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WILLIAM SANDERSON & SON LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER 1987.

2 JUN 1988

WILLIAM SANDERSON & SON LIMITED

DIRECTORS' REPORT
and
FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER 1987

WILLIAM SANDERSON & SON LIMITED
REPORT OF THE DIRECTORS FOR THE YEAR ENDED
31ST DECEMBER 1987

DIRECTORS

D.W. Jones
N.V. Brown
A.C. Connel C.A.
P.L. Reynolds
A. D. Scott C.A.
J.D. Watson

SECRETARY

W.O. Page C.A.

REGISTERED OFFICE

Distillers House, 33 Ellersly Road, Edinburgh, EH12 6JW.

The Directors present their Report and the Audited Financial Statements of the Company for the year ended 31st December 1987.

REVIEW OF THE BUSINESS

The Company's principal activity during the year was the sale of Scotch Whisky

The position of the Company at the end of the year was satisfactory. The Directors consider that trading conditions will continue to be challenging. Forward plans will be reviewed and developed accordingly, having regard to all the circumstances which affect the Company's operations.

RESULTS, DIVIDEND AND TRANSFER TO RESERVES

After Taxation and Extraordinary Items the profit attributable to shareholders amounted to £1,161,000. The Directors recommend a dividend of £1,080,000 leaving a surplus of £81,000 to be transferred to reserves.

FIXED ASSETS

The changes in the value of fixed assets owned by the Company are summarised in the notes to the financial statements.

FUTURE DEVELOPMENTS

As part of the Group's reorganisation of the export sales function, it is anticipated that during 1988 the company's export sales administration activities will be transferred to a centralised location at Borron Street, Glasgow.

WILLIAM SANDERSON & SON LIMITED
REPORT OF THE DIRECTORS FOR THE YEAR ENDED
31ST DECEMBER 1987
(Continued)

DIRECTORS' INTERESTS

The names of the persons who at 11th March 1988 are Directors of the Company are listed above.

The following were appointed to the Board on 1st May 1987.

D.W. Jones
N.V. Brown
A.R. Douglas
A. Gibson
A.D. Scott was appointed to the Board on 7th March 1988.

the following have resigned from the Board:

| | |
|----------------|--------------------|
| M.B.J. Kimmins | 17th April 1987 |
| A.R. Douglas | 14th August 1987 |
| J.A.P. Hockley | 31st December 1987 |
| A. Gibson | 31st January 1988 |

No director had an interest at any time during the year in the shares or debentures of the company the holding company, Guinness PLC, or any fellow subsidiary company other than a non-beneficial interest as nominee.

AUDITORS

The auditors, Price Waterhouse, have expressed their willingness to continue in office and a resolution concerning their reappointment will be submitted at the Annual General Meeting.

By Order of the Board

W. C. Laff.
Secretary

58 Albany Street
Edinburgh, EH1 3PY.

11th March 1988

AUDITORS' REPORT TO THE MEMBERS OF
WILLIAM SANDERSON & 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 give a true and fair view of the state of the Company's affairs at 31st December 1987 and of its profit for the year then ended and comply with the Companies Act 1985.

The financial statements do not include a statement of source and application of funds as required by Statement of Standard Accounting Practice No. 10.

Price Waterhouse.

Price Waterhouse
Chartered Accountants
28 Drumsheugh Gardens
Edinburgh

11th March 1988

WILLIAM SANDERSON & SON LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED
31ST DECEMBER 1987

| | <u>Notes</u> | <u>Year to</u> <u>31st December</u> <u>1987</u> <u>£'000</u> | <u>Nine Months to</u> <u>31st December</u> <u>1986</u> <u>£'000</u> |
|--|--------------|---|--|
| Turnover | 2 | 8,046 | 6,188 |
| Net Operating Costs | 3 | 6,481 | 5,760 |
| Operating Profit | | 1,565 | 428 |
| Income from shares in Group Companies | | 213 | 155 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 1,778 | 583 |
| Taxation on profit on ordinary activities | 5 | 617 | 151 |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 1,161 | 432 |
| DIVIDENDS | 6 | 1,080 | - |
| RETAINED EARNINGS FOR THE YEAR | 18 | 81 | 432 |

The notes on pages 6 to 13 form part of these Financial Statements.

