

EMPIRE STORES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 2nd JANUARY 1999

Registered No. 110433



EMPIRE STORES LIMITED

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 2nd January 1999.

Principal Activity

The principal activity of the Company is catalogue mail order retailing.

Review of Developments and Future Prospects

The directors consider the performance of the company to be satisfactory and they remain optimistic about its future prospects.

Results and Dividends

The results of the Company are set out on page 5. The retained profit for the year is £68,000 (year ended 3rd January 1998: £14,830,000). Operating profits have benefited by £6.5m representing VAT refunds and associated interest. The directors recommend a dividend for the year of £9,301,000 (year ended 3rd January 1998 : £Nil) and the retained profit has been transferred to reserves.

Creditors Payment Policy

The company pays its creditors in accordance with the payment terms agreed with its suppliers. As at 2nd January 1999 creditor days were 22 days.

Year 2000

The directors have considered the risks and uncertainties associated with the year 2000 issue. A review is currently being undertaken on the company's hardware and software and that of its major suppliers. The review is incomplete and consequently the Board is unable to quantify the financial effect of the year 2000, though initial findings indicate that the impact on the company is unlikely to be material.

Euro

The directors have considered the risks involved with the Euro issue and are of the opinion that group systems are adequately designed to cope with the impact of this additional currency. It is not anticipated that the Euro will have a material impact upon the company.

Directors

The directors who served during the year are shown below :

R. Bott	
W. J. Campbell	
M. Cheshire	
M. Green	
M. L. Hawker	
H. Heavisides	(Appointed 2 nd March 1998)
A. R. Hill	
J. McAulay	
A. J. Skelsey	
P. J. Smith	

EMPIRE STORES LIMITED

DIRECTORS' REPORT

(Continued)

Directors (continued)

The directors and their families have at 2nd January 1999 (or date of appointment if later), and had at 3rd January 1998, no interests in the shares of the Company or of any group company.

Donations

During the year, the Company made contributions totalling £38,238 (year ended 3rd January 1998 : £36,626), all of which were for charitable purposes.

Employee Involvement

The framework of Company-wide and departmental consultative and bargaining arrangements which has been developed in previous years continues to operate. In a period of significant challenge, change, and opportunity for the Company, it provides an essential basis for the maintenance of good industrial relations and for developing a deeper understanding of the needs of the business, its employees and its customers.

Disabled Persons

The Company offers appropriate employment, training and promotion to disabled people where the disability does not materially affect work-performance. Should it become necessary, every effort would be made in accordance with this policy to continue the employment of anyone becoming disabled whilst in the service of the Company.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the company will continue in business.

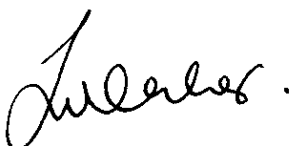
EMPIRE STORES LIMITED

DIRECTORS' REPORT

(Continued)

Statement of Directors' Responsibilities (continued)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.



By order of the Board.
F. W. OAKES.
Secretary.

24th June 1999.

18 Canal Road,
Bradford.
BD99 4XB.

REPORT OF THE AUDITORS TO THE MEMBERS OF

EMPIRE STORES LIMITED

We have audited the financial statements on pages 5 to 19 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on pages 2 and 3 the Company's directors are responsible for the preparation of 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.

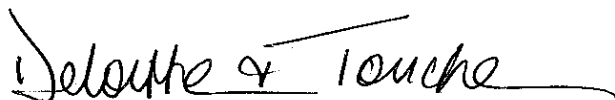
Basis of opinion

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 affairs of the Company as at 2nd January 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants
and Registered Auditors

25 JUNE 1999.

10-12 East Parade
Leeds
LS1 2AJ

EMPIRE STORES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 2nd JANUARY 1999

	Notes	Year ended 2 nd January 1999 £'000	Year ended 3 rd January 1998 £'000
Turnover - Continuing Operations	1	286,055	283,713
Cost of Sales		(167,937)	(162,512)
Gross Profit		118,118	121,201
Net Operating Expenses	1	(104,343)	(98,434)
Operating Profit - Continuing Operations		13,775	22,767
Interest receivable and similar income	2	1,364	174
Interest payable and similar charges	3	(1,754)	(441)
Profit on ordinary activities before taxation	1	13,385	22,500
Taxation on profit on ordinary activities	5	(4,016)	(7,670)
Profit on ordinary activities after taxation		9,369	14,830
Dividends proposed	6	(9,301)	-
Retained profit for the financial year transferred to reserves	14	68	14,830
		=====	=====

There are no recognised gains and losses other than as stated in the profit and loss account for the current year and previous year. Accordingly no statement of total recognised gains and losses is given.

