

237511

ARCADIA GROUP PLC

REPORT AND ACCOUNTS 2000



6	Directors' Report. Part 1. General
8	Directors' Report. Part 2. Corporate Governance
10	Directors' Report. Part 3. Remuneration
15	Auditors' Report
16	Consolidated Profit and Loss Account
17	Consolidated Balance Sheet
18	Consolidated Cash Flow Statement
19	Company Balance Sheet
20	Notes to the Accounts
35	Five Year Summary

6	Directors' Report. Part 1. General
8	Directors' Report. Part 2. Corporate Governance
10	Directors' Report. Part 3. Remuneration
15	Auditors' Report
16	Consolidated Profit and Loss Account
17	Consolidated Balance Sheet
18	Consolidated Cash Flow Statement
19	Company Balance Sheet
20	Notes to the Accounts
35	Five Year Summary

6 Directors' Report Part 1. General

The directors have pleasure in submitting their annual report together with the financial statements of the Company and the Group for the 52 weeks ended 26th August 2000.

Directors

The directors of the Company at the date of this report are shown on the inside back cover. All of them were in office throughout the whole of the year under review, except for David Michels who was appointed on 16th August 2000. In accordance with the Company's articles of association, Mr Michels will retire at the forthcoming annual general meeting and will be standing for re-appointment. He is a non-executive director and does not have a contract of service.

John Brown held office as a non-executive director at the start of the year but retired from the board at the conclusion of the annual general meeting on 20th January 2000.

The directors retiring by rotation, in accordance with the articles of association, are Nigel Hall, Caroline Marland and Cilla Snowball. Nigel Hall will be seeking re-appointment at the annual general meeting. He is an executive director and has a contract of service that may be terminated by the Company on 12 months' notice.

Caroline Marland and Cilla Snowball are non-executive directors and will not be seeking re-appointment. Caroline Marland joined the board in June 1992 and has therefore completed the normal maximum term of service for the Company's non-executive directors. Since Cilla Snowball joined the board in June 1998, the competing demands on her time have increased to such an extent that she has reluctantly decided to retire from the board at this stage. The board wishes to thank Caroline Marland and Cilla Snowball for their significant contributions to the Company over the period of their directorships.

Principal activities and business developments

The principal activities of the Group during the financial year were the retailing of clothing and clothing accessories in the UK and internationally through stores, home shopping catalogues and the Internet. Developments in the Group's business during the year and likely future developments are described in the Chairman's Statement, the Chief Executive's Review and the brand commentaries in the Annual Review and Summary Financial Statement published simultaneously with this report.

Results for the financial year and dividends

The Group's result for the financial year was a loss before tax and exceptional items of £8.5 million. After tax and exceptional items, the loss was £152.1 million. Accordingly the directors do not recommend the payment of a final dividend. Further comment on the results is given in the Operating and Financial Review on pages 2 to 4.

Share capital

Details of the Company's share capital at the year-end are set out in note 22 to the accounts. No shares were issued by the Company during the financial year and no further shares have been issued between the year-end and the date of this report.

Authority to allot shares

Section 80 of the Companies Act 1985 states that directors may not exercise a company's power to allot its unissued shares unless they are given authority to do so by resolution of the shareholders in general meeting. Section 89 of the Act requires that any shares allotted wholly for cash must be offered to existing shareholders in proportion to their holdings, but this requirement may be modified by the authority of a special resolution of shareholders in general meeting. It has become customary for the directors to seek both types of authority at each annual general meeting and authorities were duly obtained in January 2000. These remain valid until the conclusion of the forthcoming meeting.

Although the directors have no present intention of using the authorities, they consider it prudent to seek their renewal for a further period. Accordingly, a resolution will be put to the annual general meeting to authorise the directors to allot unissued shares and a special resolution will be proposed to renew the directors' authority to allot shares for cash, other than to existing shareholders in proportion to their holdings, in each case up to the aggregate nominal value stated in the relevant resolution. These authorities will expire at the conclusion of the annual general meeting in 2002 or 15 months after the date of the passing of the resolutions, whichever is the earlier.

Authority to purchase own shares

Subject to the authority of shareholders in general meeting, the Company is empowered by its articles of association to purchase its own shares. Although no purchases have been made so far, it has become customary for shareholder authority to be sought at each annual general meeting and such an authority was duly obtained in January 2000 in respect of 18.5 million shares. This authority remains valid until the conclusion of the forthcoming meeting and the directors consider it prudent to seek its renewal for a further period.

Accordingly, a special resolution will be put to the annual general meeting to authorise the Company to make market purchases of its issued shares. The maximum number of shares which may be acquired pursuant to this authority and the minimum and maximum prices at which they may be purchased are as stated in the resolution. The authority will expire at the conclusion of the annual general meeting in 2002 or 18 months after the date of the passing of the resolution, whichever is the earlier.

The board has no current intention of exercising this authority but will keep the matter under review, taking into account other investment opportunities. The authority will only be exercised if the directors believe that to do so would result in an increase in earnings per share and would be in the best interests of shareholders generally.

Employment policies

The Group is committed to the principle of equal opportunity in employment. It seeks to ensure that all applicants or employees receive equal treatment on the grounds of gender, marital status, race, colour, nationality, ethnic or national origin, religion, disability or sexuality and are not disadvantaged by conditions or requirements, including age limits, which cannot be objectively justified on job-related grounds. It applies employment policies that are fair and equitable and which ensure that entry into, and progression within, the Group are determined solely by the application of job criteria and by personal aptitude and competence.

It is the Group's policy to comply with best practice on the employment of disabled people. Full and fair consideration is given to every application for employment from disabled persons whose aptitude and skills can be utilised within the business and to their training and career development. Wherever possible, this includes the retraining and retention of staff who become disabled during their employment.

All staff are informed about matters concerning their interests as employees and the financial and economic factors affecting the Group. Usual management communication channels are supplemented by 'In View', the Group's staff magazine, and the Report and Accounts, which is available to all staff through the Group's Internet website. To encourage the two-way flow of information, particularly on operational issues, an employee suggestion scheme operates throughout the Group.

The Group promotes the involvement of employees in its performance through their participation in the share schemes described in Part 3 of the Directors' Report and in various performance-related bonus schemes.

The directors recognise the importance of a well educated and highly trained workforce. The Group therefore encourages its employees to undertake continuous personal development and invests heavily in training programmes aimed at achieving the highest standards of personal performance and customer service.

Major shareholdings

As at 17th November 2000, the latest practicable date before printing, the Company had been informed of the following notifiable interests in its shares:

	No. of shares	% of issued shares
FMR Corp and Fidelity International Ltd	22,931,010	12.12%

Directors' interests

The interests, all of which are beneficial, of the directors and their immediate families in the share capital of the Company at the beginning and end of the financial year, according to the register maintained under section 325 of the Companies Act 1985, are set out in the table below. This table excludes interests arising under the Group's employee share schemes, details of which are given in Part 3 of the Directors' Report.

	26th August 2000 No. of shares	28th August 1999* No. of shares
Adam Broadbent	30,000	30,000
Keith Cameron	122,296	132,296
Bernard Cragg	10,000	10,000
Nigel Hall	54,588	34,018
John Hoerner	1,101,068	210,941
Richard Maney	23,854	23,854
Caroline Marland	3,710	3,710
David Michels	-	-
Cilla Snowball	2,668	2,668

*Or date of appointment if later

Between the year end and 17th November 2000, being the latest practicable date before printing, certain directors' beneficial interests increased following purchase of shares in the market as follows:

	No. of ordinary shares purchased
John Hoerner	100,000
Keith Cameron	49,000
Richard Maney	10,000
David Michels	10,000

There were no other changes in directors' interests during this period.

The executive directors, together with other employees of the Group, are potential beneficiaries of various employee trusts and, as such, are deemed by the Companies Act 1985 to be interested in the Arcadia Group shares held by those trusts. At 26th August 2000 these shareholdings totalled 2,450,348 shares (28th August 1999 - 2,307,328 shares).

At no time during the year did any of the directors have a material interest in any significant contract with the Company or any of its subsidiaries.

8 Directors' Report. Part 1. General

Supplier payment policy and practice

The Company's policy concerning the payment of suppliers is either to agree terms of payment at the start of business with each supplier or to ensure that the supplier is made aware of the Company's standard payment terms, and in either case to pay in accordance with its contractual or other legal obligations. The Company's trade creditors figure at 26th August 2000 was equivalent to 25 days, based on average daily amounts invoiced by suppliers during the year. A copy of the Company's standard payment terms may be obtained from the registered office during normal working hours.

Charitable and political donations

Donations for charitable purposes amounting to £249,450 were made during the year. There were no donations for political purposes.

Environment

The Group is exploring environment friendly initiatives in conjunction with the United Kingdom Government's campaign 'Are You Doing Your Bit?', which is aimed at the country's biggest companies. Steps already taken by the Group include the use of a single electricity supplier, thereby controlling its power consumption more efficiently as well as reducing bills; transporting garments in reusable long-life plastic containers rather than cardboard boxes; packaging recovery measures; and the reduction of paper consumption through the increased use of electronic mail. In addition, the Group has increased its involvement with Gifts in Kind and BDF New Life, which de-label soiled and damaged stock and put it to charitable use.

Economic and Monetary Union (Euro)

The Group's preparations for introduction of the Euro have continued and Euro-denominated payments are accepted in all of its stores. Systems are being developed to deal with other effects of the Euro in those first wave countries where the Group trades, principally the Republic of Ireland, and an employee training and communication programme is underway in those countries. Should the United Kingdom adopt the Euro in future, the impact on the Group's business would be significant. All of its systems would be affected and would have to be made Euro-compatible. Contingency plans for the necessary investment in systems and training are in place, the estimated cost of this conversion being about £10 million. The Group's planning is consistent with the United Kingdom Government's National Changeover Plan.

Auditors

PricewaterhouseCoopers are willing to continue in office and a resolution for their re-appointment as auditors, at a remuneration to be fixed by the directors, will be proposed at the annual general meeting.

Directors' Report. Part 2. Corporate Governance

As required by the Listing Rules of the Financial Services Authority, this part of the Directors' Report explains the manner in which the Company has applied the principles and complied with the best practice provisions of the Combined Code on Corporate Governance published by the Hampel Committee in June 1998.

Board of directors

The Company is led by a board of directors, the majority of whose members are non-executive. The board has a schedule of ten regular meetings a year, and meets additionally when necessary, to consider and review all matters relating to the overall control, strategy and business performance of the Group.

Other items on the schedule of matters specifically reserved for the decision of the board include the approval of operating budgets and plans, major capital expenditure, treasury policies (including those relating to foreign exchange and interest rate hedging), approval of the published financial statements and dividend declarations. Prior to each of the regular board meetings, every director receives a report on the Group's current trading performance and financial position together with information relevant to the specific business of the meeting.

