Company No : 399575

AUSTIN REED LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 JANUARY 1999

Company No : 399575

AUSTIN REED LIMITED

REPORT OF THE DIRECTORS

for the year ended 31 January 1999

1. The directors present herewith the audited accounts for the year ended 31 January 1999.

Business Activities

2. The company manufactures and sells high quality apparel for both ladies and men and also provides ancillary services through its retail outlets in the UK.

Both the level of business and the year end financial position were satisfactory and the directors expect that the present level of activity in the retail division will be sustained for the foreseeable future. A decision has been made to review the future of the engineered line in the manufacturing division, in the early months of the next financial year.

3. Results and Dividends

The profit and loss account for the year is set out on page 5. The profit for the year, after taxation, amounted to £1,099,628 (1998: £4,966,352). An interim dividend of £156,837 was paid on 31 December 1998. A second interim dividend of £5,000,000 was paid on 31 January 1999.

The directors recommend that no final dividend be paid for the year ended 31 January 1999, thus leaving £4,057,209 to be transferred from retained profits (1998: £3,351,536 transferred to retained profits).

The Environment

4. The company has made further progress in improving its environmental performance, using the best practicable means. The working party, headed by the company Secretary, reviews the achievements of the company, sets new targets and encourages individuals to ensure that environmental issues are given careful consideration when planning operational activities. In addition to our own commitment, we encourage our suppliers to meet the environmental standards set by the company.

Year 2000 Compliance

5. During the year the Group progressed a programme of work to ensure that all information systems are compliant with Year 2000 requirements. This programme tested and, as appropriate, replaced or converted systems. The work has progressed in line with plan and at 31 January 1999 significant progress had been made with the final stage of work relating to point of sale equipment used in Austin Reed stores. This is due to be completed in June 1999.

The Group also established a project team to ensure that all other business critical devices which do not relate to information systems are also compliant.

The costs involved have been considerably offset by an existing systems development programme which is part of an ongoing drive for operational improvement. Some systems had previously been scheduled for rectification or replacement. The direct cost of modifying our systems is comparatively modest.

AUSTIN REED LIMITED

Directors

6. The directors of the company at 31 January 1999, all of whom have served throughout the year, unless otherwise stated were:-

C M L Evans - Chairman
A J Briggs
G Gibson
C A Houlihan
R W Jennings
M A Tiffin

C M L Evans and A J Briggs retire by rotation and, being eligible, offer themselves for re-election.

Directors' Interests

7. According to the register required to be kept by Section 325 of the Companies Act 1985, no director at 31 January 1999 had any interest in the shares of the company.

The interests of the directors in the shares of the company's Holding Company at the beginning and end of the financial year and the movements in their share options for the year were:-

	Ordinary Shares		Share Options				
	1 Feb 98	31 Jan 99	1 Feb 98	Granted	Exercised	Lapsed	31 Jan 99
A J Briggs	1,724	2,584	24,635	20,000	-	4,635	40,000

As permitted by Statutory Instrument the register does not include any shareholdings of directors who are also directors of the Holding Company.

Employment of Disabled Persons

8. It remains the policy of the company to give full and sympathetic consideration to the employment, training, career development and promotion of disabled persons including those becoming disabled after their employment has commenced.

Employee Involvement

9. The company has maintained its arrangements for employee involvement.

Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

Auditors

10. Our auditors, Coopers and Lybrand, merged with Pricewaterhouse on 1 July 1998, and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the Company will be proposed at the annual general meeting.

PricewaterhouseCoopers have signified their willingness to continue in office.

AUSTIN REED LIMITED

11. Payment of Suppliers

It is the company's policy to pay its suppliers in accordance with the terms of trade which may be agreed at the time of order.

The company's average credit payment period at 31 January 1999 was 33 days (1998 : 29 days).