WILLIAM SANDERSON & SON LIMITED

BALANCE SHEET AT 31ST DECEMBER 1987

| | Notes | 31st December 1987 £'000 | 31st December 1986 £'000 |
|--|-------|--------------------------------|--------------------------------|
| FIXED ASSETS | | | |
| Tangible Assets | 9 | 83 | 778 |
| Investments | 10 | 305 | 305 |
| | | <u>388</u> | <u>1,083</u> |
| CURRENT ASSETS | | | |
| Stocks | 11 | 12 | 30 |
| Debtors | 12 | 3,600 | 3,580 |
| Cash at bank and in hand | | 548 | 527 |
| | | <u>3,960</u> | <u>4,137</u> |
| CREDITORS (amounts falling due within one year) | 13 | (4,000) | (4,793) |
| NET CURRENT LIABILITIES | | <u>(40)</u> | <u>(656)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 348 | 427 |
| CREDITORS (amounts falling due after more than one year) | 14 | - | (217) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 15 | (215) | (158) |
| | | <u>133</u> | <u>52</u> |
| CAPITAL AND RESERVES | | | |
| Called up share Capital | 17 | 38 | 38 |
| Other Reserves | 18 | 173 | 173 |
| Profit and loss account | 18 | (78) | (159) |
| | | <u>133</u> | <u>52</u> |

Approved by the Board of Directors on 11th March 1988 and signed on its behalf by:

Angus L. Lynam
Director

W.D. Lynam
Director

The notes on pages 6 to 13 form part of these Financial Statements.

WILLIAM SANDERSON & SON LIMITED
NOTES TO THE FINANCIAL STATEMENTS

31ST DECEMBER 1987

1. ACCOUNTING POLICIES

1.1 Basis of Accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings.

1.2 Foreign Currencies

Exchange differences arising from currency conversions in the normal course of trading are dealt with in the profit and loss account.

1.3 Depreciation

Tangible assets (other than land) are depreciated principally on a straight line basis at annual rates estimated to write off their book value over the term of their useful lives. Details of depreciation are given in Note 9 on Page 9.

1.4 Leases

All leases are operating leases and the annual rentals are charged to the profit and loss account.

1.5 Stocks

Stocks are stated at the lower of cost and net realisable value.

1.6 Deferred Taxation

Deferred taxation is provided to the extent that a liability is expected to become payable within the foreseeable future. Details of the amount provided and the potential liability for deferred taxation are given in Note 16 on Page 12.

1.7 Pension Funding

Contributions to pension funds, which are based on actuarial valuations and adjusted annually on the advice of the actuaries, are charged against profits as they fall due.

2. TURNOVER

Turnover represents the sales invoice value including duties where applicable but excluding value added tax.

The following table analyses turnover by geographical location:

WILLIAM SANDERSON & SON LIMITED
NOTES TO THE FINANCIAL STATEMENTS

31ST DECEMBER 1987
(Continued)

| | Year to 31st December 1987 £'000 | Nine Months to 31st December 1986 £'000 |
|--|---|--|
| United Kingdom | 44 | 10 |
| Republic of Ireland | 89 | 99 |
| Rest of Europe | 3,342 | 2,714 |
| Africa | 337 | 384 |
| Asia and Australasia | 1,746 | 1,335 |
| North America | 1,740 | 1,096 |
| Central and South America | 748 | 550 |
| | <hr/> 8,046 | <hr/> 6,188 |
| 3. NET OPERATING COSTS | £'000 | £'000 |
| Raw materials and consumables | 3,813 | 2,597 |
| Customs and Excise duties | 4 | 4 |
| Staff Costs (note 7) | 402 | 512 |
| Depreciation | 155 | 49 |
| Exceptional Items (note 4) | - | 58 |
| Other operating charges | 2,224 | 2,568 |
| Change in stocks of finished goods and work in progress | (17) | (1) |
| Other operating income | (100) | (27) |
| | <hr/> 6,481 | <hr/> 5,760 |
| Net Operating Costs are after taking account of: | £'000 | £'000 |
| Hire of plant and machinery | 7 | 6 |
| Directors' emoluments (note 8) | 67 | 157 |
| Auditors' remuneration | 13 | 13 |
| | <hr/> 87 | <hr/> 176 |
| 4. EXCEPTIONAL ITEMS | £'000 | £'000 |
| Redundancy payment/loss of office compensation | - | 53 |
| Costs relating to closure of former offices | - | 5 |
| | <hr/> - | <hr/> 58 |

WILLIAM SANDERSON & SON LIMITED
NOTES TO THE FINANCIAL STATEMENTS

31ST DECEMBER 1987
(Continued)

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

| | <u>Year to</u> <u>31st December</u> <u>1987</u> <u>£'000</u> | <u>Nine Months to</u> <u>31st December</u> <u>1986</u> <u>£'000</u> |
|--|---|--|
| Corporation tax for the current year at 35% (1986 - 35%) | 710 | 217 |
| Deferred taxation | (93) | (66) |
| | <u>617</u> | <u>151</u> |

6. DIVIDENDS

| | <u>£'000</u> | <u>£'000</u> |
|-------------------------|--------------|--------------|
| Final dividend proposed | 1,080 | - |