The board is chaired by Adam Broadbent, a non-executive director, who has primary responsibility for its effective operation and particularly for ensuring that all directors are properly briefed on the matters coming before them. There is a clear distinction between the chairman's role and that of the chief executive, who is responsible for managing the Group's business.

This separation of responsibilities, together with the ratio of board membership between executive and non-executive directors, ensures there is a balance of power and authority at the head of the Company. The views of all directors are taken into account in the decision making process.

The board considers all of the non-executive directors to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The difference between the chairman's remuneration and that of the other non-executive directors reflects the chairman's particular responsibility for the effective operation of the board and the additional demands this places on his time. It does not indicate a lesser degree of independence on his part.

The directors have access to the services of the company secretary for any information or advice they may require. In addition, there is an established procedure for directors to take independent professional advice, at the Company's expense, should they find it necessary to do so in the furtherance of their duties. Non-executive directors are encouraged to keep themselves informed of developments in the Group's operations by meeting senior members of management, visiting the Group's stores and making use of its other retailing facilities on a regular basis.

The remuneration and nomination committee is responsible for making recommendations to the board on the appointment of new directors, both executive and non-executive. All directors are expected to bring independent judgement to bear on the matters coming before them, and to this end it is the Company's policy to provide newly appointed directors with guidance and training appropriate to their previous experience. Non-executive directors are normally expected to serve on the board for between six and nine years.

Directors' remuneration

Remuneration of the executive directors is decided by the remuneration and nomination committee, which comprises all the non-executive directors and is chaired by Adam Broadbent. Members of the committee have no personal financial interest (other than as shareholders) in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no other relationships that could materially interfere with the exercise of their independent judgement.

The committee has access to professional advice on remuneration matters both within the Group and from external specialists in this field. It has regard to the levels of pay and benefits prevailing elsewhere within the Group when deciding on the executive directors' remuneration. It also takes account of the views of the chief executive when considering the remuneration of the other executive members of the board.

Remuneration of the non-executive directors is decided by the board, based on proposals on which non-executive directors do not vote. Proposals in relation to the chairman are made by the chief executive following consultation with the other non-executive directors. Proposals for the remaining non-executive directors are made by the chairman and chief executive jointly.

Information concerning the Group's policies on directors' remuneration and on each director's remuneration during the year under review is set out in Part 3 of the Directors' Report.

Relations with shareholders

The Company seeks to establish constructive relationships with all shareholders. Regular dialogue with institutional shareholders via the Group's investor relations department is supplemented by periodic meetings with the chief executive and finance director. Formal presentations are made to institutional investors and analysts at the time of each interim and full year results announcement.

Care is taken to ensure that any price-sensitive information is disclosed simultaneously to all shareholders, both institutional and private, in accordance with the requirements of the Financial Services Authority.

The annual general meeting is the Company's principal opportunity to communicate directly with private shareholders. The board seeks to make best use of this opportunity by ensuring that the chairman of the board, the audit committee and the remuneration and nomination committee, together with all the executive directors, are present at the meeting to answer any questions that shareholders may wish to raise.

It is the Company's practice to announce the level of proxy votes cast for and against each resolution put to a general meeting, after the resolution has been dealt with on a show of hands.

In addition to receiving Interim and Annual Reports and the Annual Review and Summary Financial Statement, shareholders can obtain information about the Group by visiting its Internet website (www.arcadiagroup.co.uk).

Accountability and audit

The board has an audit committee, which consists entirely of non-executive directors. The current members of the committee are listed on the inside front cover. As previously stated, all of the non-executive directors are independent within the meaning of the Combined Code.

The committee normally meets four times a year, with the external auditors in attendance on every occasion. Although the chief executive and finance director are also usually in attendance, part of at least two meetings each year is held between the non-executive directors and external auditors in private.

The principal duties that the board has delegated to the audit committee are to approve the scope of the work to be undertaken each year by both the external auditors and the internal audit department; to consider the results and cost-effectiveness of the audit and the objectivity and performance of the auditors; to review the Group's system of internal control and to monitor its effectiveness; and to consider the interim and annual financial statements before they are submitted to the board, focusing particularly on accounting policies and compliance and on areas of management estimate or judgement.

Internal control and risk management

The Group continued to operate in accordance with the recommendations of the Rutteman Working Group until May 2000, since when it has been in full compliance with the Combined Code provisions on internal control by adopting the Turnbull Working Party's guidance published in September 1999.

The board has overall responsibility for the Group's system of internal control and risk management. The audit committee reviews and monitors the system's effectiveness on behalf of the board, while responsibility for operating the system rests with the executive directors. The system includes a continuous process for identifying, evaluating and managing significant business risks. It is designed to manage rather than eliminate risk, and provide reasonable but not absolute assurance against material misstatement or loss.

There is a formal organisational structure with clearly defined lines of authority and control responsibilities. A process of planning and monitoring provides regular reports to both management and the board on financial and operational performance.

All senior executives complete an annual survey of business and financial risks, assessing their potential impact on the business. This survey is conducted by a control and risk management committee comprising representatives from all parts of the Group. The survey results form the basis of a twice-yearly report by the executive directors to the audit committee, which considers this report alongside other reports from the internal audit department and the external auditors to arrive at a balanced assessment of control effectiveness throughout the Group.

The audit committee reports on its assessment to the board, so that the board can reach its own informed view on control effectiveness. The first half-yearly cycle was completed prior to the date of this report.

10 Directors' Report. Part 2. Corporate Governance

Directors' responsibilities for preparation of the financial statements

The directors are required by company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the Group at the end of the financial year and of the profit or loss for that period.

In preparing these statements, which should be produced on a going concern basis unless the directors consider it inappropriate to do so, the directors are required to adopt suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, and comply with all applicable accounting standards.

The directors are responsible for maintaining adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

After reviewing current performance and detailed forecasts, taking into account available bank facilities and making further inquiries as considered appropriate, the directors are satisfied that the Group and the Company have reasonable resources to enable them to continue in business for the foreseeable future. For this reason the directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Statement of compliance with the Code of Best Practice

Throughout the year under review the Company has complied with all the best practice provisions set out in Section 1 of the Combined Code on Corporate Governance, except as detailed below.

The board has not appointed a senior independent director (other than the chairman) to whom concerns can be conveyed. Since the chairman is an independent non-executive director and shareholders are welcome to convey concerns to him or any other member of the board at any time, such an appointment is not considered necessary.

The executive directors' service contracts do not provide explicit compensation commitments in the event of early termination of the director's appointment. The remuneration and nomination committee would consider all the relevant circumstances when deciding the appropriate level of compensation in such an event.

Directors' Report. Part 3. Remuneration

The purpose of this part of the Directors' Report is to inform shareholders of the Company's policies on directors' remuneration and to provide details of the remuneration of each director. Policies are described in the paragraphs that follow. Remuneration statistics, including details of the executive directors' share options, are set out in tables 1 to 3 on pages 13 to 14.

As stated in Part 2 of the Directors' Report, remuneration of the executive directors is decided by the remuneration and nomination committee, which consists entirely of independent non-executive directors whose names are listed on the inside front cover.

Remuneration policy for executive directors and senior executives

The Group aims to attract, motivate and retain high calibre executives by rewarding them with competitive salary and benefit packages that are linked to both individual and business performance. The components of these packages are described below.

Performance-related elements of remuneration (principally annual bonuses and share options) form a significant proportion of the packages and are designed to align executives' interests with those of shareholders. In designing these elements, the remuneration and nomination committee has taken account of the provisions of Schedule A to the Combined Code.

Salaries

Salary ranges are established by reference to those prevailing in the employment market generally for executives of comparable status, responsibility and skills. Particular regard is paid to salary levels within other leading companies in the retail sector. These comparisons are made with the assistance of independently compiled remuneration data.

Individual salaries are then determined by personal factors. These include the individual's performance as measured by a formal appraisal process, the achievement of recognised job qualifications where relevant, and any other matters likely to affect a particular executive's value in the employment market.

Pensions

All executive directors and senior executives are eligible for membership of the Arcadia Group Senior Executives Pension Scheme, which is Inland Revenue approved. Since 1st March 1996 the scheme has been non-contributory for all members. It provides members with a pension of up to two-thirds of pensionable salary on retirement at age 60, subject to their having completed at least 20 years' service with the Group. Pensionable salary covers basic pay alone and no other items of remuneration are taken into account. The scheme also provides a lump sum death in service benefit and pensions for dependants of members on their death in service or following retirement.

Members who joined the scheme after May 1989 are subject to the salary cap (currently £91,800) on Inland Revenue approved pension schemes. Accordingly it is the Group's policy to provide these members with appropriate pension benefits outside the scheme in relation to the part of their salary that exceeds the cap.

The scheme is governed by an independent trust. Its trustees include an actuary and a solicitor, both of whom are independent from the Group and expert in pension matters. Responsibility for investment of the scheme's funds has been delegated by the trustees to professional investment managers. In accordance with best practice for company pension schemes, the investment managers are not permitted to invest scheme funds in the Group's own assets or shares.

Performance-related bonuses

Executive directors and senior executives, in common with most other categories of staff, participate in a bonus scheme that is linked to the achievement of financial and other performance targets. For executives working within individual profit centres, these targets relate to the performance of the relevant profit centre. In all other cases, the targets relate to the performance of the Group as a whole.

Each individual's bonus potential is expressed as a percentage of salary, ranging from 30% of salary for executives of the lower grades to 70% of salary for executive directors and executives of the highest grade. Actual bonus payments can exceed these levels for exceptional business performance, but are normally subject to a cap of 100% of salary.

Performance targets for the Group as a whole are based on profit before tax and exceptional items. There are two levels of profit target set by the remuneration and nomination committee at the start of each year. The lower target normally represents achieved profit in the previous financial year while the upper target normally requires a substantial improvement on that figure. Bonus starts to accrue when the lower target is exceeded and the full bonus potential is paid for achievement of the upper target. Proportional bonuses are paid for profit achievement between the targets or in excess of the upper target, subject to the normal cap of 100% of salary.

The Burton Group 1987 Executive Share Option Scheme

This scheme was discontinued in January 1996 and no further options have been or will be granted under the scheme since that time. However, options previously granted under the scheme were unaffected.

As part of the shareholder-approved arrangements for the demerger of Debenhams, the rules of the scheme were amended in January 1998 so as to give all participants two choices with respect to their extant options. Participants could choose either to exercise their options prior to the demerger or to continue their options following the demerger and to have the terms of such options adjusted to reflect the impact of the demerger on the market price of the Company's shares. The effect of these adjustments was to alter the number of shares subject to the continuing options and to change the option price per share, such that the total amount payable on exercise of the option remained the same.

To facilitate these adjustments, the Company issued to the trustees of an employee trust the aggregate number of shares covered by the continuing options. The total subscription price was equal to the aggregate amount that would have been payable if all such options had been exercised. As a result, the employee trust holds sufficient shares to satisfy the continuing options and these will be delivered from trust to the participants as and when the options are exercised.

