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QUAKER OATS LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30TH JUNE, 1979

The directors have pleasure in presenting their report together with the audited accounts for the year ended 30th June, 1979.

**PRINCIPAL ACTIVITIES:**

The principal activities of the Group were the manufacture and sale of grocery products and toys and the sale of chemicals.

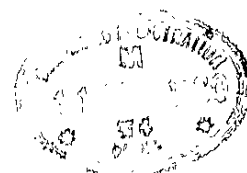
Contributions to Group profit before taxation were as follows:-

|                  | <u>Per cent of</u><br><u>Group sales</u> |             | <u>Per cent of</u><br><u>Profit before tax</u> |             |
|------------------|--|-------------|--|-------------|
|                  | <u>1979</u>                              | <u>1978</u> | <u>1979</u>                                    | <u>1978</u> |
| Grocery products | 69                                       | 71          | 51   | 70          |
| Chemicals        | 9  | 11          | 24   | 25          |
| Toys             | <u>22</u>                                | <u>18</u>   | <u>25</u>                                      | <u>5</u>    |
|                  | 100%                                     | 100%        | 100%   | 100%        |
|                  | =====                                    | =====       | =====  | =====       |

In the group results it should be noted that the performance of grocery products was affected by the difficult trading conditions in the United Kingdom during the year. Over the same period the sales and profits of toys improved.

**PROFIT:**

The Group's net profit for the year ended 30th June, 1979 was £3,005,000 (1978 - £1,862,000). No dividend is proposed and consolidated retained earnings of £13,139,000 will be carried forward.



#### DIRECTORS:

The directors who served during the year were:-

|                           |   |  |
|---------------------------|---|--|
| R. G. Lagden              | - | Chairman   |
| G. J. Yapp (U.S.A.)       | - | Managing Director from appointment<br>on 12th April, 1979  |
| J. B. Felter Jr. (U.S.A.) | - | Managing Director until resignation<br>on 30th March, 1979 |
| F. G. Earwaker            |   |  |
| F. W. Gibbs               |   |  |
| A. S. Hart (U.S.A.)       |   |  |
| H. W. Hooper              |   |  |
| R. D. Jaquith (U.S.A.)    |   |  |
| F. J. Morgan (U.S.A.)     |   |  |
| J. A. Nelson (U.S.A.)     |   |  |
| R. D. Stuart Jr. (U.S.A.) |   |  |

Directors retiring by rotation are Mr. F. G. Earwaker, Mr. R. D. Jaquith and Mr. F. J. Morgan who, being eligible, offer themselves for re-election. Mr. G. J. Yapp was appointed under article 92 of the Articles of Association and, being eligible, offers himself for re-election.

None of the directors had any beneficial shareholdings in the U.K. Group of companies during the year.

#### EMPLOYEES:

The average weekly number of employees was 1,702 (1978 - 1,709) and the aggregate remuneration paid to all employees during the year was £7,399,000 (1978 - £6,990,000).

#### CHARITABLE DONATIONS:

The Group made donations to charitable organisations during the year amounting to £1,274 (1978 - £1,064).

EXPORTS:

The value of goods exported from the United Kingdom by the Group during the year was £5,110,000 (1978 - £3,587,000).

POST BALANCE SHEET EVENT - FIRE:

On 26th July 1979 the company suffered a major fire in which a 48,000 square foot raw materials warehouse was destroyed. Claims are in the process of being made; for Inventory at full replacement cost; for building, plant and machinery at reinstatement cost and for consequential losses. The company is fully insured for these losses and the Directors are of the opinion that the fire will not have a material affect on the groups results for the year ending 30th June, 1980.

AUDITORS:

Messrs. Arthur Andersen & Co. 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.

ON BEHALF OF THE BOARD,

R. G. Lagden  
Chairman

ARTHUR ANDERSEN & Co.

1 SURREY STREET  
LONDON WC2R 2PS

To the Members of Quaker Oats Limited:

We have examined the balance sheets of QUAKER OATS LIMITED and the consolidated balance sheets of QUAKER OATS LIMITED AND SUBSIDIARIES at 30th June, 1979 and 1978 and the related consolidated statements of profit and loss and source and application of funds for the years ended on those dates, prepared on the historical cost basis.