By Order of the Board

Miss J Anders
Secretary
22 April 1999

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The directors are required by UK Company Law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

In preparing the accounts for the year ended 31 January 1999, suitable accounting policies have been used and applied consistently, framed by reference to reasonable and prudent judgements and estimates. Applicable accounting standards have been followed and the accounts have been prepared on a going concern basis. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and for ensuring that steps are taken to prevent and detect fraud and other irregularities.

By Order of the Board

Miss J Anders
Secretary

22 April 1999

REPORT OF THE AUDITORS TO THE MEMBERS OF AUSTIN REED LIMITED

We have audited the accounts on pages 5 to 15 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 pages 7 and 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board 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 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 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.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 January 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
22 April 1999

For the year ended 31 January 1999

	Notes	1999 £	1998 £
Turnover	1 & 2	74,135,618	81,361,055
Cost of sales		43,740,734	45,810,703
Gross profit		30,394,884	35,550,352
Operating expenses and other income	3	27,523,500	28,133,648
Exceptional operating expenses and other income	4	852,366	-
Operating profit		3,723,750	7,416,704
Profit on disposal of fixed assets	5	(316,419)	-
Loss on termination operations	5	1,578,000	-
		2,462,169	7,416,704
Interest payable	6	476,166	194,432
Profit on ordinary activities before taxation	7	1,986,003	7,222,272
Taxation	1 & 10	886,375	2,255,920
Profit on ordinary activities after taxation		1,099,628	4,966,352
Dividends on equity shares paid and proposed		5,156,837	1,614,816
Retained (loss)/profit for the financial year	17	(4,057,209)	3,351,536

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 January 1999

	Notes	1999 £	1998 £
Profit for the financial year		1,099,628	4,966,352
Unrealised surplus on property revaluation	18	12,048,683	34,000
Total recognised gains		13,148,311	5,000,352

The company had no discontinued operations or acquisitions in either year.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

at 31 January 1999

	Notes	1999		1998	
		£	£	£	£
FIXED ASSETS					
Tangible assets	1 & 12		37,965,939		30,162,179
CURRENT ASSETS					
Stocks	1 & 13	20,990,718		21,763,400	
Debtors	14	9,795,609		9,032,811	
Cash at bank and in hand		287,527		94,030	
		31,073,854		30,890,241	
CREDITORS					
Amounts falling due within one year	15	32,109,152		33,092,154	
			(1,035,298)		(2,201,913)
Total assets less current liabilities			36,930,641		27,960,266
PROVISION FOR LIABILITIES AND CHARGES	1 & 11		2,513,805		1,568,904
			34,416,836		26,391,362
CAPITAL AND RESERVES					
Called up share capital	16		45,000		45,000
Retained profit	17		10,457,774		11,481,764
Share premium account			1,627,681		1,627,681
Revaluation reserve	18		22,281,381		13,231,917
Capital redemption reserve			5,000		5,000
Total shareholder's funds	19		34,416,836		26,391,362
Equity shareholder's funds			34,381,836		26,356,362
Non-equity shareholder's funds			35,000		35,000
Total shareholder's funds			34,416,836		26,391,362

The accounts on pages 5 to 15 were approved by the Board of Directors on 16 April 1999 and are signed on its behalf by :

G Gibson G. Gibson. Director

at 31 January 1999

1. ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention, modified by the revaluation of certain fixed assets, and Accounting Standards in the United Kingdom.

Turnover
Turnover is the amount receivable from customers and licensees. Turnover excludes Value Added Tax.

Licensing Income
The company accounts for royalties on an accruals basis taking a prudent view of the income earned by reference to agreed minimum payments and sales information provided by licensees.

Fixed Assets and Depreciation
Freehold and long leasehold properties were revalued at 31 January 1999 and the values have been included in these accounts. No value is attributed to short leaseholds. Plant and fittings are included at cost.

Provision is made for the depreciation of fixed assets over their useful lives where it is necessary to reflect a reduction from book value to estimated value.

