

DIRECTORS' REPORT

FOR THE YEAR ENDED 28 SEPTEMBER 1979

The Directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 28 September 1979.

PRINCIPAL ACTIVITIES:

The principal activities of the Group are -

- i. The management and provision of a range of food, vending and refreshment services for industry and commerce ('food services').
- ii. The manufacture and sale of earthenware ('earthenware').
- iii. The purchase and sale of goods for use in promotional and marketing schemes ('promotional and marketing').

RESULTS OF OPERATIONS:

The net profit of the Group for the year, before the extraordinary credit, amounted to £1,041,693. In addition, the extraordinary credit relating to the utilisation of prior years' tax losses amounted to £28,443. The Directors recommend that these amounts be added to retained earnings at the beginning of the year of £2,983,790, that no dividend be paid, and that the balance of £4,053,926 be carried forward.

The Group's revenues and profit before taxation and extraordinary credit were divided between the principal activities as follows -

	<u>Revenues</u>	<u>Profit before taxation and extraordinary credit</u>
Food services	£ 23,989,528	£ 925,555
Earthenware	6,924,376	362,598
Promotional and marketing	2,448,542	593,028
	<u>£ 33,362,446</u>	<u>£ 1,881,181</u>
	=====	=====

The invoiced value of goods exported from the United Kingdom during the year was £7,458,872.

EMPLOYEES:

The average number of United Kingdom employees of the Group during the year was 3,576 and their aggregate remuneration was £11,351,000.



DIRECTORS:

The Directors of the Company during the year were -

A.T. Kraft
F. Kotek (resigned 8 March 1980)
J.A. Callaghan

In addition to the above, M. Heaps and J. Neubauer were appointed Directors on 24 January 1980 and P.A. Houldsworth was appointed a Director on 28 April 1980.

None of the Directors has a financial interest required to be disclosed under Section 16 of the Companies Act, 1967.

PROPERTIES:

The market value of land and buildings owned by the Group is considered to be in excess of their net book value but, as these properties are held for trading purposes, the Directors do not consider that the cost of an independent valuation is justified. For insurance purposes the properties have a replacement value of £3,349,000, which compares with the net book value of £405,000.

SALE OF INVESTMENT IN SUBSIDIARY COMPANY:

On 25 February 1980, the Company sold at a profit its investment in its subsidiary company, Enoch Wedgwood (Tunstall) Limited ("Enoch"). Prior to this sale, Enoch transferred its investment in Sigma Marketing Systems (International) Limited to the Company at book value.

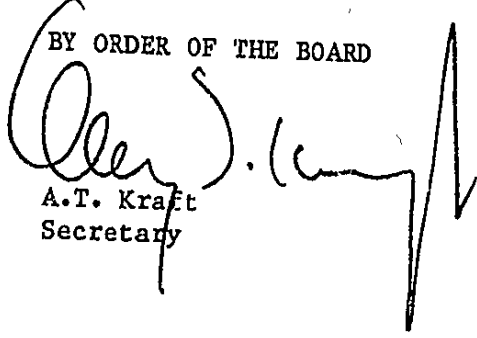
GROUP RE-ORGANISATION:

On 25 April 1980, the Company was included in a Group re-organisation. As a result of the re-organisation the net assets and business undertakings of ARA Food Services Limited were transferred to the Company and the Company's name was then changed to ARA Food Services Limited.

AUDITORS:

In accordance with Section 14 of the Companies Act, 1976, a resolution to re-appoint Arthur Andersen & Co. as auditors of the Group will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD


A.T. Kraft
Secretary

ARTHUR ANDERSEN & Co

ST PAUL'S HOUSE
PARK SQUARE
LEEDS LS1 2PJ

To the Members of ARA Marketing Services Limited:

We have examined the balance sheet of ARA MARKETING SERVICES LIMITED (a wholly-owned subsidiary company) and the consolidated balance sheet of ARA MARKETING SERVICES LIMITED AND SUBSIDIARY COMPANIES at 28 September 1979, and the related consolidated profit and loss account and consolidated statement of source and application of funds for the year ended on that date, prepared on the historical cost basis.