Arcadia Group Approved and Unapproved Executive Share Option Schemes

These schemes were adopted in January 1998. The Approved scheme was designed for and has received Inland Revenue approval but the Unapproved scheme is not capable of such approval.

The schemes enable the Company to grant options over Arcadia Group shares to its employees at prevailing market prices at the time of grant. These options are normally exercisable not earlier than three years and not later than ten years after the date of grant and only while the employee remains in the Group's employment. At the Company's discretion they may be satisfied either by the issue of new shares or by the delivery of existing shares from an employee trust.

All options granted under the schemes are subject to a performance condition that must be satisfied before the options may be exercised. For options granted to date, this condition requires the Company to have achieved earnings per share growth of at least 9% in excess of inflation (as measured by the Retail Prices Index) over a three-year period.

Under current policy, the maximum number of shares which may be placed under option for any executive is based on a formula whereby the aggregate option exercise price equals a specified multiple of remuneration (being the total amount of salary and bonus received by the executive in a period of 12 months during the previous three years). These multiples range from four times remuneration for executive directors to one times remuneration for senior executives of the lowest grade.

During the year, options were granted under the schemes to approximately 50 employees to acquire some 1.2 million shares at an aggregate exercise price of £1.2 million.

12 Directors' Report. Part 3. Remuneration

Arcadia Group Sharesave Scheme

This Inland Revenue approved scheme, which was adopted in January 1998, enables the Company to grant options over Arcadia Group shares to eligible employees who agree to save up to £250 per month over a period of three, five or seven years. At the Company's discretion they may be satisfied either by the issue of new shares or by the delivery of existing shares from an employee trust. The option price is not less than 80% of the market price at the time of grant.

During the year, options were granted under the scheme to approximately 2,500 employees to acquire some 6.5 million shares at an aggregate exercise price of £6.7 million.

Arcadia Group Profit Sharing Scheme

All employees who satisfy the relevant eligibility criteria are able to participate in any allocation made by the Group under its Inland Revenue approved Profit Sharing Scheme. This scheme permits a portion of the Company's annual profit to be used for the acquisition of Arcadia Group shares that are held in trust and apportioned equitably among participating employees.

No allocation has been made in respect of the year under review.

Notice periods

Each of the executive directors has a contract of service that is terminable by the Company on giving 12 months' notice

Under current policy senior executives have notice periods which range from three months to one year, depending on grade. A few senior executives of the higher grades who joined the Group prior to introduction of the current policy retain notice periods of up to two years.

Taxable benefits

Executive directors are eligible for a range of taxable benefits that include the provision of a company car and payment of its operating expenses including fuel; membership of private medical and dental expenses insurance schemes; and reimbursement, up to specified limits, of the cost of personal financial advice, of the annual subscription to an appropriate professional body, and of home telephone charges. Senior executives, depending on grade, are eligible for certain of these benefits.

The Group operates a Flexible Reward arrangement for all of its employees at middle management level and above. This arrangement allows eligible employees to surrender the whole or part of certain benefit entitlements in exchange for their cash equivalent paid as a salary supplement, or to select certain additional benefits in return for a salary sacrifice. While being cost neutral to the Group, this arrangement allows employees to choose the benefit packages that are most appropriate to their personal circumstances.

Staff discount

The Group provides all levels of staff with a discount on merchandise sold through its retail outlets and home shopping services, but this discount does not extend to merchandise sold by concessions operating within its stores.

Remuneration policy for non-executive directors

The sole remuneration for non-executive directors consists of fees for their services in connection with board and board committee meetings and, where relevant, for additional services such as chairing the board or a board committee or devoting additional time and expertise for the benefit of the Group. They do not have contracts of service, are not eligible for pension scheme membership, and do not participate in any of the Group's bonus, share option or other incentive schemes. The only benefit to which they are entitled is the staff discount described above.

On behalf of the Board

Ian Jackman

Company Secretary

18th October 2000



Table 1: Directors' emoluments

	Salaries/fees £000		Taxable Benefits £000		Other £000		Total £000	
	2000	1999	2000	1999	2000	1999	2000	1999
Executive Directors								
John Hoerner	515	515	50	51	-	-	565	566
Keith Cameron	275	275	28	29	-	-	303	304
Nigel Hall	238	225	29	36	-	-	267	261
Richard Maney	275	275	27	24	60	60	362	359
Non-Executive Directors								
Adam Broadbent	175	175	-	-	-	-	175	175
John Brown	25	54	-	-	-	-	25	54
Bernard Cragg	38	19	-	-	-	-	38	19
Caroline Marland	34	34	-	-	-	-	34	34
David Michels	1	-	-	-	-	-	1	-
Cilla Snowball	34	34	-	-	-	-	34	34
Total board	1,610	1,606	134	140	60	60	1,804	1,806

Notes:

1. The figures in this table relate only to the period of each director's membership of the board. Directors were members of the board throughout both financial years except that (i) Bernard Cragg was appointed on 11th February 1999, (ii) John Brown retired on 20th January 2000, and (iii) David Michels was appointed on 16th August 2000.

2. The "other" columns show the gross amounts Richard Maney elected to take as salary supplements in lieu of contributions to his individual money purchase pension scheme mentioned in table 2. In last year's report these columns also covered the income tax charged on the Company's contributions to both John Hoerner's and Richard Maney's individual schemes. This year the income tax has been disclosed in table 2 and, as a result, the 1999 "other" column in this table has been restated to reflect the different method of disclosure.

3. There were no bonus payments for either financial year.

Table 2: Directors' pensions

Senior Executives Pension Scheme					Money purchase schemes – pension contributions during the year	
	Age at 26th August 2000	Increase in accrued pension during the year £000 p.a.		Accumulated total accrued pension at 26th August 2000 £000 p.a.	2000 £000	1999 £000
		2000	1999			
John Hoerner	60	-	3	27	235	188
Keith Cameron	53	16	15	105	-	-
Nigel Hall	45	16	15	74	-	-
Richard Maney	53	3	3	7	50	50

Notes:

1. The accrued pension figures relate to the Arcadia Group Senior Executives Pension Scheme (the "Scheme") described on page 11. All executive directors are members of the Scheme. Keith Cameron and Nigel Hall are members of the Scheme in relation to their entire basic salaries. Richard Maney is a member of the Scheme in relation to his basic salary up to the Inland Revenue salary cap and is a member of an individual money purchase retirement benefit scheme funded by the Company in relation to that portion of his basic salary not pensioned by the Scheme. Until he reached age 60 in September 1999, John Hoerner's pension arrangements were the same as Richard Maney's (see note 2 below).

2. John Hoerner ceased to accrue pension in the Scheme when he reached age 60 in September 1999. From that date, the Company's contributions to his money purchase retirement benefit scheme increased by an amount equating to the cost of his former pension accrual.

3. The increase in accrued pension during the year is the increase after deducting the increase for inflation.

4. The accumulated total accrued pension is that which would be paid on retirement at age 60 on the assumption that service terminated at the end of the year, or on attaining age 60 if earlier. On death before or after retirement, a spouse's pension of two-thirds of the member's pension is payable together with children's allowances, usually up to the age of 18. Early payment of a deferred pension before age 60 and late payment of any pension after age 60 are calculated on a cost-neutral basis. Prior to retirement, the deferred pension receives statutory increases. Post-retirement increases are guaranteed to be at the rate of 5% per annum, subject to total increases not exceeding the increase in the retail prices index since retirement. Further increases can be paid at the discretion of the Scheme's trustees and the Company.

14 Directors' Report. Part 3. Remuneration

Notes (continued):

5. Members of the Scheme have the option to pay voluntary contributions; neither the contributions nor the resulting benefits are included in this table.

6. The figures shown for contributions to money purchase pension schemes are the gross amounts paid by the Company inclusive of income tax. As the schemes are not Inland Revenue approved, the directors are liable to income tax in respect of the Company's contributions. This is deducted at source and only the net amounts are actually paid to the schemes. In last year's report only the net amounts were shown in this table and the income tax was disclosed in the "other" columns in table 1. Consequently, the 1999 figures in this table have been restated to reflect the different method of disclosure.

Table 3: Directors' share options

	Shares at 28th August 1999	Shares exercised during the year	Shares granted during the year	Shares at 26th August 2000	Option price (p)	Exercisable from	Exercisable to
John Hoerner	786,259	—	—	786,259	104.6	24.12.1994	23.12.2001
	369,420	—	—	369,420	132.6	26.06.1995	25.06.2002
	42,536	—	—	42,536	156.3	04.12.1995	03.12.2002
	35,106	—	—	35,106	199.4	14.12.1997	13.12.2004
	434,924	—	—	434,924	429.5	26.01.2001	25.01.2008
	321,265	—	—	321,265	284.5	12.05.2002	11.05.2002
Keith Cameron	15,990	—	—	15,990	156.3	04.12.1995	03.12.2002
	115,349	—	—	115,349	199.4	14.12.1997	13.12.2004
	27,278	—	—	27,278	320.8	04.12.1998	03.12.2002
	232,828	—	—	232,828	429.5	26.01.2001	25.01.2008
	2,834	—	—	2,834*	344.0	01.05.2001	31.10.2001
	171,880	—	—	171,880	284.5	12.05.2002	11.05.2009
Nigel Hall	17,852	—	—	17,852	182.1	15.12.1996	14.12.2003
	7,522	—	—	7,522	199.4	14.12.1997	13.12.2004
	186,263	—	—	186,263	429.5	26.01.2001	25.01.2008
	5,014	—	—	5,014*	344.0	01.05.2003	31.10.2003
	146,326	—	—	146,326	284.5	12.05.2002	11.05.2009
Richard Maney	98,972	—	—	98,972	161.8	23.06.1997	22.06.2004
	12,538	—	—	12,538	199.4	14.12.1997	13.12.2004
	232,828	—	—	232,828	429.5	26.01.2001	25.01.2008
	2,834	—	—	2,834*	344.0	01.05.2001	31.10.2001
	171,880	—	—	171,880	284.5	12.05.2002	11.05.2009

* Options under the Sharesave Scheme

Notes:

1. Options that are exercisable from 4 December 1998 or earlier were granted under The Burton Group 1987 Executive Share Option Scheme described on page 11.

2. Options other than those mentioned in note 1 above were granted under the Arcadia Group Approved and Unapproved Executive Share Option Schemes described on page 11 or, in the case of asterisked options, under the Arcadia Group Sharesave Scheme described on page 12.

