable		<u>-</u>	<u>4</u>
Profit on ordinary activities before taxation	5	2,166	7,491
Tax credit (charge) on profit on ordinary activities	7	<u>870</u>	<u>(2,860)</u>
Retained profit for the year		3,036	4,631
Retained profit, at beginning of year		<u>18,657</u>	<u>14,026</u>
Retained profit, at end of year	16	<u>21,693</u>	<u>18,657</u>

Statement of total recognised gains and losses

For the year ended 31 December 1997

There are no recognised gains or losses other than the profit for the year of £3,036,000 (31 December 1996 - £4,631,000).

The accompanying notes are an integral part of these statements.

Balance sheet

31 December 1997

	Notes	31 December 1997 £'000	31 December 1996 £'000
Fixed assets			
Intangible assets	9	252	312
Tangible assets	10	15,479	15,644
		<u>15,731</u>	<u>15,956</u>
Current assets			
Stocks	11	2,443	2,955
Debtors	12	14,522	11,192
Cash at bank and in hand		31	466
		<u>16,996</u>	<u>14,613</u>
Creditors: amounts falling due within one year	13	<u>(8,078)</u>	<u>(8,799)</u>
Net current assets		<u>8,918</u>	<u>5,814</u>
Total assets less current liabilities		<u>24,649</u>	<u>21,770</u>
Provisions for liabilities and charges	14	<u>(2,456)</u>	<u>(2,613)</u>
Net assets		<u>22,193</u>	<u>19,157</u>
Equity capital and reserves			
Called up share capital	15	500	500
Profit and loss account	16	21,693	18,657
Shareholders' funds	16	<u>22,193</u>	<u>19,157</u>

Signed on behalf of the Board

K. O'Byrne

Director



21 July 1998

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

Notes to financial statements

31 December 1997

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.

a) 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 include those of the company and are available to the public, as detailed in note 18.

b) 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 or revaluation.

Where a deficit on book value is identified and that deficit is expected to be permanent, it is charged to the profit and loss account in the period in which it is identified.

c) 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.

d) 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)

e) *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.

f) *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.

g) *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.

h) *Purchased Goodwill*

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

i) *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 18.

j) *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 is based on a recharge from Quaker Trading Limited.

Any difference between amounts charged to the profit and loss account and contributions paid to the pension schemes is shown as a separately identified asset or liability.

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

In the current year substantially all products were sold to the parent company.

Analysis of turnover and profit before tax by geographic segment has not been disclosed, as in the opinion of the directors, publication of this information is prejudicial to the company's interests.

3 Net operating expenses

	Year ended 31 December 1997 £'000	Year ended 31 December 1996 £'000
Administrative expenses	<u>8,298</u>	<u>4,946</u>

4 Interest receivable

	Year ended 31 December 1997 £'000	Year ended 31 December 1996 £'000
Bank interest received	<u>-</u>	<u>4</u>

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	Year ended 31 December 1997 £'000	Year ended 31 December 1996 £'000
a) Amortisation of goodwill	60	60
b) Depreciation of tangible fixed assets	1,719	1,624
c) Staff costs (see note 6)	<u>6,495</u>	<u>6,824</u>

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

Notes to financial statements (continued)

6 Staff costs

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

	Year ended 31 December 1997 £'000	Year ended 31 December 1996 £'000
Wages and salaries	5,801	6,006
Social security costs	448	468
Other pension costs (see note 17c)	246	350
	<u>6,495</u>	<u>6,824</u>

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

	Year ended 31 December 1997 Number	Year ended 31 December 1996 Number
Manufacturing	194	212
Administration	54	48
	<u>248</u>	<u>260</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.

	Year ended 31 December 1997 £'000	Year ended 31 December 1996 £'000
Emoluments	<u>78</u>	<u>78</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)

6 Staff costs (continued)

Pensions

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

	1997	1996
Defined benefit schemes	<u>1</u>	<u>1</u>

7 Tax on profit on ordinary activities

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

	Year ended 31 December 1997 £'000	Year ended 31 December 1996 £'000
Corporation tax at 31.5% (1996 - 33%)	716	2,234
Deferred taxation (see note 14)	-	254
- capital allowances	<u>716</u>	<u>2,488</u>
Adjustment of taxation in respect of prior years	<u>(1,586)</u>	<u>372</u>
	<u>(870)</u>	<u>2,860</u>

8 Dividend paid and proposed

No dividend has been paid or proposed in respect of the year ended 31 December 1997 (1996 - nil).