As described in Note 1(e), the consolidated accounts include stocks of a subsidiary company, amounting to £1,763,000, in respect of which costs are largely estimated and, in the absence of detailed current cost information or records, these estimates are not susceptible to normal audit tests.

In our opinion, except for the effect of such adjustments as may be required to state fairly the above stocks on an actual instead of an estimated cost basis, 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 28 September 1979, and of the profit and source and application of funds of the Group for the year ended on that date, and comply with the Companies Acts 1948 and 1967.

Arthur Andersen & Co.

10 July 1980

ARA MARKETING SERVICES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET -- 28 SEPTEMBER 1979

	<u>Note</u>	<u>1979</u>	<u>1978</u>
CURRENT ASSETS:			
Stocks	3	£ 2,897,892	£ 2,399,164
Due from parent and fellow subsidiaries		426,581	1,000,394
Debtors and prepaid expenses		4,827,442	3,514,584
Cash and short-term deposits		1,592,222	1,189,972
		<u>£ 9,744,137</u>	<u>£ 8,104,114</u>
CURRENT LIABILITIES:			
Due to parent and fellow subsidiaries		£ 582,358	£ 513,442
Bank loan and overdraft		299,397	105,520
Taxation		407,501	217,147
Creditors and accrued expenses		4,650,960	4,313,378
		<u>£ 5,940,216</u>	<u>£ 5,149,487</u>
Net current assets		£ 3,803,921	£ 2,954,627
FIXED ASSETS, net	5	4,962,887	4,164,909
GOODWILL	6	1,149,503	1,176,349
LONG-TERM LOANS	7	(1,795,555)	(1,660,530)
DEFERRED TAXATION	8	(2,663,016)	(2,247,751)
		<u>£ 5,457,740</u>	<u>£ 4,387,604</u>
SHAREHOLDERS' INVESTMENT:			
Share capital	9	£ 137,158	£ 137,158
Reserves	10	5,320,582	4,250,446
		<u>£ 5,457,740</u>	<u>£ 4,387,604</u>

J.A. Callaghan

A.T. Kraft

Directors

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

ARA MARKETING SERVICES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 28 SEPTEMBER 1979

	<u>Note</u>	<u>1979</u>	<u>1978</u>
REVENUES		£ 33,362,446	£ 31,130,627
COSTS AND EXPENSES	11	31,481,265	29,237,556
Profit before taxation and extraordinary credit		£ 1,881,181	£ 1,893,071
TAXATION	8	839,488	1,039,977
Profit before extraordinary credit		£ 1,041,693	£ 853,094
EXTRAORDINARY CREDIT:			
Benefit arising from the utilisation of prior year tax losses		28,443	35,303
Net profit		£ 1,070,136	£ 888,397
RETAINED EARNINGS, beginning of year		2,983,790	2,095,393
RETAINED EARNINGS, end of year		£ 4,053,926	£ 2,983,790

The accompanying notes are an integral part of this consolidated profit and loss account.

ARA MARKETING SERVICES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 28 SEPTEMBER 1979

	<u>1979</u>	<u>1978</u>
SOURCE OF FUNDS:		
Profit before taxation and extraordinary credit	£ 1,881,181	£ 1,893,071
Adjustment for items not involving the movement of funds -		
Depreciation	936,144	706,853
Amortisation of goodwill	43,377	44,071
Exchange gain on long-term loans	(107,200)	(167,516)
Total funds from operations	£ 2,753,502	£ 2,476,479
Extraordinary credit	28,443	35,303
Disposal of fixed assets	275,349	58,183
Increase in long-term loans	242,225	209,809
Increase in deferred taxation	415,265	822,603
	£ 3,714,784	£ 3,602,377
APPLICATION OF FUNDS:		
Taxation	£ 839,488	£ 1,039,977
Purchase of fixed assets	2,009,471	1,581,516
Purchase of goodwill	16,531	100,802
Increase in working capital, as shown below	849,294	880,082
	£ 3,714,784	£ 3,602,377
INCREASE (DECREASE) IN WORKING CAPITAL:		
Stocks	£ 498,728	£ 421,505
Net amount due to parent and fellow subsidiaries	(642,729)	792,136
Debtors and prepaid expenses	1,312,858	534,519
Creditors and accrued expenses	(337,582)	(776,682)
Taxation	(190,354)	167,863
Movement in net liquid funds	208,373	(260,259)
	£ 849,294	£ 880,082