In our opinion, the accompanying accounts give a true and fair view, on the historical cost basis, of the state of affairs of the Company and the Group at 30th June, 1979 and 1978, and of the profit and source and application of funds of the Group for the years ended on those dates, and comply with the Companies Act 1948 and 1967.

*Arthur Andersen & Co.*

9th August, 1979

QUAKER OATS LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF PROFIT AND LOSS  
FOR THE YEARS ENDED 30th JUNE, 1979 AND 1978

|   | <u>Notes</u> | <u>1979</u><br><u>£'000</u> | <u>1978</u><br><u>£'000</u> |
|---|--------------|-----------------------------|-----------------------------|
| NET SALES   | 1            | 67,416                      | 59,371                      |
| COST OF SALES AND EXPENSES  |              | 63,218                      | 56,084                      |
|   |              | <hr/>                       | <hr/>                       |
| Profit before taxation  | 7            | <u>4,198</u>                | <u>3,287</u>                |
| TAXATION:   |              |                             |                             |
| Corporation tax, including<br>deferred taxation of £1,389,000<br>(1978 - £995,000)  | 1            | 2,341                       | 1,425                       |
| Exceptional credit (all relating to<br>deferred taxation) arising from<br>the provisions of the Finance<br>(No. 2) Act. 1979, by which<br>claims made for stock appreciation<br>relief in 1973 and 1974 have<br>become permanent reliefs. | 7            | (1,148)                     | -                           |
|   |              | <hr/>                       | <hr/>                       |
|   |              | <u>1,193</u>                | <u>1,425</u>                |
| Net Profit  | 7            | 3,005                       | 1,862                       |
| RETAINED EARNINGS, beginning of year  | 6            | 10,134                      | 8,272                       |
|   |              | <hr/>                       | <hr/>                       |
| RETAINED EARNINGS, end of year  | 6            | <u>13,139</u>               | <u>10,134</u>               |

The accompanying notes are an integral part of these statements.

QUAKER OATS LIMITED AND SUBSIDIARIES

BALANCE SHEETS -- 30th JUNE, 1979 AND 1978

|   | Notes | COMPANY       |               | CONSOLIDATED  |               |
|---|-------|---------------|---------------|---------------|---------------|
|   |       | 1979          | 1978          | 1979          | 1978          |
|   |       | £'000         | £'000         | £'000         | £'000         |
| CURRENT ASSETS:   |       |               |               |               |               |
| Cash and short-term deposits  |       | 2,799         | 117           | 2,964         | 135           |
| Accounts receivable and prepaid expenses                                      |       | 4,950         | 4,335         | 6,776         | 5,973         |
| Inventories   | 1 & 2 | 7,873         | 7,107         | 10,939        | 10,504        |
| Due from parent and fellow-subsubsidiaries                                    |       | 1,383         | 2,645         | 395           | 879           |
|   |       | <u>17,005</u> | <u>14,204</u> | <u>21,074</u> | <u>17,491</u> |
| CURRENT LIABILITIES:  |       |               |               |               |               |
| Bank overdrafts and loans   | 3     | 316           | 789           | 340           | 894           |
| Accounts payable and accrued expenses   |       | 4,857         | 4,157         | 5,921         | 4,859         |
| Taxation  | 1     | 1,158         | 406           | 1,250         | 468           |
| Due to parent and fellow-subsubsidiaries                                      |       | 4,205         | 3,884         | 4,502         | 4,901         |
|   |       | <u>10,536</u> | <u>9,236</u>  | <u>12,013</u> | <u>11,122</u> |
| Net current assets  |       | 6,469         | 4,968         | 9,061         | 6,369         |
| INVESTMENT IN SUBSIDIARIES  | 1     | 1,849         | 711           | -             | -             |
| GOODWILL  | 1     | 805           | 860           | 805           | 860           |
| PROPERTY, PLANT AND EQUIPMENT, net  | 1 & 4 | 10,259        | 9,481         | 10,359        | 9,575         |
| DEFERRED GOVERNMENT GRANTS  | 1     | (175)         | -             | (175)         | -             |
| DEFERRED TAXATION   | 1 & 5 | (5,568)       | (5,386)       | (6,411)       | (6,170)       |
| Net assets  |       | <u>13,639</u> | <u>10,634</u> | <u>13,639</u> | <u>10,634</u> |
| Representing -  |       |               |               |               |               |
| SHAREHOLDERS' INVESTMENT:   |       |               |               |               |               |
| Share capital - authorised, issued and fully-paid - 500,000 shares of £1 each |       | 500           | 500           | 500           | 500           |
| Retained earnings   | 6     | 13,139        | 10,134        | 13,139        | 10,134        |
|   |       | <u>13,639</u> | <u>10,634</u> | <u>13,639</u> | <u>10,634</u> |