3. Between the year end and 17th November 2000, being the last practicable date before printing, options were granted to the following executive directors:

	No. of shares granted	Option price (p)	Exercisable from	Exercisable to
Nigel Hall	100,000	45.0	31.10.2003	30.10.2010
Richard Maney	100,000	45.0	31.10.2003	30.10.2010

4. The market share price at the year end was 46.5p. During the year it ranged from 240p to 38.5p.

Auditors' Report to the Members of Arcadia Group plc 15

We have audited the financial statements on pages 16 to 34 (including the additional disclosures on pages 13 to 14 relating to the remuneration of the directors specified for our review by the Financial Services Authority) which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on page 20.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 10, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 10 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or the Group's corporate governance procedures or its risk and control procedures.

Basis of audit 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 and of the Group as at 26th August 2000 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

London

18th October 2000

16 Consolidated Profit and Loss Account

For the financial year ended 26th August 2000	Note	Before exceptional items £m	Exceptional items (note 4) £m	Total 2000 £m	Before exceptional items (restated) £m	Exceptional items (restated) £m	Total 1999 (restated) £m
Turnover	2						
Total retail and joint ventures		1,955.3	–	1,955.3	1,533.5	–	1,533.5
Less: share of joint ventures		(30.3)	–	(30.3)	(30.6)	–	(30.6)
Add: sales to joint ventures		20.0	–	20.0	19.5	–	19.5
Group		1,945.0	–	1,945.0	1,522.4	–	1,522.4
Cost of sales		(1,860.9)	(140.9)	(2,001.8)	(1,415.4)	(7.1)	(1,422.5)
Gross profit		84.1	(140.9)	(56.8)	107.0	(7.1)	99.9
Net operating expenses	3	(69.1)	–	(69.1)	(55.6)	–	(55.6)
Operating (loss) / profit	3	15.0	(140.9)	(125.9)	51.4	(7.1)	44.3
Share of operating loss of joint ventures		(3.0)	–	(3.0)	(0.3)	–	(0.3)
Trading (loss) / profit		12.0	(140.9)	(128.9)	51.1	(7.1)	44.0
Provision for closure of Principles For Men	4	–	(3.1)	(3.1)	–	–	–
Profit on disposal of businesses	4	–	–	–	–	17.7	17.7
Write down of investment	4	–	–	–	–	(5.7)	(5.7)
Interest and similar charges	5	(20.5)	–	(20.5)	(9.3)	–	(9.3)
(Loss) / profit before taxation		(8.5)	(144.0)	(152.5)	41.8	4.9	46.7
Taxation	7			0.4			(18.5)
(Loss) / profit for the financial year				(152.1)			28.2
Dividends	9			–			(21.3)
Transfer (from) /to reserves	23			(152.1)			6.9
(Loss) / earnings per share	10						
– basic				(84.2)p			15.6p
– before exceptional items and goodwill amortisation				(9.1)p			15.7p
– diluted				(83.8)p			15.5p
Statement of total recognised gains and losses							
(Loss) / profit for the period				(152.1)			28.2
Total recognised (losses) / gains for the period				(152.1)			28.2
Prior year adjustment				(4.4)			–
Total (losses) / gains recognised since last annual report				(156.5)			28.2

Note of historical cost profits and losses

There is no significant difference between the results disclosed in the profit and loss account and the results on an unmodified cost basis.

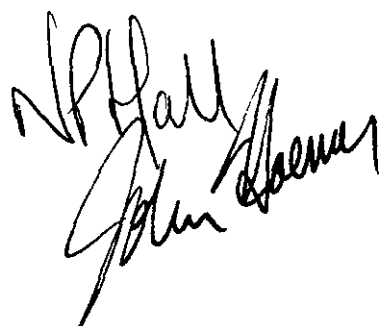
Consolidated Balance Sheet 17

At 26th August 2000	Note	2000 £m	1999 (restated) £m
Fixed assets			
Goodwill	11	56.5	59.5
Tangible assets	12	595.3	691.7
Investments – own shares	13	20.8	20.6
– joint ventures – share of gross assets	13	1.5	7.9
– share of gross liabilities	13	(0.3)	(7.9)
		1.2	-
		673.8	771.8
Current assets			
Stocks		186.0	200.7
Debtors	14	120.5	128.7
Cash at bank and in hand	15	36.6	60.3
		343.1	389.7
Creditors (due within one year)			
Debt (including convertible debt)	16	132.7	94.2
Other creditors	19	271.3	307.8
		404.0	402.0
Net current liabilities		(60.9)	(12.3)
Total assets less current liabilities		612.9	759.5
Creditors (due after one year)			
Debt	16	160.8	193.5
Provisions for liabilities and charges	21	51.7	13.5
Net assets		400.4	552.5
Capital and reserves			
Called up share capital	22	151.4	151.4
Share premium account	23	327.6	327.6
Capital redemption reserve	23	223.4	223.4
Revaluation reserve	23	44.8	44.8
Profit and loss account	23	(346.8)	(194.7)
Shareholders' funds	24	400.4	552.5
Gearing		64.2%	41.2%

Approved by the board on 18th October 2000

John Hoerner

Nigel Hall



18 Consolidated Cash Flow Statement

For the financial year ended 26th August 2000	Note	2000 £m	2000 £m	1999 £m	1999 £m
Cash flows from operating activities	29				
Inflow from ongoing activities		95.6		123.4	
Outflow from exceptional costs		(16.4)		(13.6)	
			79.2		109.8
Returns on investments and servicing of finance					
Interest received		1.9		0.5	
Interest paid		(22.5)		(5.6)	
Rentals paid under property lease obligations		(0.5)		(1.0)	
			(21.1)		(6.1)
Taxation received / (paid)			3.7		(10.5)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(78.5)		(111.5)	
Sale of tangible fixed assets		1.1		4.5	
			(77.4)		(107.0)
Acquisitions/disposals					
Investment in joint venture		(1.2)		-	
Cash acquired with acquisitions		-		9.8	
Purchase of Sears Womenswear Businesses		-		(155.2)	
Disposal of CAL		-		7.5	
Cash balances on disposal of CAL		-		(0.7)	
Disposal of interest in Zoom		-		4.4	
			(1.2)		(134.2)
Equity dividends paid			(12.7)		(21.4)
Cash outflow before use of liquid resources and financing			(29.5)		(169.4)
Management of liquid resources					
Movement in short term deposits with banks			29.3		(29.3)
Financing					
Issue of ordinary shares		-		0.5	
Repayment of bank and term loans		(126.9)		(4.8)	
New bank and term loans		133.6		203.5	
Other financing cash flows		(0.9)		(1.2)	
			5.8		198.0
Increase / (decrease) in cash			5.6		(0.7)
Reconciliation of net debt:					
At 29th August 1999			(227.4)		(56.8)
Increase / (decrease) in cash			5.6		(0.7)
Cashflow from movement in debt and lease financing			(5.8)		(197.5)
Cashflow from movement in liquid resources			(29.3)		29.3
Finance leases of acquired business			-		(1.5)
Non-cash movements in net debt:					
Provision for additional funding costs on property lease obligations			-		(0.2)
At 26th August 2000			(256.9)		(227.4)

Company Balance Sheet 19

At 26th August 2000	Note	2000 £m	1999 £m
Fixed assets			
Tangible assets	12	62.5	53.3
Investments	13	1,410.1	1,499.1
		1,472.6	1,552.4
Current assets			
Debtors	14	107.8	80.9
Cash at bank and in hand		—	35.7
		107.8	116.6
Creditors (due within one year)			
Debt (including convertible debt)	16	145.8	107.9
Other creditors	19	44.7	33.8
		190.5	141.7
Net current liabilities		(82.7)	(25.1)
Total assets less current liabilities		1,389.9	1,527.3
Creditors (due after one year)			
Debt	16	663.9	660.1
Provisions for liabilities and charges	21	—	3.4
Net assets		726.0	863.8
Capital and reserves			
Called up share capital	22	151.4	151.4
Share premium account	23	327.6	327.6
Capital redemption reserve	23	223.4	223.4
Profit and loss account	23	23.6	161.4
Shareholders' funds	24	726.0	863.8

Approved by the board on 18th October 2000

John Hoerner

Nigel Hall

Nigel Hall
John Hoerner

20 Notes to the Accounts

1 Accounting policies

Accounting convention

The accounts are drawn up under the historical cost convention as modified by the revaluation of certain properties and in accordance with applicable accounting standards.

Bases of consolidation

The accounts of all subsidiary undertakings are consolidated from the date of their acquisition to the date of their sale using the acquisition method of accounting. On acquisition of a business, goodwill is capitalised and written off by equal annual instalments over its estimated useful economic life. No adjustment has been made to goodwill arising before 1999 which was written off directly to reserves, as permitted by FRS 10. On disposal, any goodwill which has not been amortised through the profit and loss account is taken into account in calculating the profit or loss on disposal. Goodwill is the difference between the fair value of the net tangible assets acquired and the fair value of the consideration given.

All transactions with subsidiaries and inter-company profits or losses are eliminated on consolidation.

The Group's share of the results of joint ventures is included in the Group's profit and loss account. The Group's share of the net assets of joint ventures is included in interests in joint ventures in the Group's balance sheet.

Turnover

Turnover comprises the value of sales of all merchandise to third parties, including concession sales, and excludes value added tax.

Tangible fixed assets

- a. Depreciation is provided to write off the cost of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Land: not depreciated

Freehold and long leasehold buildings over 50 years: depreciated to their estimated residual value over their estimated useful economic life (see b below)

Short leasehold land and buildings: life of lease

Fit-out: 15 years

Retail fixtures and fittings: 5 to 8 years

Office equipment: 10 years

Computer equipment: 3 to 6 years

Motor vehicles are depreciated on the reducing balance basis at a rate of 25% per annum.

- b. Land and buildings

Freehold and long leasehold land and buildings other than rack rented properties were revalued as at September 1995 on the basis of existing use value, open market value or depreciated replacement cost in accordance with the Royal Institution of Chartered Surveyors' guidance notes. On adoption of FRS 15, the Group has followed the transitional provisions to retain the book value of land and buildings which were revalued in 1995, but not to adopt a policy of revaluation in the future.

These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

Pension costs

The cost of providing pension benefits is charged to the profit and loss account as a constant percentage of pensionable earnings over the period benefiting from scheme employees' services. Actuarial surpluses are amortised over the expected remaining service lives of current scheme employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Taxation

Provision is made for deferred taxation arising from the allocation of income and expenditure for tax purposes to periods different from those used for accounting purposes, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Leased assets

Assets used by the Group, which have been funded through finance leases, are capitalised and the resulting lease obligations are included in creditors.

Rentals payable under operating leases are charged to the profit and loss account as incurred except where incentives to sign the leases have been received. Such incentives are spread on a straight-line basis over the lease term, or if shorter, the period to the next open market rent review date.

Stock valuation

Stocks are stated at the lower of cost and net realisable value and represent goods for resale.

Foreign exchange

Assets and liabilities recorded in foreign currencies are translated either at the rates ruling at the balance sheet date or the rates fixed by forward contracts. Differences on exchange are dealt with in the profit and loss account.