The accompanying notes are an integral part of this statement.

ARA MARKETING SERVICES LIMITED

BALANCE SHEET -- 28 SEPTEMBER 1979

INVESTMENT IN SUBSIDIARIES:
Shares at cost
Amount due to subsidiary

Note

1979

1978

4

£ 1,073,445
(6,046)

£ 1,073,445
(6,046)

£ 1,067,399
=====

£ 1,067,399
=====

SHAREHOLDERS' INVESTMENT:
Share capital
Reserves

9
10

£ 137,158
930,241

£ 137,158
930,241

£ 1,067,399
=====

£ 1,067,399
=====

J.A. Callaghan

A.T. Kraft

Directors

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

ARA MARKETING SERVICES LIMITED AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED ACCOUNTS -- 28 SEPTEMBER 1979

1. ACCOUNTING POLICIES:

The accounts have been prepared under the historical cost convention. Significant accounting policies are -

a. Basis of consolidation -

The consolidated accounts incorporate the accounts of the Company and its subsidiaries, after eliminating inter-company balances and transactions. Where subsidiaries have been transferred between Group companies, the cost and goodwill relates to the original date of acquisition by Group companies transferring the investment. The retained earnings of such subsidiaries in respect of the period between original acquisition and transfer have been credited directly to consolidated retained earnings.

b. Revenues -

Revenues represent sales of goods and services, net of value added tax.

c. Fixed assets -

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is calculated to write off the cost of the assets over their useful lives at the following annual rates -

Freehold buildings	-	2%	Reducing balance
Plant, machinery and equipment	-	6% - 20%	Straight line
Motor vehicles	-	25%	Straight line

d. Goodwill -

Goodwill, which principally represents the excess of the cost of the investment in subsidiaries over the book value of net tangible assets acquired, is amortised in equal annual instalments over a period of forty years.

e. Stocks -

i. Work-in-progress and finished earthenware -

Priced at estimated cost, derived from the subsidiary company's selling prices, less appropriate deductions, in accordance with practices normally used in the pottery industry.

ii. Raw materials and consumable products for resale -

Priced at the lower of first-in, first-out cost and net realisable value.

f. Deferred taxation -

Full provision for deferred taxation is made, using the deferral method, to take account of timing differences, including stock relief, between the treatment of certain items for accounts purposes and their treatment for corporation tax purposes.

g. Foreign currency items -

Transactions in foreign currencies are translated into sterling at the market rate of exchange ruling at the date of the transaction. Foreign currency items included in the year-end balance sheet, with the exception of US dollar denominated loans from fellow subsidiaries referred to in Note 7, are translated at the rate of exchange ruling at the balance sheet date. Exchange gains or losses are included in the consolidated profit and loss account.

h. Investment in subsidiaries -

The investment in subsidiaries is stated at cost, determined in accordance with Note 1 a. and is net of dividends received from pre-acquisition profits.

2. ULTIMATE PARENT COMPANY:

The Company is a wholly-owned subsidiary of ARA Services, Inc., incorporated in the State of Delaware, United States of America.