G. J. YAPP

F. G. EARWAKER

) Directors

The accompanying notes are an integral part of these balance sheets.

QUAKER OATS LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS  
FOR THE YEARS ENDED 30th JUNE, 1979 AND 1978

|  | <u>1979</u><br><u>£'000</u> | <u>1978</u><br><u>£'000</u> |
|--|-----------------------------|-----------------------------|
| <b>SOURCES OF FUNDS:</b>   |                             |                             |
| Operations -   |                             |                             |
| Net Profit   | 3,005                       | 1,862                       |
| Add or (deduct) items not involving cash flow during the year -  |                             |                             |
| Depreciation   | 751                         | 589                         |
| Amortisation of goodwill   | 55                          | 54                          |
| Net increase in deferred taxation  | 241                         | 995                         |
| Net loss/(gain) on disposal of property, plant and equipment   | 117                         | (26)                        |
|  | <hr/>                       | <hr/>                       |
| Total funds from operations  | 4,169                       | 3,474                       |
| Proceeds from sale of property, plant and equipment  | 113                         | 105                         |
| Effect of other movements on deferred taxation (mainly relating to prior year stock appreciation relief) | -                           | 102                         |
|  | <hr/>                       | <hr/>                       |
| Total funds provided   | 4,282                       | 3,681                       |
|  | <hr/>                       | <hr/>                       |
| <b>USES OF FUNDS:</b>  |                             |                             |
| Purchases of property, plant and equipment, net of grants of £175,000 (1978 - NIL)                       | 1,590                       | 3,489                       |
| Repayment of long-term debt  | -                           | 1,750                       |
|  | <hr/>                       | <hr/>                       |
| Total funds used   | 1,590                       | 5,239                       |
|  | <hr/>                       | <hr/>                       |
| Increase (decrease) in net current assets  | 2,692                       | (1,558)                     |
|  | <hr/>                       | <hr/>                       |
| Reflecting -   |                             |                             |
| <b>.INCREASES (DECREASES) IN NET CURRENT ASSETS:</b>   |                             |                             |
| Net liquid funds -   |                             |                             |
| Cash and short-term deposits   | 2,829                       | 112                         |
| Bank overdrafts and loans  | 554                         | 1,848                       |
|  | <hr/>                       | <hr/>                       |
|  | 3,383                       | 1,960                       |
| Accounts receivable and prepaid expenses   | 803                         | (500)                       |
| Inventories  | 435                         | (191)                       |
| Due from parent and fellow-subsiidiaries   | (484)                       | 495                         |
| Accounts payable and accrued expenses  | (1,062)                     | (712)                       |
| Taxation   | (782)                       | (353)                       |
| Due to parent and fellow-subsiidiaries   | 399                         | (2,257)                     |
|  | <hr/>                       | <hr/>                       |
|  | 2,692                       | (1,558)                     |
|  | <hr/>                       | <hr/>                       |

The accompanying notes are an integral part of these statements.