7. STAFF COSTS AND EMPLOYEES

(a) Staff Costs

| | | |
|-----------------------|------------|------------|
| Wages and Salaries | 374 | 476 |
| Social Security Costs | 28 | 36 |
| | <u>402</u> | <u>512</u> |

(b) Average number of employees

| | <u>Number</u> | <u>Number</u> |
|----------------------|---------------|---------------|
| U.K. full-time staff | 24 | 42 |

8. DIRECTORS EMOLUMENTS

(a) The total amount of emoluments of Directors of the Company for the year £67,000 (Nine months to 31st December 1986 £157,000) includes fees of £NIL (£NIL), salaries and pension contributions of £67,000 (nine months to 31st December 1986 £157,000) and pensions of £NIL (nine months to 31st December 1986 £NIL).

(b) The emoluments (excluding pension fund contributions) of the Chairman were £NIL (£NIL) and those of the highest paid Director £34,000 (nine months to 31st December 1986 £34,000). Emoluments (excluding pension fund contributions) of other Directors of the company based in the United Kingdom are shown in the following table:

WILLIAM SANDERSON & SON LIMITED
NOTES TO THE FINANCIAL STATEMENTS

31ST DECEMBER 1987
(Continued)

| | | Year to 31st December 1987 | Nine Months to 31st December 1986 |
|--------|-----------|----------------------------------|---|
| £ | £ | | |
| 0 | to 5,000 | 3 | - |
| 5,001 | to 10,000 | 3 | - |
| 10,001 | to 15,000 | 1 | - |
| 20,001 | to 25,000 | - | 4 |
| 30,001 | to 35,000 | - | 1 |

(c) £71,000 was paid by the company to a former director as compensation for loss of office.

9. TANGIBLE ASSETS

| | Freehold Land and Buildings £'000 | Plant and Machinery £'000 | Road Vehicles £'000 | Total £'000 |
|-----------------------|--|---------------------------------|---------------------------|----------------|
| <u>Cost</u> | | | | |
| At 1st January 1987 | 1,645 | 256 | 99 | 2,000 |
| Revaluation | (1,222) | - | - | (1,222) |
| Expenditure | 225 | 1 | - | 226 |
| Disposals | (623) | (134) | (74) | (831) |
| | 25 | 123 | 25 | 173 |
| At 31st December 1987 | | | | |
| <u>Depreciation</u> | | | | |
| At 1st January 1987 | 1,088 | 92 | 42 | 1,222 |
| Revaluation | (1,088) | - | - | (1,088) |
| Charge for year | - | 10 | 11 | 21 |
| Disposals | - | (29) | (36) | (65) |
| | - | 73 | 17 | 90 |
| At 31st December 1987 | | | | |
| <u>Net Book Value</u> | | | | |
| At 31st December 1987 | 25 | 50 | 8 | 83 |
| | 557 | 164 | 57 | 778 |
| At 31st December 1986 | | | | |

(a) The company's freehold land and buildings were revalued as at 1st January 1987 by James Barr & Sons (chartered surveyors). As a result the opening book value was reduced by £134,000 and this deficit has been charged as depreciation to the profit and loss account. The revalued assets were largely disposed of during the year. The remaining land at South Queensferry is included at valuation and the directors anticipate that it will be sold for approximately £400,000 during 1988.

(b) The following table shows the principal rates of depreciation based on cost, used in the year.

WILLIAM SANDERSON & SON LIMITED
NOTES TO THE FINANCIAL STATEMENTS

31ST DECEMBER 1987
(Continued)

| | |
|---------------------|-------|
| Service plant | - 10% |
| Office equipment | - 20% |
| Fixtures & fittings | - 5% |
| Computer equipment | - 25% |
| Motor Vehicles | - 25% |

10. INVESTMENTS

| | | Shares in Group Companies £'000 | | |
|---|-------------------------------|---|---------------------------------------|--|
| Cost at 1st January and 31st December 1987 | | 305 | | |
| <u>Subsidiary Companies</u> | <u>Nature of business</u> | <u>Country of incorporation or registration</u> | <u>Classes of shares held</u> | <u>Proportion held by each class</u> |
| J. & W. Hardie Ltd. | Scotch Whisky Sellers | Scotland | Ordinary | 100% |
| VAT Importers (Pty) Ltd. | Scotch Whisky Sellers | South Africa | Ordinary | 100% |

Group Accounts

Group Accounts are not submitted as the Company is a wholly-owned subsidiary of another U.K. company.
In the opinion of the Directors, the aggregate value of the shares in and the amounts owing by the subsidiary companies is not less than the aggregate value included in the Company's balance sheet.