3. STOCKS:

Group stocks comprise -

	<u>1979</u>	<u>1978</u>
Raw materials	£ 361,521	£ 382,138
Work-in-progress and finished earthenware	1,763,295	1,380,853
Consumable products for resale	773,076	636,173
	<u>£ 2,897,892</u>	<u>£ 2,399,164</u>

4. INVESTMENT IN SUBSIDIARIES:

The Company's subsidiaries, which are all wholly-owned are -

ARA Food Services Limited and its trading subsidiary -

ARA Offshore Services Limited

Enoch Wedgwood (Tunstall) Limited and its trading subsidiary -

Sigma Marketing Systems (International) Limited

ARA Belgium N.V. (incorporated in Belgium) and its trading subsidiary -

Vending Industries N.V. (incorporated in Belgium)

ARA Vending Services Limited

5. FIXED ASSETS:

a. The movement on Group fixed asset accounts during the year was -

	<u>Total</u>	<u>Plant, machinery and equipment</u>	<u>Motor vehicles</u>	<u>Freehold land and buildings</u>
Cost -				
At 30 September 1978	£ 6,752,216	£ 5,414,093	£ 865,072	£ 473,051
Additions	2,009,471	1,482,617	522,261	4,593
Retirements	(691,370)	(457,612)	(232,813)	(945)
	<u>£ 8,070,317</u>	<u>£ 6,439,098</u>	<u>£ 1,154,520</u>	<u>£ 476,699</u>
Depreciation -				
At 30 September 1978	£ 2,587,307	£ 2,181,610	£ 341,758	£ 63,939
Charge for year	936,144	691,522	236,430	8,192
Retirements	(416,021)	(248,320)	(167,701)	-
	<u>£ 3,107,430</u>	<u>£ 2,624,812</u>	<u>£ 410,487</u>	<u>£ 72,131</u>
Net book value -				
At 30 September 1978	£ 4,164,909	£ 3,232,483	£ 523,314	£ 409,112
	<u>£ 4,164,909</u>	<u>£ 3,232,483</u>	<u>£ 523,314</u>	<u>£ 409,112</u>
At 28 September 1979	£ 4,962,887	£ 3,814,286	£ 744,033	£ 404,568
	<u>£ 4,962,887</u>	<u>£ 3,814,286</u>	<u>£ 744,033</u>	<u>£ 404,568</u>

- b. The Company had no capital commitments. The capital commitments of the Group were as follows -

	<u>1979</u>	<u>1978</u>
Authorised and contracted	£ 94,492 =====	£ 287,267 =====
Authorised but not contracted	£ 9,000 =====	£ 263,500 =====

6. GOODWILL:

Goodwill comprises -

	<u>Group</u>
Gross cost -	
At 30 September 1978	£ 1,256,478
Arising on the purchase of assets of an existing business	11,295
Retroactive adjustment to purchase consideration of a subsidiary	5,236
At 28 September 1979	£ 1,273,009
Less: accumulated amortisation (1978 - £80,129)	123,506
	£ 1,149,503 =====

7. LONG-TERM LOANS:

Long-term loans comprise -

	<u>Group</u>	
	<u>1979</u>	<u>1978</u>
Borrowings from parent and fellow subsidiaries, denominated as follows -		
Sterling	£ 139,826	£ 73,430
U.S. Dollars	1,342,612	1,261,605
Canadian Dollars	67,569	73,922
Belgian Francs	160,901	165,426
	£ 1,710,908	£ 1,574,383
Hire purchase liabilities	84,647	86,147
	£ 1,795,555 =====	£ 1,660,530 =====

The above loans are unsecured with no fixed repayment terms and varying interest rates. Loans denominated in foreign currencies have been translated into sterling at the rates prevailing at the balance sheet date except for loans amounting to \$185,115 (£75,792) which have been translated at the rates ruling when the loans were made, since it is intended that the loans will be permanently employed in the Group.