QUAKER OATS LIMITED AND SUBSIDIARIES

NOTES TO ACCOUNTS -- 30th JUNE, 1979 AND 1978

1. SUMMARY OF ACCOUNTING POLICIES:

- a) Basis of presentation and consolidation -  
The accompanying consolidated accounts have been prepared on the historical cost basis and include the accounts of the Company and its five wholly-owned subsidiaries, Sutherlands Foods Limited, Felix Catfood Limited, Felix Pet Foods Limited, Fisher-Price Toys Limited, and Merchandising and Sales Services Limited. Only the last two subsidiaries are operating companies.
- The effect of all significant intercompany transactions has been eliminated.
- b) Translation of foreign currencies -  
Purchases transacted in foreign currencies are recorded in sterling at the exchange rates prevailing at the dates of the transactions.
- Foreign currency balances at year-end are translated into sterling at the approximate rates ruling at that date. Any resultant gains or losses (immaterial in 1979 and 1978) are reported in the statement of profit and loss.
- c) Inventories (Note 2) -  
Inventories of grocery and chemical products (£7,177,000; 1978 - £6,973,000) are stated at the lower of quarterly average cost and net realisable value. Inventories of toys (£3,762,000; 1978 - £3,531,000) are stated at the lower of first-in, first-out cost and net realisable value.
- d) Investment in subsidiaries -  
Investment in subsidiaries is stated at the Company's equity in the net assets of the subsidiaries, less advances from non-trading subsidiaries.
- e) Goodwill -  
Goodwill represents the excess of the cost of investment in subsidiaries over the net tangible assets at the date of acquisition and is stated at cost, less accumulated amortisation, amounting to £841,000 at 30th June, 1979 (1978 - £786,000).
- The goodwill of £544,026 which arose on the acquisition of one subsidiary is being amortised on a straight-line basis over ten years to 30th June, 1983. The goodwill which arose on other acquisitions was amortised until 1970, but has not been amortised since.



- f) Property, plant and equipment (Note 4) -  
Property, plant and equipment are stated at cost (net of Government regional development grants) less accumulated depreciation. The Group has provided depreciation to write off the cost of the assets over their estimated useful lives on a straight-line basis at the following annual, composite rates -

|                                   |   |                |
|-----------------------------------|---|----------------|
| Land and construction-in-progress | - | Nil            |
| Buildings                         | - | 2½% to 20%     |
| Plant and machinery               | - | 5 to 12½%      |
| Office furniture and equipment    | - | 10%            |
| Motor vehicles                    | - | 25%            |
| Moulds and testing equipment      | - | 25% to 33 1/3% |

- g) Government grants -  
Regional development grants are netted off against the cost of the assets concerned, and so are released to income, as a reduction of the depreciation charge, over the estimated useful life of the assets attracting the grant.

Interest relief grants are classified as deferred government grants when received, and are amortised by varying amounts each year, calculated as the notional annual cost of funding the new operations for which the grants were made.

- h) Net sales -  
Net sales represent the invoiced value of shipments to customers, less returns, allowances and VAT.

- i) Taxation (Note 5) -  
The charge for corporation tax has been based on the profit before taxation adjusted for expenses not allowable for tax and in 1978 and 1979 is stated after a write-back of under-provisions in prior years. The rate of corporation tax in 1978 and 1979 was 52%.

Deferred taxation has been fully provided at historical rates and represents mainly corporation tax deferred due to-

- The difference between book and tax depreciation, and
- stock appreciation relief.

## 2. INVENTORIES:

Inventories comprise -

|                  | Company       |               | Consolidated  |               |
|------------------|---------------|---------------|---------------|---------------|
|                  | 1979<br>£'000 | 1978<br>£'000 | 1979<br>£'000 | 1978<br>£'000 |
| Finished product | 4,314         | 4,599         | 7,380         | 7,996         |
| Raw materials    | 3,559         | 2,508         | 3,559         | 2,508         |
|                  | <u>7,873</u>  | <u>7,107</u>  | <u>10,939</u> | <u>10,504</u> |
|                  | =====         | =====         | =====         | =====         |

## 3. BANK OVERDRAFTS AND LOANS:

At 30th June, 1978 and 1979 the Company and the Group had overdraft facilities of £5,450,000 and £6,750,000 respectively.

The Company also has irrevocable loan facilities of £4,000,000 for periods of up to six years. At 30th June, 1979 these facilities were unused (1978 - £500,000 drawn down and classified as a current liability).