Notes to financial statements (continued)

9 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 1996	1,172
At 31 December 1997	<u>1,172</u>
Amortisation	
At 31 December 1996	860
Charge during year	<u>60</u>
At 31 December 1997	<u>920</u>
Net book value	
At 31 December 1996	<u>312</u>
At 31 December 1997	<u>252</u>

Notes to financial statements (continued)

10 Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings £'000	Plant, machinery and vehicles £'000	Assets in course of construction £'000	Total £'000
Cost				
At 31 December 1996	5,103	26,000	824	31,927
Additions	-	-	1,874	1,874
Transfers	186	1,028	(1,214)	-
Disposals	(59)	(2,485)	-	(2,544)
At 31 December 1997	<u>5,230</u>	<u>24,543</u>	<u>1,484</u>	<u>31,257</u>
Depreciation				
At 31 December 1996	1,446	14,837	-	16,283
Charge in year	142	1,577	-	1,719
Disposals	(8)	(2,216)	-	(2,224)
At 31 December 1997	<u>1,580</u>	<u>14,198</u>	<u>-</u>	<u>15,778</u>
Net book value				
At 31 December 1996	<u>3,657</u>	<u>11,163</u>	<u>824</u>	<u>15,644</u>
At 31 December 1997	<u>3,650</u>	<u>10,345</u>	<u>1,484</u>	<u>15,479</u>

11 Stocks

The following are included in the net book value of stocks:

	31 December 1997 £'000	31 December 1996 £'000
Raw materials	2,430	2,942
Work-in-progress	<u>13</u>	<u>13</u>
	<u>2,443</u>	<u>2,955</u>

Notes to financial statements (continued)

12 Debtors: amounts falling due within one year

The following are included in the net book value of debtors falling due within one year:

	31 December 1997 £'000	31 December 1996 £'000
Trade debtors	165	408
Amounts due from group undertakings	14,083	10,422
VAT receivable	174	154
Other debtors	26	151
Prepayments and accrued income	74	57
	<u>14,522</u>	<u>11,192</u>

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

13 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	31 December 1997 £'000	31 December 1996 £'000
Trade creditors	3,390	1,217
Amounts owed to group undertakings	-	134
UK corporation tax payable	716	1,833
Social security and PAYE	156	193
Accruals and deferred income	3,816	5,422
	<u>8,078</u>	<u>8,799</u>

Amounts owed to group undertakings are interest free and repayable on demand.

Notes to financial statements (continued)

14 Provisions for liabilities and charges

The movement on provisions in the year was as follows:

	Reorganisation provision £'000	Deferred taxation £'000	Total £'000
At 31 December 1996	157	2,456	2,613
Released to profit and loss account	(157)	-	(157)
At 31 December 1997	-	2,456	2,456

Deferred tax has been provided on the partial provision basis. There is no unprovided deferred tax since in the view of the directors all timing differences are expected to reverse. Deferred tax provided comprises:

	31 December 1997 £'000	31 December 1996 £'000
Excess of tax allowances over book depreciation of fixed assets	2,456	2,456

15 Called-up equity share capital

	31 December 1997 £'000	31 December 1996 £'000
<i>Authorised, allotted, called-up and fully-paid</i> 500,000 ordinary shares of £1 each	500	500

16 Reconciliation of movement in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
Beginning of year	500	18,657	19,157
Retained profit for the financial year	-	3,036	3,036
End of year	500	21,693	22,193

Notes to financial statements (continued)

17 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, there were no contracted capital commitments (1996 - nil).

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 1997 £'000	31 December 1996 £'000
Operating leases which expire		
- within 1 year	6	6
- within 2-5 years	160	125
	<hr/> 166	<hr/> 131

c) Pension arrangements

The company provides three pension schemes. Entry into the principal scheme is available to all employees. Entry into the other two schemes 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 £106,522 (31 December 1996 - £133,868).

ii. Defined benefit schemes

The combined pension cost charge relating to these schemes for the period was £138,962 (31 December 1996 - £214,791).

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)

18 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.