Treasury instruments

Gains and losses on hedges of payments or receipts are deferred and only recognised as they crystallise. Gains and losses on forward currency contracts entered into as hedges of future purchases denominated in foreign currency are carried forward and are recognised as part of the purchase cost on maturity. Receipts and payments from interest rate swaps used to manage interest on borrowing or deposits are accrued to match the income or expense of the underlying borrowing or deposit.

Year 2000 and Euro costs

Costs incurred in preparing systems for the Year 2000 and the introduction of the Euro are written off as incurred.

2 Turnover

	2000 £m	1999 £m
Womenswear	1,461.6	1,016.7
Menswear	463.4	486.2
Total	1,925.0	1,502.9
Home shopping	30.3	30.6
Total retail and home shopping	1,955.3	1,533.5
Less: share of joint ventures	(30.3)	(30.6)
Add: sales to joint ventures	20.0	19.5
Group	1,945.0	1,522.4

Turnover shown above reflects the gross value of sales of all merchandise, including concession sales. Turnover arises in the UK apart from £93.9 million (1999 – £47.3 million) arising from overseas retailing operations, predominantly the Republic of Ireland and Germany.

3. Operating (loss) / profit**a. Net operating expenses comprise:**

	2000 £m	1999 £m
Net operating expenses:		
Distribution costs	45.0	30.1
Administrative expenses	25.8	27.4
Other operating income	(1.7)	(1.9)
	69.1	55.6

b. Operating profit before exceptional items is stated after (crediting)/charging:

	2000 £m	1999 (restated) £m
Employment costs (note 6)	265.6	195.0
Depreciation	91.8	73.4
Accelerated depreciation	1.4	–
Amortisation of goodwill	3.0	0.3
Property rentals (net)	211.3	156.4
Other operating lease rentals	–	2.5
Royalties receivable	(1.7)	(1.9)
Auditors' remuneration	0.4	0.4
Other fees paid to auditors	1.0	0.1

Auditors' remuneration includes £0.1 million (1999 – £0.1 million) in respect of the parent undertaking. Other fees paid to auditors principally comprise payments relating to assisting the Group in the re-negotiation of banking facilities and preparation of other necessary financial information and reports. By appointing the auditors to perform this work, the Group benefited from their prior knowledge of the Group whilst satisfying the requirements of confidentiality and cost control.

22 Notes to the Accounts (continued)

4. Exceptional items

	2000 £m	1999 £m
Charged within cost of sales		
Cost of integrating New Brands	(32.0)	(3.4)
Costs arising from BrandMAX	(107.0)	-
Bank facility fees	(1.9)	-
Cost of January 1999 reorganisation	-	(3.7)
	(140.9)	(7.1)
Charged after operating profit		
Provision for closure of Principles for Men	(3.1)	-
Disposal of Consumer Access Limited	-	5.0
Disposal of Zoom.co.uk Limited	-	12.7
Write down of investment	-	(5.7)
	(144.0)	4.9

The cost of integrating New Brands relates to asset write-offs from the integration of systems, redundancy costs and the costs associated with the closure of Richards. It comprises asset write-offs of £21.3 million, redundancy costs of £7.0 million and property disposal costs of £3.7 million. The cost in 1999 comprised initial redundancy and retention payments committed before the 1999 year end.

The costs arising from BrandMAX comprise asset write-offs of £70.0 million, property disposal costs of £32.0 million and redundancy and other costs of £5.0 million.

The closure of Principles for Men was announced in April 2000 and is expected to be completed by February 2001. The provision comprises anticipated trading losses.

The tax credit relating to exceptional items amounts to £11.4 million (1999 - £4.7 million charge).

5. Interest and similar charges

	2000 £m	1999 £m
Interest receivable	1.2	0.5
Payable on bank loans, overdrafts and term loans:		
- repayable within five years	(16.4)	(5.6)
- repayable in more than five years	(1.7)	-
Payable on debenture loans:		
- repayable within five years	(2.7)	(2.9)
Payable to joint venture	(0.2)	(0.3)
Rentals payable on property lease obligations	(0.5)	(1.2)
Share of net interest of joint ventures	(0.2)	0.2
	(20.5)	(9.3)

6. Employees and directors

	2000 £m	1999 £m
Employees		
Wages and salaries	250.8	184.4
Employee profit sharing and long term share plan	-	(1.0)
Social security costs	14.5	11.4
Other pension costs	0.3	0.2
Total employment costs	265.6	195.0

The average number of employees in the Group was 25,839 (1999 - 24,140) including 16,567 (1999 - 16,620) part-time employees.

Directors' remuneration

A detailed analysis of directors remuneration, including salaries, performance-related bonuses and long-term incentives, is provided in Part 3 of the Directors' Report on pages 10 to 14. The total remuneration of the directors is comprised as follows:

	2000 £000	1999 (restated) £000
Aggregate emoluments	1,804	1,806
Money purchase pension scheme contributions	285	238

7. Taxation

	2000 £m	1999 £m
Based on the (loss) / profit for the year		
UK corporation tax at 30% (1999 – 30.58%):		
- Current year	1.1	(13.9)
- Prior years	(0.4)	6.1
Overseas taxation	(1.7)	(1.4)
Deferred taxation		
- Current year	2.6	(1.0)
- Prior years	(1.2)	(8.3)
	0.4	(18.5)

The current year tax credit before exceptional items has been decreased by £11.9 million (1999 – tax charge decreased by £1.5 million) as a result of expenditure not allowed for taxation purposes and timing differences on which a deferred tax asset has not been recognised. The current year tax credit includes an £11.4 million credit in respect of exceptional items.

8. Arcadia Group plc profit and loss account

Arcadia Group plc has not presented its own profit and loss account as permitted by Section 230(1) of the Companies Act 1985.

The amount of the consolidated loss for the financial year dealt with in the accounts of the parent undertaking, and its total recognised loss relating to the year, is £137.8 million (1999 – £42.3 million). There is no difference between the results disclosed in respect of the parent undertaking and its results on an unmodified historical cost basis.

9. Dividends

	2000 £m	1999 £m
Interim paid – nil per ordinary share (1999 – 4.7p)	–	8.9
Final proposed – nil per ordinary share (1999 – 7.0p)	–	13.3
	–	22.2
Receivable by ESOP trusts	–	(0.9)
	–	21.3

10 (Loss) / earnings per share

Basic and diluted (loss) / earnings per share are based on:

	2000 Loss £m	2000 Weighted average no of shares(m)	Earnings £m	1999 (restated) Weighted average no of shares(m)
Basic (loss) / earnings per share	(152.1)	180.7	28.2	180.6
Dilutive potential ordinary shares arising from employee share incentive plans and options	–	0.8	–	1.4
Diluted (loss) / earnings per share	(152.1)	181.5	28.2	182.0

The calculation of (loss) / earnings per share before exceptional items and the amortisation of goodwill is based on the loss before exceptional items (net of taxation) and amortisation of goodwill of £16.5 million (1999 – £28.4 million profit). It is included as it provides a better understanding of the underlying performance of the Group.

	2000 Loss £m	2000 Loss per share (pence)	Earnings £m	1999 (restated) Earnings per share (pence)
(Loss) / earnings and basic (loss) / earnings per share	(152.1)	(84.2)	28.2	15.6
Exceptional items	144.0	79.7	(4.9)	(2.7)
Tax on exceptional items	(11.4)	(6.3)	4.7	2.6
Goodwill amortisation	3.0	1.7	0.3	0.2
(Loss) / earnings and (loss) / earnings per share before exceptional items and goodwill amortisation	(16.5)	(9.1)	28.3	15.7

24 Notes to the Accounts (continued)

11. Goodwill

Goodwill represents the goodwill arising on the acquisition of the Sears Womenswear Businesses which is being amortised on a straight line basis over 20 years, being the period over which the directors estimate that the value of the underlying businesses acquired is expected to exceed the value of the underlying assets. Initial goodwill on acquisition was £59.8 million and aggregate amortisation is £3.3 million (1999 – £0.3 million) of which £3.0 million (1999 – £0.3 million) has been charged in the current financial year.

12. a. Tangible fixed assets

Group	Land and buildings £m	Fit out, fixtures and equipment £m	Total £m
Cost or valuation			
As previously reported	507.9	623.0	1,130.9
Reclassification of fit out (note 12c)	(22.5)	22.5	–
At 29th August 1999 as restated	485.4	645.5	1,130.9
Additions	26.9	58.0	84.9
Disposals and asset write-offs	(1.2)	(50.8)	(52.0)
At 26th August 2000	511.1	652.7	1,163.8
Accumulated depreciation			
As previously reported	106.9	327.9	434.8
Prior year adjustment (note 12c)	–	4.4	4.4
At 29th August 1999 as restated	106.9	332.3	439.2
Provision for the year	15.2	76.6	91.8
Accelerated depreciation	–	1.4	1.4
Impairment arising from BrandMAX	34.0	36.0	70.0
Disposals and asset write-offs	(0.1)	(33.8)	(33.9)
At 26th August 2000	156.0	412.5	568.5
Net book amount at 26th August 2000	355.1	240.2	595.3
Net book amount at 28th August 1999 as restated	378.5	313.2	691.7
Company	Land and buildings £m	Fit out, fixtures and equipment £m	Total £m
Cost or valuation			
At 29th August 1999	2.1	101.8	103.9
Additions	–	25.8	25.8
Disposals and asset write-offs	–	(4.0)	(4.0)
At 26th August 2000	2.1	123.6	125.7
Accumulated depreciation			
At 29th August 1999	0.5	50.1	50.6
Provision for the year	0.2	14.2	14.4
Disposals and asset write-offs	–	(1.8)	(1.8)
At 26th August 2000	0.7	62.5	63.2
Net book amount at 26th August 2000	1.4	61.1	62.5
Net book amount at 28th August 1999	1.6	51.7	53.3

Assets held under finance leases, capitalised and included in fit out, fixtures and equipment:

Group	2000 £m	1999 £m
Cost	2.3	2.0
Aggregate depreciation	–	0.8
Net book amount	2.3	1.2

b. Analysis of land and buildings

	2000 £m	Group 1999 (restated) £m	2000 £m	Company 1999 £m
Analysis of net book value of land and buildings				
Freehold	67.8	67.9	0.9	0.9
Long leasehold	155.6	155.7	–	–
Short leasehold	131.7	154.9	0.5	0.7
	355.1	378.5	1.4	1.6
Group			2000 £m	1999 £m
Analysis of land and buildings at cost or valuation				
At cost			283.6	436.4
At valuation – 1995			71.5	71.5
			355.1	507.9

Freehold and long leasehold land and buildings other than rack rented properties were revalued as at September 1995 on the basis of existing use value, open market value or depreciated replacement cost in accordance with the Royal Institution of Chartered Surveyors' guidance notes. These external valuations were made by Messrs. Hillier Parker, Chartered Surveyors, and Conrad Ritblat, Chartered Surveyors.