8. TAXATION:

- a. The consolidated taxation charge, based on the profit for the year at 52%, comprises -

	<u>1979</u>	<u>1978</u>
Corporation tax -		
Current	£ 422,223	£ 198,900
Deferred	418,265	766,077
	<u>£ 840,488</u>	<u>£ 964,977</u>
Overseas taxation -		
Current	2,000	21,000
Deferred	(3,000)	54,000
	<u>£ 839,488</u>	<u>£ 1,039,977</u>
	=====	=====

- b. The movement on deferred taxation during the year was -

	<u>Group</u>
At 30 September 1978	£ 2,247,751
Charge to profit and loss account	415,265
	<u>£ 2,663,016</u>
At 28 September 1979	=====

- c. Deferred taxation comprises -

	<u>Group</u>
Deferred taxation applicable to non-current assets -	
Excess of tax allowances over book depreciation	£ 2,013,190
Deferred taxation applicable to current assets and liabilities -	
Stock relief	770,137
Unpaid interest	(113,938)
Other	13,859
Losses	(20,232)
	<u>£ 2,663,016</u>
	=====

In addition to the deferred taxation applicable to losses disclosed above (£20,232), at 28 September 1979, a subsidiary had tax losses amounting to £285,000 available for offset against future taxable income of the same trade.

9. SHARE CAPITAL:

At 28 September 1979, and 29 September 1978, the authorised share capital of the Company comprised 137,158 ordinary shares of £1 each which were all issued and fully-paid.

10. RESERVES:

	Group		Company	
	<u>1979</u>	<u>1978</u>	<u>1979</u>	<u>1978</u>
Capital reserves	£ 1,266,656	£ 1,266,656	£ 931,000	£ 931,000
Retained earnings (accumulated deficit)	4,053,926	2,983,790	(759)	(759)
	<u>£ 5,320,582</u>	<u>£ 4,250,446</u>	<u>£ 930,241</u>	<u>£ 930,241</u>
	=====	=====	=====	=====

The capital reserves arise from gifts of investments in subsidiaries by the parent company.

11. SUPPLEMENTARY PROFIT AND LOSS INFORMATION:

a. Costs and expenses include -

	<u>1979</u>	<u>1978</u>
Depreciation	£ 936,144	£ 706,853
Auditors' remuneration	47,783	39,455
Directors' emoluments -		
Remuneration for management services	15,019	14,798
Pension to past Directors	3,450	3,450
Interest on long-term loans	139,235	103,815
Bank interest expense	19,762	15,906
Interest income	(200,094)	(120,175)
Management charge from Group companies	281,049	183,520
Exchange gains	98,650	192,471
Equipment rental	48,147	50,222
	=====	=====

- b. The Directors' emoluments shown above, excluding pension contributions, were paid as follows -

Emoluments of highest-paid Director	£ 9,827	£ 8,895
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Emoluments of other Directors -

	<u>Number of Directors</u>	
£ 0 - £5,000	2	2

- c. The emoluments, excluding pension contributions, of employees earning in excess of £20,000 per annum were paid as follows-

	<u>Number of employees</u>	
£20,001 - £25,000	2	-

12. SUBSEQUENT EVENTS:

- a. Sale of subsidiary company -

On 25 February 1980, the Company sold at a profit its investment in its subsidiary company, Enoch Wedgwood (Tunstall) Limited ("Enoch"). This sale did not include the investment of Enoch in Sigma Marketing Systems (International) Limited since it had been transferred to the Company before the sale.

One consequence of the terms of sale is that a lawsuit against Enoch alleging infringement of a trademark was discontinued. Accordingly, there is no longer a contingent liability in respect of this matter. During the year ended 28 September 1979, Enoch incurred legal fees amounting to approximately £406,000 in defending this lawsuit.

The consolidated accounts of the Group for the year ended 28 September 1979, include revenues of £7,122,000 and net profit of £285,000 relating to Enoch.

- b. Group re-organisation -

On 25 April 1980, the Company was included in a Group re-organisation. As a result of the re-organisation the net assets and business undertakings of ARA Food Services Limited were transferred to the Company and the Company's name was then changed to ARA Food Services Limited.