It is the company's policy to maintain its properties in a state of good repair to prolong their useful lives, and in the case of freehold and long leasehold properties the Directors consider that the lives of these properties and their residual values are such that their depreciation is not significant. Accordingly, no depreciation is provided on freehold and long leasehold properties. In the event that the value of a property permanently diminishes, provision is made in the profit and loss account.

It is general policy to write off the historical cost of plant and fittings in even amounts over ten years and motor vehicles and computer equipment over four years.

Stocks
Stock of merchandise and materials are valued at the lower of cost and net realisable value.

Deferred Taxation
Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Foreign Currencies
Profit and loss items are translated at appropriate average rates and assets and liabilities are translated at the rates ruling at the end of the year. All other exchange differences are taken to the profit and loss account.

Pension Scheme
The company's pensionable employees are members of the Austin Reed Group contributory defined benefit scheme. Charges to the profit and loss account are made in accordance with the Group pension arrangements.

at 31 January 1999

1. ACCOUNTING POLICIES (Continued)

Operating Leases
Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Cashflow Statement
The company is a wholly-owned subsidiary of Austin Reed Group PLC and the cash flows of the company are included in the consolidated group cash flow statement of Austin Reed Group PLC. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a cashflow statement.

2. SEGMENT ANALYSIS
The analysis by class of business of turnover and profit before taxation is set out below.

Turnover

	1999	1998
Class of business	£	£
Retail	61,668,989	66,968,846
Manufacturing	18,161,062	19,185,683
Inter-segment sales	(7,619,552)	(7,438,000)
Licensing	1,925,119	2,644,526
	74,135,618	81,361,055

	1999	1998
Sales by destination	£	£
United Kingdom	66,721,714	72,154,529
Rest of Europe	2,346,180	3,622,000
North America	3,608,098	3,134,030
Far East	1,348,626	2,206,496
Rest of World	111,000	244,000
	74,135,618	81,361,055

A segment analysis of profit before taxation is not provided as in the opinion of the Directors the information would be misleading and detrimental to the interests of the company.

at 31 January 1999

3. NET OPERATING EXPENSES

Net operating expenses are analysed as follows :-

	1999 £	1998 £
Selling expenses	25,770,333	24,081,723
Administration expenses	2,500,601	4,241,158
Other operating (income)/charges:		
From fellow subsidiaries	(795,276)	(493,610)
From other sources	47,842	304,377
	27,523,500	28,133,648

4. EXCEPTIONAL OPERATING EXPENSES AND OTHER INCOME

Exceptional operating expenses and other income comprise items which by way of their size or nature are not considered part of the regular trade of the Company and are therefore shown separately.

Following a ruling in the Court of Appeal the Company, together with other organisations who operated self-financed credit card schemes, received a repayment of VAT of £867,000. This gain was reduced by reorganisation costs of £14,634.

5. EXCEPTIONAL ITEMS

The profit on disposal of fixed assets of £316,419 relates to the sale and leaseback of a freehold property.

The loss on termination of operations of £1,578,000 relates to closure costs and asset write-offs associated with factories in Lifford, Eire and Knaresborough, England.

6. INTEREST PAYABLE

	1999 £	1998 £
Interest payable on bank loans and overdrafts wholly repayable within five years	476,166	194,432
	476,166	194,432

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999 £	1998 £
Profit on ordinary activities before taxation is stated after charging/(crediting) :		
Property rentals	6,195,521	5,471,939
Depreciation	2,830,218	2,972,751
Gain on sale of fixed assets	(404,510)	(14,477)
Equipment leases - Note 8	480,473	491,565
Auditors' remuneration - Audit fees	60,000	60,000
Auditors' remuneration - Non-Audit fees	-	-
Loss on translation of foreign currencies	14,399	133,795

at 31 January 1999

8. OPERATING LEASE COMMITMENTS

	1999		1998	
	Land & Buildings £	Plant & Machinery £	Land & Buildings £	Plant & Machinery £
Annual commitments under operating leases at 31 January 1999 are as follows :				
Expiring within one year	884,600	133,649	205,000	491,565
Expiring between two and five years	907,400	-	1,840,000	-
Expiring in over five years	5,124,100	240,000	3,514,350	-
	6,916,100	373,649	5,559,350	491,565