11. STOCKS

| | <u>31st December 1987 £'000</u> | <u>31st December 1986 £'000</u> |
|----------------|---|---|
| Finished goods | 12 | 30 |

WILLIAM SANDERSON & SON LIMITED
NOTES TO THE FINANCIAL STATEMENTS
31ST DECEMBER 1987
(Continued)

12 DEBTORS

| | <u>31st December</u> <u>£'000</u> <u>1987</u> | <u>31st December</u> <u>£'000</u> <u>1986</u> |
|---------------------------------|---|---|
| Trade debtors | 2,939 | 3,473 |
| Amounts owed by group companies | 642 | 3 |
| Other debtors | 4 | 99 |
| Prepayments and accrued income | 15 | 5 |
| | <hr/> 3,600 <hr/> | <hr/> 3,580 <hr/> |

13. CREDITORS (amounts falling due within one year)

| | <u>£'000</u> | <u>£'000</u> |
|---------------------------------|-------------------|-------------------|
| Trade Creditors | 154 | 269 |
| Amounts owed to group companies | 2,349 | 3,446 |
| Corporation Tax | 729 | 536 |
| Social Security and other taxes | 1 | 23 |
| Accruals and deferred income | 767 | 519 |
| | <hr/> 4,000 <hr/> | <hr/> 4,793 <hr/> |

14. CREDITORS (amounts falling due after more than one year)

| | <u>£'000</u> | <u>£'000</u> |
|-----------------|--------------|--------------|
| Corporation tax | - | 217 |
| | <hr/> | <hr/> |

15. PROVISIONS FOR LIABILITIES AND CHARGES

| | <u>£'000</u> | <u>£'000</u> |
|----------------------|-----------------|-----------------|
| Reorganisation costs | 300 | 150 |
| Deferred taxation | (85) | 3 |
| | <hr/> 215 <hr/> | <hr/> 158 <hr/> |

WILLIAM SANDERSON & SON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31ST DECEMBER 1987

(Continued)

16. DEFERRED TAXATION

The amounts provided and the full potential liabilities are as follows:

| | <u>31st December 1987</u> | | <u>31st December 1986</u> | |
|---|---------------------------|--------------------------------|---------------------------|--------------------------------|
| | Amount provided | Full potential liability | Amount provided | Full potential liability |
| Reorganisation Costs | (105) | (105) | (53) | (53) |
| Excess of capital allowances over accumulated depreciation | 20 | 20 | 61 | 61 |
| Chargeable gains on properties | - | 103 | - | 26 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | (85) | 18 | 8 | 34 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

17. CALLED UP SHARE CAPITAL

| | <u>31st December 1987 £'000</u> | <u>31st December 1986 £'000</u> |
|-------------------------------------|---|---|
| Authorised: | | |
| 150,000 ordinary shares of 25p each | 37.5 | 37.5 |
| | <hr/> | <hr/> |
| Allotted and fully paid: | | |
| 150,000 ordinary shares of 25p each | 37.5 | 37.5 |
| | <hr/> | <hr/> |

18. RESERVES

| | <u>Other £'000</u> | <u>Profit & Loss £'000</u> | <u>Total £'000</u> |
|-----------------------|------------------------|--|------------------------|
| At 1st January 1987 | 173 | (159) | 14 |
| Retained earnings | - | 81 | 81 |
| | <hr/> | <hr/> | <hr/> |
| At 31st December 1987 | 173 | (78) | 95 |
| | <hr/> | <hr/> | <hr/> |

19. COMMITMENTS

| | <u>31st December 1987 £'000</u> | <u>31st December 1986 £'000</u> |
|---|---|---|
| <u>Demolition of former production unit</u> | | |
| Authorised but not contracted for | - | 180 |
| | <hr/> | <hr/> |
| | - | 180 |
| | <hr/> | <hr/> |

WILLIAM SANDERSON & SON LIMITEDNOTES TO THE FINANCIAL STATEMENTS31ST DECEMBER 1987

(Continued)

Other commitments

Pension Commitments

The company participates in the DCL and Associated Companies Pension Scheme which is designed to provide retirement benefits based largely upon final salaries for all employees. Following an assessment of the pension fund as at 31st March 1985, a surplus has been disclosed and in accordance with the Actuary's recommendation, no contribution has been made to the fund for the nine months ended 31st December 1986, nor for the year ended 31st December 1987. There is no unfunded liability for past service.

20. HOLDING COMPANY

The immediate holding company is United Distillers PLC and the ultimate holding company is Guinness PLC. Both holding companies are incorporated in Great Britain.

It is the ultimate holding company's policy to manage centrally the funds of the Guinness Group. Accordingly, the directors do not consider it informative to prepare a funds flow statement.