4. PROPERTY, PLANT AND EQUIPMENT:

Movement on these accounts for the Company and the Group during the year ended 30th June, 1979, was as follows -

a) Company -

|                            | Total  | Freehold      |                    | Plant,<br>machinery<br>and<br>vehicles | Construction<br>-in-<br>progress |
|----------------------------|--------|---------------|--------------------|--|----------------------------------|
|                            | £'000  | Land<br>£'000 | Buildings<br>£'000 | £'000                                  | £'000                            |
| Cost -                     |        |               |                    |  |                                  |
| Balance, 1st July, 1978    | 12,333 | 714           | 2,513              | 7,800                                  | 1,306                            |
| Additions                  | 1,720  | -             | -                  | 507                                    | 1,213                            |
| Retirements                | (410)  | (4)           | (19)               | (387)                                  | -                                |
| Transfers                  | -      | -             | 261                | 1,296                                  | (1,557)                          |
| Balance, 30th June, 1979   | 13,643 | 710           | 2,755              | 9,215                                  | 962                              |
| Accumulated depreciation - |        |               |                    |  |                                  |
| Balance, 1st July, 1978    | 2,852  | -             | 562                | 2,290                                  | -                                |
| Provision                  | 719    | -             | 71                 | 648                                    | -                                |
| Retirements                | (187)  | -             | (16)               | (171)                                  | -                                |
| Balance, 30th June, 1979   | 3,384  | -             | 617                | 2,767                                  | -                                |
| Net -                      |        |               |                    |  |                                  |
| 1979                       | 10,259 | 710           | 2,138              | 6,449                                  | 962                              |
| 1978                       | 9,481  | 714           | 1,951              | 5,510                                  | 1,306                            |

b) Group -

|                            | Total  | Freehold      |                    | Plant,<br>machinery<br>and<br>Vehicles | Construction<br>-in-<br>progress |
|----------------------------|--------|---------------|--------------------|--|----------------------------------|
|                            | £'000  | Land<br>£'000 | Buildings<br>£'000 | £'000                                  | £'000                            |
| Cost -                     |        |               |                    |  |                                  |
| Balance, 1st July, 1978    | 12,559 | 714           | 2,513              | 8,026                                  | 1,306                            |
| Additions                  | 1,768  | -             | -                  | 555                                    | 1,213                            |
| Retirements                | (425)  | (4)           | (19)               | (402)                                  | -                                |
| Transfers                  | -      | -             | 261                | 1,296                                  | (1,557)                          |
| Balance, 30th June, 1979   | 13,902 | 710           | 2,755              | 9,475                                  | 962                              |
| Accumulated depreciation - |        |               |                    |  |                                  |
| Balance, 1st July, 1978    | 2,984  | -             | 562                | 2,422                                  | -                                |
| Provision                  | 751    | -             | 71                 | 680                                    | -                                |
| Retirements                | (192)  | -             | (16)               | (176)                                  | -                                |
| Balance, 30th June, 1979   | 3,543  | -             | 617                | 2,926                                  | -                                |
| Net -                      |        |               |                    |  |                                  |
| 1979                       | 10,359 | 710           | 2,138              | 6,549                                  | 962                              |
| 1978                       | 9,575  | 714           | 1,951              | 5,604                                  | 1,306                            |

5. TAXATION:

Deferred taxation at 30th June, 1979 and 1978 comprises amounts relating to -

|   | Company       |               | Consolidated  |               |
|---|---------------|---------------|---------------|---------------|
|   | 1979<br>£'000 | 1978<br>£'000 | 1979<br>£'000 | 1978<br>£'000 |
| Differences between book and tax depreciation | 4,071         | 3,563         | 4,097         | 3,592         |
| Stock appreciation relief                     | 1,497         | 1,823         | 2,359         | 3,482         |
| Tax effect of losses carried forward          | -             | -             | (45)          | (904)         |
|   | <u>5,568</u>  | <u>5,386</u>  | <u>6,411</u>  | <u>6,170</u>  |

6. RESTRICTION ON DIVIDENDS:

Retained earnings of £900,000 at 30th June, 1979 and 1978 are restricted as to payment of dividends, under Bank of England (Exchange Control) approval of Company borrowings.