The notes on pages 8 to 19 form part of these accounts.

EMPIRE STORES LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

FOR THE YEAR ENDED 2nd JANUARY 1999

	Year ended 2 nd January 1999 £'000	Year ended 3 rd January 1998 £'000
Profit for the financial year	68	14,830
Opening Shareholders' funds	(68)	(14,898)
	----	-----
Closing Shareholders' funds	-	(68)
	====	=====

EMPIRE STORES LIMITED

BALANCE SHEET

AS AT 2nd JANUARY 1999

	Note	2 nd January 1999 £'000	3 rd January 1998 £'000
Fixed assets			
Tangible Assets	7	12,282	4,934
Current Assets			
Stocks	8	33,500	36,932
Debtors	9	38,720	46,701
Cash at bank and in hand		1,060	2,583
		73,280	86,216
Creditors: amounts falling due within one year	10	(80,179)	(89,874)
Net current (liabilities)		(6,899)	(3,658)
Total assets less current liabilities		5,383	1,276
Creditors: amounts falling due after more than one year	11	(4,461)	(260)
Provisions for liabilities and charges	12	(922)	(1,084)
Net assets/(liabilities)		-	(68)
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account	14	-	(68)
Total Equity Shareholders' Funds		-	(68)

Approved by the Board on 24th June 1999.

M. L. HAWKER)
M. GREEN) Directors

ML Hawk
M Green

The notes on pages 8 to 19 form part of these accounts.

EMPIRE STORES LIMITED
ACCOUNTING POLICIES
FOR THE YEAR ENDED 2nd JANUARY 1999

The financial statements have been prepared in accordance with applicable Accounting Standards under the historical cost convention.

The principal accounting policies of the Company have not changed during the year.

a. **Tangible Fixed Assets**

Depreciation is provided to write off the cost in equal instalments over the estimated useful economic lives of the assets.

The rates of depreciation are as follows :

Plant and equipment between 10% and 50% per annum.

b. **Deferred taxation**

Deferred taxation has been provided at current and expected future corporation tax rates on all timing differences between the accounting and taxation treatment of income and expense to the extent that it is considered that these could become payable in the foreseeable future. Unprovided deferred taxation is disclosed as a potential liability.

c. **Stocks**

Stocks are valued at the lower of cost and net realisable value. Net realisable value represents estimated selling price less all costs incurred in selling and distribution.

d. **Catalogue costs**

The costs of catalogue production and printing are charged to the accounts as they are incurred.

e. **Leases**

Finance leases are capitalised and the resulting lease obligations are included in creditors. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term.

Operating lease rentals are charged against operating profits as they are incurred.

EMPIRE STORES LIMITED
ACCOUNTING POLICIES
FOR THE YEAR ENDED 2nd JANUARY 1998

(Continued)

f. **Pension costs**

The cost of providing pension benefits is charged to the profit and loss account over the period benefiting from the employees' service.

The funding of the scheme is in accordance with the advice of professionally qualified actuaries.

g. **Foreign exchange**

Transactions denominated in foreign currencies are translated at the contracted rate or at the rate ruling at that date. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

EMPIRE STORES LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 2nd JANUARY 1999

	Year ended 2 nd January 1999 £'000	Year ended 3 rd January 1998 £'000
1. Turnover and profit on ordinary activities before taxation		

The turnover (all of which arises in the United Kingdom) and profit on ordinary activities before taxation are attributable to catalogue mail order retailing.

Net operating expenses:

Distribution costs	30,278	23,221
Administration expenses	83,540	91,456
Other operating income	(9,475)	(16,243)
	<u>104,343</u>	<u>98,434</u>
	=====	=====

Other operating income includes a recovery of V.A.T. of £5,947,000 and associated interest of £506,000 (year ended 3rd January 1998 : V.A.T. recovery net of opening accruals of £10,575,000 and associated interest of £2,296,000).