If land and buildings had not been revalued, tangible fixed assets would have been included at the following amounts:

	2000 £m	Group 1999 (restated) £m	2000 £m	Company 1999 £m
At cost	1,119.0	1,086.1	125.7	103.9
Accumulated depreciation	568.5	439.2	63.2	50.6
Net book amount based on historic cost	550.5	646.9	62.5	53.3

c. Change in accounting policy

The Group has adopted FRS 15: Tangible Fixed Assets, and has followed the transitional provisions to retain the book value of land and buildings, certain of which were revalued in 1995 (note 12b). Adoption has resulted in three key changes:

- The FRS encourages the separation of assets into components where they have significantly different useful economic lives and states that these changes should be dealt with as prior year adjustments. The original cost of fitting out properties which has up to now been included within the cost of buildings, has been separated out (£22.5 million at 29th August 1999) and included within fit-out, fixtures and equipment.
- As a result of this change in policy, £4.4 million of accumulated depreciation has also been recognised as at 28th August 1999, being the depreciation on fit-out costs that would have been recognised had the new policy been in place in previous years. As a consequence of the prior year adjustment, the net book value of Group tangible assets as at 28th August 1999 has been decreased by £4.4 million with a corresponding decrease in the profit and loss account reserve (note 23). The effect of this on reported profits has been an additional Group depreciation charge in the current year of £1.4 million (1999 – £1.1 million).
- In previous years the Group has stated that the useful economic lives of its freehold and long leasehold properties are so long and that they are maintained to such a high standard that, in most cases, the residual values would be sufficiently high to make any depreciation charge immaterial and thus no provision was made. FRS 15 does not accept that subsequent expenditure on tangible fixed assets that maintains their performance negates or diminishes the need to charge depreciation. Consequently, in the opinion of the Directors, application of this aspect of the Group's previous policy is no longer sustainable and the buildings element of its freehold and long leasehold properties are now depreciated over their remaining useful economic lives. This has been reflected as a change of estimate with £0.4 million and £nil million depreciation being charged in the year for the Group and Company respectively. No prior year adjustment has been made as the previous policy had been to provide for depreciation where the effect was material.

26 Notes to the Accounts (continued)

13. Investments

	2000 £m	Group 1999 £m	2000 £m	Company 1999 £m
Own shares	20.8	20.6	20.8	20.6
Joint ventures	1.2	-	-	-
Subsidiary undertakings	-	-	1,389.3	1,478.5
	22.0	20.6	1,410.1	1,499.1

a. Own shares

Group and Company
£m

Cost	
At 29th August 1999	32.1
Additions	0.2
At 26th August 2000	32.3
Provision	
At 29th August 1999 and 26th August 2000	11.5
Net book amount at 26th August 2000	20.8
Net book amount at 28th August 1999	20.6

The Group has six ESOP trusts. The purpose of these trusts is to hold shares in the Company for subsequent transfer to employees under various incentive schemes operated by the Group, including share option schemes and the profit sharing scheme. At 26th August 2000 the ESOP trusts held 8.3 million Arcadia Group shares (1999 – 8.2 million) with a nominal value of £6.6 million (1999 – £6.6 million), all of which have been allocated to the share schemes.

The market value of the shares at 26th August 2000 was £3.9 million (1999 – £19.4 million). Dividends have been waived by the ESOP trusts on 2.3 million shares (1999 – 2.3 million). Costs of administration are included in the profit and loss account as they accrue.

b. Joint ventures

	£m
At 29th August 1999	-
Investment during the year	1.2
At 26th August 2000	1.2

The Group has an interest in three joint ventures: Dial Home Shopping Limited, Zoom.co.uk Limited and GIYSA.

The Group owns the whole of the "A" ordinary shares in Dial, giving a 65% economic interest through an entitlement to 65% of the profits and net assets of the company. Littlewoods owns the remainder of the share capital. Both parties have equal voting rights and equal entitlements to board representation. Accordingly, Dial has been accounted for as a joint venture in the consolidated accounts. Dial operates the direct home shopping business for the Group.

The Group owns 50% of the share capital of Zoom.co.uk Limited, an e-commerce and internet service provider. Zoom provides an internet design and production service to the Group and Dial Home Shopping Limited. The remainder of the share capital is owned by Mail Newspapers Limited, an Associated Newspapers Limited group company. Both parties have equal voting rights and equal entitlement to board representation.

Dial Home Shopping Limited and Zoom.co.uk Limited are registered in England and operate in the UK.

The Group owns 25% of the share capital of GIYSA, a company incorporated in Turkey operating stores throughout Turkey and Eastern Europe under a franchise agreement with the Group. The remainder of the share capital is owned by H.O. Sabanci Holding A.

Although the Group only has a 25% board representation, the board must have a unanimous vote on the major operating and financial policies and procedures of the company. Accordingly, GIYSA has been accounted for as a joint venture in the Group accounts.

The Group's investment in joint ventures represents the initial investment in GIYSA made during the year.

The Group's interests in Dial Home Shopping Limited and Zoom.co.uk Limited are a share of the deficiencies in net assets of those two companies. Accordingly the Group's share of the deficiencies has been disclosed as a provision for liabilities and charges in accordance with FRS 9 (see note 21).

13. Investments (continued)**c. Subsidiary undertakings, cost less provisions**

	Shares Cost £m	Provision £m	Loans Cost £m	Provision £m	Total £m
At 29th August 1999	1,575.3	(147.8)	241.2	(190.2)	1,478.5
Additions	0.6	–	110.3	–	110.9
Movement in provision	–	(226.2)	–	26.1	(200.1)
At 26th August 2000	1,575.9	(374.0)	351.5	(164.1)	1,389.3

Advantage has been taken of Section 231(5) of the Companies Act 1985 not to disclose all subsidiary undertakings on the basis that such information would be of excessive length. The subsidiary undertakings of the Group whose results or financial position, in the opinion of the directors, principally affect the consolidated results are set out below. All subsidiaries are wholly owned and those marked * are indirect subsidiaries of Arcadia Group plc.

Company	Country of Operation	Country of incorporation or registration	Main activity
Arcadia Group Brands Ltd *	UK	England	Brand management
Arcadia Group Design & Development Ltd*	UK	England	Design services
Arcadia Group Multiples (Ireland) Ltd *	Ireland	Ireland	Fashion retailing
Arcadia Womenswear Netherlands BV	Germany	Netherlands	Fashion retailing
Burton Retail Ltd *	UK	England	Fashion retailing
Dorothy Perkins Retail Ltd	UK	England	Fashion retailing
Evans Ltd *	UK	England	Fashion retailing
Hawkshead Retail Ltd *	UK	England	Fashion retailing
Principles Retail Ltd *	UK	England	Fashion retailing
Racing Green Ltd *	UK	England	Fashion retailing
Redcastle Investments Ltd	UK	England	Property investment
Redcastle Ltd	UK	England	Property investment
Redcastle Properties Ltd	UK	England	Property trading
Redcastle (214 Oxford Street) Ltd	UK	England	Property investment
A.G. Clothing Ltd	UK & Ireland	England	Fashion retailing
Top Shop/Top Man Ltd *	UK	England	Fashion retailing
Wade Smith Ltd	UK	England	Fashion retailing

A full list of the subsidiary undertakings will be annexed to the Company's next annual return.

14. Debtors

	2000 £m	Group 1999 £m	2000 £m	Company 1999 £m
Trade debtors	42.8	38.0	–	–
Loan to joint venture	1.5	–	2.9	–
Other debtors	42.8	43.0	10.6	3.3
Prepayments	20.8	30.4	21.2	22.8
Corporation tax	12.6	17.3	72.1	51.0
Deferred taxation (note 21)	–	–	1.0	3.8
	120.5	128.7	107.8	80.9

Other debtors include deferred consideration of £5.3 million (1999 – £6.8 million) recoverable in over one year.

Prepayments include a pension prepayment of £12.4 million (1999 – £12.4 million) recoverable in over one year (see note 28).

15. Cash at bank and in hand

Cash at bank and in hand includes short term cash deposits with banks of £nil million (1999 – £29.3 million).

28 Notes to the Accounts (continued)

16. Debt

	2000 £m	Group 1999 £m	2000 £m	Company 1999 £m
Due within one year				
Bank overdrafts	-	-	-	20.8
Debenture loans (note 17)	33.4	2.1	33.4	2.1
Bank loans	98.3	90.6	111.4	85.0
Finance lease obligations (note 18)	1.0	1.5	1.0	-
	132.7	94.2	145.8	107.9
Due after one year:				
Debenture loans (note 17)	-	33.2	-	33.2
Bank loans repayable:				
- between one and two years	23.1	-	23.1	-
- between two and five years	-	150.0	-	150.0
- more than five years (secured)	125.9	-	-	-
Loans from subsidiary undertaking	-	-	639.3	476.9
Property lease obligations (note 18)	10.3	10.3	-	-
Finance lease obligations (note 18)	1.5	-	1.5	-
	160.8	193.5	663.9	660.1

The term loan repayable in more than five years is secured on the Group's long leasehold interest in 214 Oxford Street.

17. Debenture loans

	2000 £m	Group 1999 £m	2000 £m	Company 1999 £m
Convertible				
Floating rate unsecured convertible loan notes 1998/2003	0.2	2.0	0.2	2.0
Other				
Floating rate unsecured loan notes 1997/2002	-	0.1	-	0.1
8% Unsecured Loan Stock 2001	33.2	33.2	33.2	33.2
	33.4	35.3	33.4	35.3
Debenture loans are repayable				
Within one year	33.4	2.1	33.4	2.1
Between two and five years	-	33.2	-	33.2
	33.4	35.3	33.4	35.3

The Company has the right to redeem the 8% Unsecured Loan Stock 2001 at par on giving 60 days notice up to 31st January 2001.