9. EMPLOYEES

The average number of persons employed by the company including Executive Directors during the year is analysed below:-

	1999 Number	1998 Number
Production	687	554
Selling and administration	532	668
	1,219	1,222

Staff costs during the year amounted to :

	£	£
Wages and salaries	16,204,270	16,416,403
Social security costs	1,326,109	1,336,352
Other pension costs	468,418	477,769
	17,998,797	18,230,524

Directors' Remuneration

	£	£
Aggregate emoluments	66,667	57,160

Retirement benefits are accruing to one director under a defined benefit scheme.

at 31 January 1999

10. TAXATION

The taxation charge which is based on the profit for the year is made up as follows :-

	1999 £	1998 £
Current year :		
UK Corporation tax at 31.0% (1998 - 31.3%)	1,170,466	2,746,018
Less relief for overseas tax	(128,315)	(196,559)
	1,042,151	2,549,459
Overseas taxation	128,315	196,559
Deferred taxation	(189,868)	(306,081)
	980,598	2,439,937
Prior year adjustment :		
Corporation tax	(102,636)	(96,092)
Deferred tax	8,413	41,446
Adjustment to deferred tax balances due to change in tax rates	-	(129,371)
	886,375	2,255,920

11. PROVISION FOR LIABILITIES AND CHARGES

	1999 £	1998 £
Deferred taxation provided for in the accounts at 31.0% (1998 - 30.0%) is as follows :-		
Amount provided at beginning of year	1,568,904	1,962,910
Transfer to profit and loss account	(181,455)	(394,006)
Transfer to fellow subsidiaries	(234,961)	-
Transfer from revaluation reserve	224,317	-
	1,376,805	1,568,904
Provision for termination of operations		
Amount provided at beginning of year	-	-
Charged in the year	1,137,000	-
	1,137,000	-
Total provision for liabilities and charges	2,513,805	1,568,904
Deferred taxation is provided on :		
Accelerated capital allowances	1,160,488	1,478,079
Deferred capital gains on properties	321,317	150,825
Short term timing differences	(105,000)	(60,000)
	1,376,805	1,568,904
Potential liability not provided for corporation tax on heldover capital gains	73,488	157,500
Potential liability not provided for corporation tax if properties were disposed of at their revalued amounts	1,989,947	479,001

at 31 January 1999

12. FIXED ASSETS

	Freehold Property £	Leasehold Property £	Plant £	Motor Vehicles £	Total £
Cost (or Valuation) :					
At 1 February 1998					
- Valuation at 31 January 1998	13,327,000	5,650,000	-	-	18,977,000
- Cost	-	-	26,243,811	1,423,823	27,667,634
Additions	-	-	4,853,750	259,713	5,113,463
Transfers to fellow subsidiary	(1,850,000)	-	(474,689)	-	(2,324,689)
Disposals	(3,775,000)	-	(4,653,715)	(1,360,884)	(9,789,599)
Revaluation	5,923,000	6,350,000	-	-	12,273,000
At 31 January 1999	13,625,000	12,000,000	25,969,157	322,652	51,916,809
Depreciation :					
At 1 February 1998	-	-	15,667,489	814,966	16,482,455
Charges in the year	-	-	2,614,847	215,371	2,830,218
Transfers to fellow subsidiary	-	-	(20,064)	-	(20,064)
Disposals	-	-	(4,524,981)	(816,758)	(5,341,739)
At 31 January 1999	-	-	13,737,291	213,579	13,950,870
Net book value :					
At 31 January 1999	13,625,000	12,000,000	12,231,866	109,073	37,965,939
At 1 February 1998	13,327,000	5,650,000	10,576,322	608,857	30,162,179

All the freehold and leasehold properties were revalued on an open market basis at 31 January 1999. The freehold property at Sackville Street, London and the long leasehold property at Regent Street, London were revalued by Nelson Bakewell, Chartered Surveyors. One freehold manufacturing property in Knaresborough was valued by the directors. All the remaining freehold properties were revalued by Hillier Parker, Chartered Surveyors.