	Year ended 2 nd January 1999 £'000	Year ended 3 rd January 1998 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation	1,463	1,244
Auditors' remuneration - audit	78	72
- other services	35	8
Hire of plant and machinery	669	643
Operating lease charges - other	1,274	1,171
Recovery of VAT	(5,947)	(10,575)
Interest associated with VAT recovery	(506)	(2,296)
	<u>=====</u>	<u>=====</u>

EMPIRE STORES LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 2nd JANUARY 1999

(Continued)

	Year ended 2 nd January 1999 £'000	Year ended 3 rd January 1998 £'000
2. Interest receivable and similar income		
Amounts due from group companies	184	115
Other interest receivable	1,180	59
	<u>1,364</u>	<u>174</u>
	=====	=====
3. Interest payable and similar charges		
Amounts due to group companies	1,596	409
Finance lease interest	158	32
	<u>1,754</u>	<u>441</u>
	=====	=====
4. Staff Costs		
Staff costs during the year including directors :		
Salaries and wages	34,181	30,357
Social security	2,164	1,864
Pension costs and life assurance	1,440	185
	<u>37,785</u>	<u>32,406</u>
	=====	=====

EMPIRE STORES LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 2nd JANUARY 1999

(Continued)

	Year ended 2 nd January 1999 £'000	Year ended 3 rd January 1998 £'000
4. Staff Costs (continued)		
The average number of employees was:	Number	Number
Sales and distribution	2,175	1,852
Administration	574	564
	-----	-----
	2,749	2,416
	=====	=====
Of these employees, 887 (3 rd January 1998 : 721) were part time	£,000	£'000
Directors' emoluments during the year		
Management remuneration	1,169	886
	=====	=====
Remuneration of the highest paid director excluding pension contributions	215	147
	=====	=====

Ten directors are members of a defined benefit pension scheme. The accrued pension benefit of the highest paid director at 2nd January 1999 was £14,000.

The company operates a funded defined benefit pension scheme for general staff. Empire Stores Group plc operates a separate funded defined benefit scheme for executives of the company. Both schemes are contracted out of the State Earnings Related Pension Scheme.

The schemes are administered by Trustees and established under an irrevocable trust and therefore do not form part of the Company's assets. Contributions to both schemes are made in accordance with the advice of professionally qualified actuaries. The charge to the profit and loss account has been calculated in accordance with SSAP24.

The pension cost for the year ended 2nd January 1999 was £1,002,000 (year ended 3rd January 1998 £1,045,000).

EMPIRE STORES LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 2nd JANUARY 1999

(Continued)

4. Staff Costs (continued)

The results of the most recent valuations of each scheme using the projected unit method were :

	<u>General Staff</u>	<u>Executives</u>
Date of most recent review	6 April 1996	6 April 1996
Investment growth assumed to exceed salary increased by	3.0%	3.0%
Market value of assets	£8,367,000	£10,785,000
Level of funding	144%	108%

An amount of £922,000 (year ended 3rd January 1998 £1,084,000) is included in provisions, this being the excess of the regular pension cost over the amount funded in relation to the executive and staff schemes.

The company is currently undertaking an actuarial valuation of both schemes.

	Year ended 2 nd January 1999 £'000	Year ended 3 rd January 1998 £'000
5. Taxation		
U.K. corporation tax at 31% (Year ended 3 rd January 1998 : 31.5%)	4,016 =====	7,670 =====

6. Dividends

A dividend of £9,301,000 (£93,010 per share) has been proposed for the year (year ended 3rd January 1998 : Nil).

EMPIRE STORES LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 2nd JANUARY 1999

(Continued)

7. Tangible fixed assets

	Plant and Equipment £'000
Cost	
At 4 th January 1998	14,714
Additions	8,811
	<u> </u>
At 2 nd January 1999	23,525
	<u> </u>
Accumulated depreciation	
At 4 th January 1998	9,780
Provided during year	1,463
	<u> </u>
At 2 nd January 1999	11,243
	<u> </u>
Net book value at 2 nd January 1999	12,282
	<u>=====</u>
Net book value at 3 rd January 1998	4,934
	<u>=====</u>

The only tangible fixed assets that the company holds fall into the Plant and Equipment category.