18. Lease obligations

In 1988, the Group sold properties at market value for £75.5 million to certain banks on 125 year leases at peppercorn rentals and entered into full tenant and repairing sub-leases for 125 years, of which properties at 1998 market value of £10.4 million remained with Arcadia Group following the demerger process in 1998. The rentals payable are structured so as to give the lessors a financing return linked to LIBOR in the first 25 years and, in the following 10 years, a LIBOR linked return together with the repayment of capital. Thereafter, market rentals are payable subject to revision every five years. In the early years, the amounts payable are below LIBOR and in the later years are in excess of LIBOR. The financing costs are, however, allocated over the 25 year period so as to achieve an annual funding cost, which is consistent with LIBOR. The Group has limited rights up to the 25th year of the leases to buy out the rental obligations based on the properties' original sales proceeds. The balances which have remained with the Group following the demerger process, together with certain finance lease obligations relating to fixture and fittings, are as follows:

	2000 £m	Group 1999 £m	2000 £m	Company 1999 £m
Property lease obligations falling due:				
After five years	10.3	10.3	-	-
Finance lease obligations falling due:				
Within one year	1.0	1.5	1.0	-
Between one and two years	0.9	-	0.9	-
Between two and five years	0.6	-	0.6	-
	2.5	1.5	2.5	-

19. Other creditors

	2000 £m	Group 1999 £m	2000 £m	Company 1999 £m
Trade creditors	79.5	79.6	-	-
Amount owed to joint venture	-	3.5	12.6	9.3
Other creditors	89.8	93.3	8.7	6.7
Other taxes and social security	37.8	46.7	5.6	3.9
Accruals	64.2	72.0	17.8	1.2
Proposed dividends	-	12.7	-	12.7
	271.3	307.8	44.7	33.8

20. Financial instruments**a. Treasury policy**

The board has an established overall treasury policy and has approved procedures and authority levels within which the treasury department must operate. The Group does not enter into speculative arrangements in that transactions in financial products are matched to an underlying business requirement such as planned purchases or forecast debt.

The board has appointed a treasury committee, which meets every three months to monitor and control treasury activities. This committee is chaired by the Finance Director and comprises the Company Secretary, the Group Financial Controller, the Group Treasurer and senior management representatives from the business. The board receives regular reports which cover treasury activities and the treasury department is subject to an annual internal audit.

A number of the Group's costs are exposed to movements in financial markets that are outside the Group's control. In particular, interest rates can move, affecting the cost of borrowing, and foreign exchange rate movements can impact the cost of goods sourced from abroad. In order to reduce this exposure and to bring both stability and certainty to these costs, the Group's treasury department uses different financial instruments sourced from the Group's key banks, to cover its position going forward.

The disclosures set out below exclude short term trade debtors and creditors as permitted by FRS 13 "Derivatives and other financial instruments: disclosures".

b. Currency risk

The impact of currency movements is managed by using a combination of forward contracts and currency options in a manner which substantially reduces the uncertainty of the price paid for imported goods.

Imports are paid for principally in US\$. Currency hedging is undertaken up to 24 months forward based on expected orders and is designed to place a ceiling over the cost of a significant proportion of purchases whilst allowing the Group to benefit from lower costs that might arise from a strengthening pound. At the year end the Group had forward contracts and options amounting to £124 million (1999 - £128 million) covering the next 12 months and £127 million (1999 - £88 million) covering the period between 12 and 24 months. Except for the cash balances noted below and after taking into account the effect of forward exchange contracts, the Group has no significant financial assets or liabilities denominated in currency other than sterling.

c. Interest risk

The impact of movements in interest rates is managed by the use of interest rate swaps, forward rate agreements and interest rate caps.

Financial liabilities - the Group's borrowing facilities are in sterling. After taking into account the various interest rate swaps and forward rate agreements entered into by the Group, the interest rates and maturity profile of the Group's borrowings is as follows:

	Fixed £m	Floating £m	2000 Total £m	Fixed £m	Floating £m	1999 Total £m
Due within one year	111.6	21.1	132.7	1.5	92.7	94.2
Due between one and two years	24.0	-	24.0	33.2	-	33.2
Due between two and five years	0.6	-	0.6	-	150.0	150.0
Due over five years	125.9	10.3	136.2	-	10.3	10.3
	262.1	31.4	293.5	34.7	253.0	287.7

In addition the Group has purchased interest rate caps with an aggregate notional principal of £30.0 million and an average strike rate of 7.11%. The weighted average life of these contracts is 1.4 years.

The year end weighted average interest rate attributable to fixed rate borrowings was 7.6% (1999 - 8%) and the weighted average time for which fixed rate borrowings are fixed is 14 years (1999 - 1.9 years). Floating rate borrowings are linked to LIBOR and are fixed in advance for periods of up to 12 months.

The Group had £115 million (1999 - £125 million) of undrawn committed borrowing facilities at the year end, all of which expire beyond two years.

Financial assets - at the year end, the Group had used interest rate swaps to fix the interest on £5.1 million of sterling cash deposits (1999 - £9.1 million). The year end weighted average interest rate attributable to these fixed rate cash deposits was 7.46% (1999 - 7.46%) and the weighted average time for which these deposits are fixed is less than one year (1999 - 1 year). Other cash balances comprise £nil million (1999 - £29.3 million) of short term deposits which earn interest linked to LIBOR and £31.5 million (1999 - £21.9 million) of amounts repayable on demand on which no interest is received. £nil million (1999 - £2.8 million) is denominated in US\$, £14.5 million (1999 - £12.2 million) is denominated in EU currencies (other than sterling) and £0.2 million (1999 - £nil) is denominated in Hong Kong \$. At the year end the Group also had £8.9 million (1999 - £8.3 million) of financial assets on which no interest is received, comprising deferred consideration receivable.

30 Notes to the Accounts (continued)

20. Financial instruments (continued)

d. Fair values of financial instruments

Set out below is an analysis of the fair values and book values of the Group's financial instruments by category. Where available, market values have been used to determine fair values. Where market values are not available, fair values for forward currency options have been calculated by using an option-pricing model, and for other financial instruments by discounting cash flows at market rates.

	Book Value 2000 £m	Fair Value 2000 £m	Book Value 1999 £m	Fair Value 1999 £m
Derivatives				
Interest rate swaps	–	(3.8)	–	0.1
Forward currency contracts	5.8	20.7	4.4	3.6
Assets				
Cash and cash equivalents	36.6	36.6	60.3	60.3
Liabilities				
Short-term debt	(132.7)	(132.7)	(94.2)	(94.2)
Long-term debt	(160.8)	(160.8)	(193.5)	(193.6)

e. Hedges of future contracts

At 26th August 2000 there were £14.9 million of net gains (1999 – £0.8 million of net losses) on forward currency transactions. None of these were recognised at the balance sheet date. £8.7 million of the outstanding net gains are expected to be dealt with in the profit and loss account next year. During the year ended 26th August 2000 all of the net losses not recognised at 28th August 1999 were dealt with in the profit and loss account.

21. Provisions for liabilities and charges

	Integration of New Brands £m	BrandMAX £m	Closure of PFM £m	Other £m	Deferred Tax £m	Total £m
Group						
At 29th August 1999	3.4	–	–	–	10.1	13.5
Charged / (credited) to profit and loss account	10.7	37.0	3.1	3.3	(1.4)	52.7
Utilised during the year	(11.4)	(3.1)	–	–	–	(14.5)
At 26th August 2000	2.7	33.9	3.1	3.3	8.7	51.7
Company						
At 29th August 1999	3.4	–	–	–	–	3.4
Charged to profit and loss account	(3.4)	–	–	–	–	(3.4)
Utilised (credited) during the year	–	–	–	–	–	–
At 26th August 2000	–	–	–	–	–	–

The provision for the integration of New Brands relates to the provision for redundancy costs and the cost of disposing of the Richards stores. The majority of the cost in relation to the integration had been spent by the year end. The residual provision principally relates to the anticipated cost of disposing of the remaining Richards stores and is expected to be spent by the end of the 2000/2001 financial year. The provision in respect of BrandMAX relates to property disposal costs and redundancy costs. The costs are anticipated to be spent by the end of the 2001/2002 financial year.

The provision for the closure of Principles for Men relates to the anticipated trading loss of the brand up to closure in February 2001. Other provisions relate to the Group's share of the deficiency in net assets within Zoom.co.uk Limited and Dial Home Shopping Limited, two of the Group's joint ventures. The Group's share of the gross assets and liabilities of Zoom.co.uk Limited is £1.2 million and £4.3 million respectively and of Dial Home Shopping Limited is £13.4 million and £13.6 million respectively.

The potential liability at 30% (1999 – 30%) for deferred taxation is set out below:

	Provided £m	2000 Potential £m	Group 1999 Potential £m	Provided £m	2000 Potential £m	Company 1999 Potential £m
Accelerated capital allowances	0.4	(9.2)	16.3	0.1	0.1	(0.5)
Other timing differences	8.3	3.3	(6.2)	(1.1)	(1.1)	(3.3)
Total	8.7	(5.9)	10.1	(1.0)	(1.0)	(3.8)

The liability for deferred taxation is stated after anticipating 'rollover' relief in respect of capital gains, which may arise in the event of the sale of properties at their revalued amounts. The deferred tax asset in the Company is classified within debtors.

22. Share capital

	2000 £m	No. m	1999 £m	No. m
Authorised				
Ordinary shares of 80p each	200.0	250.0	200.0	250.0
Deferred shares of 40p each	320.0	800.0	320.0	800.0
	520.0	1,050.0	520.0	1,050.0
Called up and fully paid				
Ordinary shares of 80p each	151.4	189.2	151.4	189.2

- a. At 26th August 2000, the aggregate number of ordinary shares subject to options granted under the Arcadia Group Sharesave Scheme was 6.5 million, the total consideration being £9.7 million. These options may be exercised on the maturity of the relevant savings contracts between 2001 and 2007 and may be satisfied, at the Company's discretion, either by the issue of new shares or by the delivery of existing shares from its ESOP trusts (see note 13).
- b. At 26th August 2000, the aggregate number of ordinary shares subject to options granted under the Arcadia Group Approved and Unapproved Executive Share Option Schemes, was 11.8 million, the total consideration being £38.3 million. These options may be exercised between 2001 and 2009 and may be satisfied, at the Company's discretion, either by the issue of new shares or by the delivery of existing shares from its ESOP trusts (see note 13).
- c. Holders of the £0.2 million floating rate unsecured convertible loan notes 1998/2003 have the right at any time until 28th June 2003 to convert their notes into ordinary shares at the conversion rate of one ordinary share for every 410p of the principal value of the notes. Loan note holders also have the right to redeem at par quarterly.

23. Reserves

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
Group					
At 29th August 1999 as previously stated	327.6	223.4	44.8	(190.3)	405.5
Prior year adjustment (note 12c)	–	–	–	(4.4)	(4.4)
At 29th August 1999 as restated	327.6	223.4	44.8	(194.7)	401.1
Retained loss for the financial year	–	–	–	(152.1)	(152.1)
At 26th August 2000	327.6	223.4	44.8	(346.8)	249.0
	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
Company					
At 29th August 1999	327.6	223.4	–	161.4	712.4
Retained loss for the financial year	–	–	–	(137.8)	(137.8)
At 26th August 2000	327.6	223.4	–	23.6	574.6

The Group profit and loss account includes a £3.3 million charge (1999 – £nil) in respect of joint ventures. The aggregate amount of goodwill written off to reserves on acquisition of subsidiary undertakings is £134.9 million (1999 – £134.9 million).