No value has been attributed to any short leasehold properties.

The excess of the revaluation of freehold and leasehold properties over their original cost is represented by the Revaluation Reserve.

at 31 January 1999

13. STOCK

	1999 £	1998 £
Raw Materials	3,403,811	3,235,940
Work in Progress	1,107,744	1,475,010
Finished Goods	16,479,163	17,052,450
	20,990,718	21,763,400

14. DEBTORS

Amounts falling due within one year

	1999 £	1998 £
Trade debtors	4,363,392	4,198,199
Amounts due from fellow subsidiaries	1,502,735	963,388
Other debtors	433,125	1,042,837
Prepayments	3,496,357	2,828,387
	9,795,609	9,032,811

15. CREDITORS

Amounts falling due within one year

	1999 £	1998 £
Trade creditors	4,817,014	4,704,667
Amount due to parent company	20,324,311	19,946,613
Amount owed to fellow subsidiaries	234,962	837,252
Other taxation and social security	2,937,458	1,648,746
Corporation tax payable	936,751	2,501,331
Accruals	2,858,656	3,453,545
	32,109,152	33,092,154

at 31 January 1999

16. SHARE CAPITAL

	Authorised 1999 & 199 £	Issued & Fully Paid 1999 & 1998 £
15,000 ordinary shares of £1 each	15,000	10,000
35,000 second preference shares of £1 each	35,000	35,000
	50,000	45,000

Preference shares are non-redeemable, non-voting and have a preferential right to return of capital on winding up.

17. RETAINED PROFIT

	1999 £	1998 £
At 1 February 1998	11,481,764	8,130,228
Transfer from Revaluation Reserve	3,033,219	-
Retained profit for the year	(4,057,209)	3,351,536
At 31 January 1999	10,457,774	11,481,764

18. REVALUATION RESERVE

	1999 £	1998 £
At 1 February 1998	13,231,917	13,197,917
Transfer to Retained Profit	(3,033,219)	-
Revaluation of properties	12,307,000	34,000
Deferred taxation provided on property revaluation	(224,317)	-
At 31 January 1999	22,281,381	13,231,917

19. MOVEMENT IN SHAREHOLDER'S FUNDS

	1999 £	1998 £
Opening shareholder's funds	26,391,362	23,005,826
Other recognised gains	12,082,683	34,000
Retained profit for the year	(4,057,209)	3,351,536
Closing shareholder's funds	34,416,836	26,391,362

20. CAPITAL COMMITMENTS

The company had no capital commitments at the year end in respect of expenditure authorised by the directors whether contracted for or not contracted for (1998 - £Nil)

21. CONTINGENT LIABILITY

The company and a fellow subsidiary have guaranteed a loan to its holding company. As at 31 January 1999 the balance on this loan was £20,350,000 (1998 - £Nil)

22. ULTIMATE CONTROLLING PARTY

The company is a wholly owned subsidiary of Austin Reed Group PLC, a company registered in England. Under the terms of Financial Reporting Standard No. 8 Austin Reed Limited is exempt from disclosing related party transactions and balances with entities within Austin Reed Group PLC. Copies of the consolidated accounts of Austin Reed Group PLC may be obtained from The Secretary, PO Box 2, Thirsk, North Yorkshire YO7 1PF.

23. POST BALANCE SHEET EVENT

In March 1999 the Company announced its intention to close the production line relating to non-hand tailored garments at its factory in Crewe.
The Company estimates that the cash outflow in the year to January 2000 will be £2 million as a result of this decision.