EMPIRE STORES LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 2nd JANUARY 1999
(Continued)

7. Tangible fixed assets (continued)

Included in plant and equipment at 2nd January 1999 are assets held under finance leases:

	£'000
Net book value (3 rd January 1998 : £555,000)	350 ===
Depreciation provided during the year (3 rd January 1998 : £94,000)	204 ===

8. Stocks

Stocks comprise goods for resale. The directors consider that the replacement value of stock is not significantly different from the value shown in the balance sheet.

9. Debtors

	Year ended 2 nd January 1999 £'000	Year ended 3 rd January 1998 £'000
Amounts due from parent company	32,714	21,929
Amounts due from fellow subsidiaries	3,852	9,896
Prepayments and accrued income/other debtors	2,154	14,876
	----- 38,720 =====	----- 46,701 =====

EMPIRE STORES LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 3rd JANUARY 1998

(Continued)

	Year ended 2 nd January 1999 £'000	Year ended 3 rd January 1998 £'000
10. Creditors: amounts falling due within one year		
Bank loans and overdrafts	1,798	1,110
Trade creditors	7,706	11,493
Amounts due to fellow subsidiaries	1,152	6,293
Other creditors	42,053	40,044
Other taxation and social security	3,763	12,802
Corporation tax	4,541	7,956
Finance lease obligations	853	209
Accruals and deferred income	9,012	9,967
Dividends proposed	9,301	-
	-----	-----
	80,179	89,874
	=====	=====
11. Creditors: amounts falling due after more than one year		
Finance lease obligations :		
Payable between two and five years	3,707	260
Payable in more than five years	754	-
	-----	-----
	4,461	260
	=====	=====
12. Provisions for liabilities and charges		
Pension cost	922	1,084
	=====	=====
Pension cost :		
		£'000
At 4 th January 1998		1,084
Released in the year		(162)

At 2 nd January 1999		922
		=====

EMPIRE STORES LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 2nd JANUARY 1999
(Continued)

12. Provisions for liabilities and charges - continued

The amounts of deferred tax unprovided in the financial statements are :

	Unprovided	
	Year ended 2 nd January 1999 £000	Year ended 3 rd January 1998 £000
Capital allowances in excess of depreciation	286	228
Other timing differences	(70)	(222)
	-----	-----
	216	6
	===	===
	Year ended 2 nd January 1999 £	Year ended 3 rd January 1998 £

13. Share Capital

100 authorised shares of £1 each	100	100
	===	===
100 ordinary shares of £1 each called up, allotted and fully paid	100	100
	===	===

EMPIRE STORES LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 2nd JANUARY 1999

(Continued)

	£'000
14. Profit and Loss Account	
At 4 th January 1998	(68)
Retained profit for the year	68

At 2 nd January 1999	-
	====

15. Contingent liabilities

The company is jointly and severally liable for the bank borrowings of other group companies, totalling £111,600,000 (3rd January 1998 £97,200,000).

16. Capital commitments

	Year ended 2 nd January 1999 £'000	Year ended 3 rd January 1998 £'000
Contracted for but not provided in the financial statements	7,391	12,327
	=====	=====

17. Operating leases

At 2nd January 1999 the Company was committed to making the following payments during the next year in respect of operating leases:

	Land and Buildings £'000	Plant and Machinery £'000
Leases which expire :		
In one year or less	266	126
Between two and five years	144	405
In five years or more	546	-
	-----	-----
	956	531
	====	====

EMPIRE STORES LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 2nd JANUARY 1999

(Continued)

18. Cash flow statement

The Company has taken advantage of the exemption contained in FRS 1 not to publish its own cash flow statement as it is a wholly owned subsidiary of Pinault Printemps-Redoute S.A. and its cash flows are dealt with in the consolidated cash flow statement of that company.

19. Related party transactions

The company has taken advantage of the exemption contained in FRS 8 not to publish details of related party transactions with other group companies as it is a wholly owned subsidiary of Pinault Printemps-Redoute S.A.

20. Ultimate parent company

The Company is a wholly owned subsidiary of Empire Stores Group plc, which is registered in England and Wales, and which has undertaken to provide the finance necessary to enable the Company to meet its liabilities.

The Company's ultimate parent company and ultimate controlling party is Pinault Printemps-Redoute S.A., which is incorporated in France.

Copies of the group accounts of Pinault-Printemps-Redoute S.A. are available from the Company Secretary, Empire Stores Group plc, 18 Canal Road, Bradford, West Yorkshire, BD99 4XB.