32 Notes to the Accounts (continued)

24. Reconciliation of movements in shareholders' funds

	2000 £m	Group 1999 (restated) £m	2000 £m	Company 1999 £m
(Loss) / profit for the financial year	(152.1)	28.2	(137.8)	(42.3)
Dividends	–	(21.3)	–	(21.3)
Shares issued net of costs	(152.1)	6.9	(137.8)	(63.6)
	–	0.5	–	0.5
Net change in shareholders' funds	(152.1)	7.4	(137.8)	(63.1)
Opening shareholders' funds as previously stated	556.9	548.4	863.8	926.9
Prior year adjustment (note 12c)	(4.4)	(3.3)	–	–
Opening shareholders' funds as restated	552.5	545.1	863.8	926.9
Closing shareholders' funds	400.4	552.5	726.0	863.8

25. Contingent liabilities and capital commitments

The Company has guaranteed the overdrafts and certain performance bonds in respect of certain subsidiary undertakings which, at 26th August 2000, amounted to £0.4 and £0.1 million respectively and has guaranteed the rents payable of certain subsidiary undertakings which amounted to £112.5 million during the year.

The company has given guarantees in respect of bank overdraft facilities of certain overseas franchises, which at the year end amounted to £2.4 million (1999 – £1.8 million).

	2000 £m	Group 1999 £m	2000 £m	Company 1999 £m
Contracted capital expenditure note provided in the accounts	15.0	25.0	1.5	1.0

26. Lease commitments

	2000 £m	Group 1999 £m	2000 £m	Company 1999 £m
Operating lease commitments in respect of land and buildings for the 2001 financial year, on leases expiring:				
Within one year	9.6	3.7	0.1	0.2
Between one and five years	21.6	26.8	–	1.5
Over five years	182.2	194.1	1.4	2.0
	213.4	224.6	1.5	3.7
Operating lease commitments in respect of other assets for the 2001 financial year, on leases expiring:				
Within one year	0.8	0.2	0.8	0.2
Between one and five years	5.4	1.5	5.4	1.5
Over five years	–	–	–	–
	6.2	1.7	6.2	1.7

27. Related party transactions

The Group has a 65% interest in Dial Home Shopping Ltd, the direct home shopping company operated under a joint venture arrangement with Littlewoods. Under this arrangement, the Group provides stock for all Dial's sales to customers and also provides management, administrative and operational support, including the secondment of staff. During the year, the Group made sales to Dial covering these goods and services amounting to £20.0 million (1999 – £19.5 million).

In addition, the Group manages Dial's banking arrangements to take advantage of the scale of the Group's treasury operations. During the year, under this arrangement, the Group paid interest of £0.2 million (1999 – £0.3 million) to Dial and at the year-end had borrowed £2.4 million (1999 – £3.5 million) from Dial. The Group has guaranteed the bank accounts operated by Dial.

The Group has a 50% interest in Zoom.co.uk Limited, the e-commerce and free internet service provider operated under a joint venture agreement with Associated Newspapers Limited. Under this agreement Zoom hosts and maintains web-sites relating to Arcadia stores and Arcadia brands. During the year Zoom made sales to the Group covering these services of £0.9 million (1999 – £0.1 million). The Group provides management, administrative, advertising and operational support, including the secondment of staff to Zoom. During the year, the Group made sales to Zoom covering these goods and services amounting to £2.1 million (1999 – £0.3 million). At the year end amounts were owed to the Group by Zoom of £3.9 million.

An ISP Partnership agreement exists between Dial Home Shopping Limited and Zoom.co.uk Limited. Under this agreement Dial pays a commission based upon sales made through the Zoom web-site or Arcadia web-sites. During the year Zoom made sales to Dial in respect of this agreement amounting to £0.3 million. At the year end £0.1 million was owing to Zoom by Dial.

28. Pension commitments

The Group operates two funded defined benefit schemes in the UK, the assets of which are held in separate trustee administered funds. Actuarial valuations of Arcadia Group's two schemes were carried out as at 26th January 1998, using the projected unit method. The assumptions which have the most significant effect on the results of the valuations are those relating to the rate of return on investments and the rate of increases in salaries, pensions and dividend income of the funds. It was assumed that over the long term the investment return would be 8% per annum, that salary increases would average 6% per annum, that present and future pensions would increase in payment at 4% per annum, and that the dividend income received by the funds would increase at 4.25% per annum. At the date of the valuations and after allowing for the effect of the transfers to the Debenhams schemes, the total market value of the assets of the schemes was £483.6 million. The actuarial value of the assets was sufficient overall to cover 127% of the benefits that had accrued to members at that date, after allowing for assumed future increases in earnings. In the light of this financial position, the Group continued the suspension of its contributions to the scheme throughout 1999/2000.

Statement of Standard Accounting Practice Number 24 'Accounting for Pension Costs' requires that the costs of providing pensions are recognised over the period benefiting from the employees' services, with any difference between the charge to the profit and loss account and the contributions paid to the scheme being shown as an asset or liability in the balance sheet. The pension cost has been assessed in accordance with the advice of qualified actuaries using the actuarial method and assumptions set out above. Variations in cost have been spread over the estimated average remaining working lifetime of the members of each scheme. The total pension cost in respect of these schemes was £nil (1999 – £nil). There is a pension prepayment due in over one year in the balance sheet of £12.4 million (1999 – £12.4 million).

34 Notes to the Accounts (continued)

29. Cash flow

	2000	1999 (restated)		
	£m	£m		
Reconciliation of operating profit to net cash flow from operating activities:				
Operating profit before exceptional items	15.0	51.4		
Depreciation and amortisation	96.2	73.7		
Release of provision for own shares	—	(1.0)		
Decrease / (increase) in stocks	14.7	(15.2)		
Decrease in debtors	4.0	6.7		
(Decrease) / increase in creditors	(34.3)	7.8		
Net cash inflow from ongoing activities	95.6	123.4		
Net cash outflow from exceptional items	(16.4)	(13.6)		
Net cash inflow from operating activities	79.2	109.8		
	Cash at bank and in hand £m	Debt due within one year £m	Debt due after one year £m	Net debt £m
b. Analysis of net debt				
At 29th August 1999	60.3	(94.2)	(193.5)	(227.4)
Increase in cash	5.6	—	—	5.6
Cashflow from debt and lease financing	—	(5.3)	(0.5)	(5.8)
Movement in liquid resources	(29.3)	—	—	(29.3)
Non cash movement in debt	—	(33.2)	33.2	—
At 26th August 2000	36.6	(132.7)	(160.8)	(256.9)

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover	1,945.0	1,522.4	2,086.6	2,562.3	2,302.0
Trading profit before exceptional items	12.0	51.1	172.3	201.9	161.6
Interest and similar charges	(20.5)	(9.3)	(6.7)	(15.3)	(10.3)
(Loss) / profit before exceptional items	(8.5)	41.8	165.6	186.6	151.3
Exceptional items	(144.0)	4.9	0.3	(65.6)	-
(Loss) / profit before taxation	(152.5)	46.7	165.9	121.0	151.3
Taxation	0.4	(18.5)	(53.2)	(38.9)	(40.9)
(Loss) / profit for the financial year	(152.1)	28.2	112.7	82.1	110.4
Dividends	-	(21.3)	(851.1)	(50.0)	(40.3)
Transfer (from) / to reserves	(152.1)	6.9	(738.4)	32.1	70.1
Share capital	151.4	151.4	151.2	146.4	144.7
Reserves	249.0	401.1	397.2	784.1	769.4
Capital employed	400.4	552.5	548.4	930.5	914.1
(Loss) / earnings per share:					
- basic (p)	(84.2)	15.6	61.7	45.7	62.4
- before exceptional items and goodwill amortisation (p)	(9.1)	15.7	62.4	75.9	62.4
Dividend per share (p)	-	11.7	11.7	27.2	22.4
Dividend cover (times):					
- after exceptional items	-	1.3	5.3	1.6	2.7
- before exceptional items and goodwill amortisation	-	1.3	5.4	2.7	2.7

Note

In January 1998 the Group demerged Debenhams by way of a free distribution of shares to existing shareholders of the Group. This dividend in specie of £830.0 million represented the net assets of Debenhams at the date of demerger of £520 million together with the goodwill written off on the original acquisition of £310.0 million. The turnover and operating profit attributable to the demerged activities of Debenhams included in the five year summary above in respect of 1998 and 1997 were as follows:

	1998 £m	1997 £m
Turnover	621.5	1,163.4
Operating profit	91.8	129.7

36 Shareholder Information

Shareholder discount scheme

Shareholders are reminded that the Company operates a discount scheme which is available to all private shareholders having at least 2,000 Arcadia Group shares registered in their own names. Shares registered in the names of third parties such as banks, stockbrokers, PEP and ISA managers or trustees do not entitle the beneficial owners to participate in the scheme.

The scheme operates through a shareholder account card and gives a discount of 12.5% off the price of most goods sold through the Group's retail outlets and home shopping services. This discount is allowed on the first £5,000 of eligible purchases made during the Group's financial year and is deducted automatically from the monthly account statement. From time to time the Group offers temporary promotional discounts linked to its retail brand account cards. These discounts are not normally available in combination with the shareholder discount.

Because a Consumer Credit Agreement must be entered into, shareholders wishing to apply for a shareholder account card must be at least 18 years of age. Persons having the required number of shares registered in their own name who would like more details of the scheme should write to: Arcadia Group Shareholder Discount Office, GE Capital Bank Limited, Torre House, Leeds LS99 2BD (telephone 0870 1242446).

Registrars

Enquiries relating to shareholdings in the Company and notifications of change of name or address should be sent to the Company's registrars: Computershare Services plc, P O Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH (telephone 0870 702 0000).

Report and Accounts

This Report and Accounts will be published on the Group's Internet website (www.arcadiagroup.co.uk) and copies may be downloaded from there.

Payment of dividends to mandated accounts

Shareholders who do not currently have their dividends paid direct to a bank or building society account and who wish to do so should complete a mandate instruction available from the Company's registrars. Under this arrangement, tax vouchers are sent to the shareholder's registered address unless the shareholder requests otherwise.

Amalgamation of shareholdings

Shareholders who have received more than one copy of this Report and Accounts may have more than one account in their name on the Company's register of members. Any shareholder wishing to amalgamate their holdings should write to the Company's registrars giving details of the accounts concerned and instructions on how they should be amalgamated.

Postal share dealing service

A postal share dealing service is available through Cazenove & Co. for private investors who wish to buy or sell Arcadia Group shares in a simple, cost effective way. Details of the scheme are available from Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN (telephone 020 7606 1768).

1999/2000 dividends

In the light of the Group's trading results, the board did not declare an interim dividend for the 1999/2000 financial year and does not recommend the payment of a final dividend.

2000/2001 Financial calendar

The Group plans to announce its 2000/2001 interim results on 5th April 2001 and its full year results on 25th October 2001.

Unsolicited mail

The law obliges the Company to make its register of members available to other organisations and as a consequence some shareholders may receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service, FREEPOST 22, London W1E 7EZ.