7. SUPPLEMENTARY INFORMATION:

- a) The net profit dealt with in the accounts of the Company before reflecting the Company's equity in the profits of its subsidiaries amounted to £1,871,000 (1978 - £1,648,000).
- b) Profit before taxation has been determined after accounting for the following items -

|   | 1979<br>£'000 | 1978<br>£'000 |
|---|---------------|---------------|
| Income -                                      |               |               |
| Interest income                               | 384           | 13            |
| Amortisation of interest relief grant         | 185           | -             |
| Expense -                                     |               |               |
| Directors' emoluments for management services | 146           | 123           |
| Amortisation of goodwill                      | 55            | 54            |
| Depreciation                                  | 751           | 589           |
| Auditors' remuneration                        | 41            | 31            |
| Hire of equipment                             | 178           | 143           |
| Interest on bank loans and overdrafts         | 49            | 72            |

- c) The emoluments, excluding pension contributions, of the Chairman amounted to £6,292 (1978 - £6,274). The emoluments, excluding pension contributions, of the highest-paid director amounted to £45,552 (1978 - £44,511).

The emoluments of the directors fell into the following brackets -

|         |         | Number of Directors |           |
|---------|---------|---------------------|-----------|
|         |         | 1979                | 1978      |
| £ Nil   | £ 2,500 | 5                   | 5         |
| £ 5,001 | £ 7,500 | 1                   | 1         |
| £ 7,501 | £10,000 | 1                   | 1         |
| £10,001 | £12,500 | 1                   | 1         |
| £20,001 | £22,500 | 1                   | 1         |
| £22,501 | £25,000 | 2                   | 2         |
| £42,501 | £45,000 | 1                   | 1         |
| £45,001 | £47,500 | 1                   | 1         |
|         |         | <u>16</u>           | <u>16</u> |

The remuneration of employees receiving over £10,000, excluding pension contributions, fell into the following brackets -

|         |         | 1979      | 1978      |
|---------|---------|-----------|-----------|
| £10,001 | £12,500 | 39        | 12        |
| £12,501 | £15,000 | 4         | 3         |
| £15,001 | £17,500 | 3         | 3         |
| £17,501 | £20,000 | 3         | 1         |
| £22,501 | £25,000 | 1         | 1         |
| £27,501 | £30,000 | 1         | 1         |
|         |         | <u>51</u> | <u>22</u> |

- d) Net profit of £3,005,000 (1978 - £1,862,000) includes an exceptional credit of £1,148,000 (1978 - NIL) against the years taxation charge. This credit relates to stock appreciation relief for 1973 and 1974. Excluding this credit, net profit derived from Group operations was £1,857,000 (1978 - £1,862,000).

#### 8. PENSION PLAN:

The Company has established pension plans which cover substantially all full-time employees of the Group.

Contributions by the Group for the year were £354,509 (1978 - £251,651). The last actuarial valuation of the plan was made at 1st April, 1976 and disclosed that there were no unfunded past service liabilities at that date. Certain benefits provided by the plans have been made subsequently and a valuation of the plan is to be made as of 5th April, 1979.

#### 9. CAPITAL COMMITMENTS:

Capital commitments at 30th June, 1979 and 1978 for the Company and the Group were as follows -

|   | 1979<br>£'000     | 1978<br>£'000     |
|---|-------------------|-------------------|
| Contracts for capital expenditure   | 267               | 199               |
| Capital expenditure authorised by the Board of Directors but not contracted for | <u>451</u><br>718 | <u>769</u><br>968 |
|   | =====             | =====             |

10. SUBSEQUENT EVENT:

On 26th July, 1979, the company suffered a fire at its main raw material warehouse and is in the process of submitting insurance claims to cover -

- a) The anticipated re-instatement cost of the freehold building and plant and machinery destroyed which had a net book value at 30th June, 1979 of approximately £89,000.
- b) The anticipated replacement cost of the inventories destroyed which had a historical cost of approximately £620,000 at 30th June, 1979.
- c) The consequential loss of profits.

The directors are of the opinion that these claims will be received in full and that the fire will not significantly affect the Groups operating results for the year ending 30th June, 1980.

11. ULTIMATE PARENT COMPANY:

The ultimate parent company is The Quaker Oats Company, incorporated in the State of New Jersey, U.S.A.