ARTHUR ANDERSEN

Sara Lee UK Holdings PLC

Consolidated accounts 30 June 1998
together with directors' and auditors' reports

Registered number: 1558575

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COMPANIES HOUSE 11/01/99

Directors' report

For the year ended 30 June 1998

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the year ended 30 June 1998.

Principal activities and business review

The company's principal activities are to act as an investment holding company and the manufacture and marketing of branded hosiery products.

The principal activities of the group are the manufacture and marketing of branded products in the markets of household products, toiletries, hosiery, ladies foundation garments, coffee products and frozen cakes and desserts.

The turnover of the group from continuing activities increased by 3% (1997: 2%), reflecting the full year impact of the prior year acquisitions and an otherwise generally stable market in the group's major areas of operation.

The strategy of the group is to concentrate development to achieve low cost production, and to explore new distribution channels behind value added products.

Results and dividends

Group results are as follows:

	£'000
Group retained profit at beginning of year	77,305
Group profit for the financial year after taxation	2,413
Interim dividend paid	(16,000)
Transfer from other reserves	596
Goodwill written off	(60)
Currency translation differences on foreign currency net investments	(148)
Group retained profit at end of year	64,106

The directors do not recommend the payment of a final dividend.

Directors and their interests

The directors who served during the year were as shown below:

O.P. Livingston
A.J.M. van Bilsen
D. Kennedy
J.A.N. van Dijk
R. A. Mason

The directors who held office at 30 June 1998 had no beneficial interests in the shares of the company requiring disclosure under Schedule 7 of the Companies Act 1985.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit and loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Charitable donations

The group donated £14,000 (1997: £3,603) to charities during the year.

Disabled employees

It is the group's policy to give full and fair consideration to applications for employment by disabled persons, having regard to their particular experience, aptitudes and abilities and mindful that the willingness and conscientiousness of many disabled persons goes far to counterbalance their disability. It is also the group's policy, where appropriate, to train, promote and develop the careers of disabled employees.

Employee consultation

Throughout the group, management view positively the need to achieve a satisfactory degree of employee involvement in their businesses and have worked for several years to establish and develop activities to bring about this objective. The activities are those which are appropriate to each company and to each group of employees within the companies. They encompass the regular transmission of information on matters of concern to employees, including trading performance, by the publication of news bulletins, circularising and displaying notices, and both formal and informal consultative arrangements.

Year 2000

The Year 2000 issue, relating to date sensitive calculations, is one which affects all companies which are reliant on computer based technologies. The group is giving high priority to the impact of the millennium and is taking significant and positive steps to minimise the effect of the Year 2000 date change on the group's ability to continue to provide its products to customers. These steps include discussions with both suppliers and customers as appropriate as the board recognises the impact of their respective IT environments on the future performance of the group.

Each subsidiary within the group has implemented a Year 2000 programme which is led by the local Information Systems Manager with the support of groupwide Year 2000 experts. The modifications necessary are often embodied in software purchased and developed in the normal course of business. This programme forms part of the group's ongoing investment in information technology, which underpins its operational performance, and is expected to be completed by the end of the next financial year. The directors are satisfied that the total future amount to be spent on the Year 2000 issue will not be material to the future profitability or liquidity of the group.

Payment of creditors

The group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. At the year end, company trade creditors outstanding represented 47 days purchases (1997: 46 days).

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

225 Bath Road
Slough
Berkshire
SL1 4AU

By order of the Board,

R. A. Mason

Director

23 December 1998

Auditors report

Reading

To the Shareholders of Sara Lee UK Holdings PLC:

We have audited the accounts on pages 5 to 31 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 10 to 13.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 circumstances of the company and of the group, 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 affairs of the company and of the group at 30 June 1998 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

Abbots House
Abbey Street
Reading
Berkshire
RG1 3BD

23 December 1998

Consolidated profit and loss account

For the year ended 30 June 1998

	Notes	1998		1997	
		£'000	£'000	£'000	£'000
Turnover					
Continuing operations		374,027		363,530	
Acquisitions		34,252		-	
	2		408,279		363,530
Cost of sales	3		(246,872)		(217,480)
Gross profit			161,407		146,050
Operating expenses	3		(142,259)		(132,537)
Operating profit from continuing operations		17,970		13,513	
Operating profit from acquisitions		1,178		-	
Total operating profit			19,148		13,513
Investment income	4		2,941		3,484
Interest payable and similar charges	5		(6,942)		(6,885)
Profit on ordinary activities before taxation	6		15,147		10,112
Tax on profit on ordinary activities	8		(12,831)		(5,572)
Profit on ordinary activities after taxation			2,316		4,540
Minority interests	19		97		34
Profit attributable to members			2,413		4,574
Dividends paid and proposed	9		(16,000)		-
Retained (loss) profit for the year			(13,587)		4,574

A statement of movements on reserves is given in Note 19 to the accounts.

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

Consolidated statement of total recognised gains and losses

For the year ended 30 June 1998

	1998 £'000	1997 £'000
Profit for the financial year	2,413	4,574
Currency translation differences on foreign currency net investments	(148)	(69)
Transfer from deferred taxation to non-distributable reserve	-	312
Total recognised gains and losses relating to the year	2,265	4,817

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

No note of historical cost profits and losses has been presented as the directors are of the opinion that the reported result is not materially different from the result which would have been reported using the historical cost basis.

Consolidated balance sheet

30 June 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Intangible assets	10	45,975	48,729
Tangible assets	11	74,674	67,698
Investments	12	1,894	1,894
		122,543	118,321
Current assets			
Stocks	13	47,643	44,385
Debtors - Amounts falling due within one year	14	97,889	91,129
- Amounts falling due after more than one year	14	18,889	19,737
Cash at bank and in hand		5,150	6,910
		169,571	162,161
Creditors: Amounts falling due within one year	15	(111,688)	(96,695)
Net current assets		57,883	65,466
Total assets less current liabilities		180,426	183,787
Creditors: Amounts falling due after more than one year	16	(50,859)	(51,045)
Provisions for liabilities and charges	17	(6,928)	(3,279)
Net assets		122,639	129,463
Capital and reserves			
Called-up share capital	18	41,759	40,356
Share premium account	19	11,619	8,213
Revaluation reserve	19	4,035	4,035
Other reserves	19	10,832	11,428
Profit and loss account	19	64,106	77,305
Merger reserve	19	(9,712)	(11,973)
Equity shareholders' funds	20	122,639	129,364
Equity minority interests	19	-	99
		122,639	129,463

Signed on behalf of the Board on 23 December 1998

R. A. Mason

R. A. Mason
Director

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

Company balance sheet

30 June 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	11	9,886	9,755
Investments	12	193,549	93,049
		203,435	102,804
Current assets			
Stocks	13	15,064	14,235
Debtors - Amounts falling due within one year	14	6,329	9,718
- Amounts falling due after more than one year	14	3,191	3,175
Cash at bank and in hand		-	657
		24,584	27,785
Creditors: Amounts falling due within one year	15	(123,468)	(19,199)
Net current (liabilities) assets		(98,884)	8,586
Total assets less current liabilities		104,551	111,390
Creditors: Amounts falling due after more than one year	16	(50,793)	(50,761)
Net assets		53,758	60,629
Capital and reserves			
Called-up share capital	18	41,759	40,356
Share premium account	19	11,619	8,213
Profit and loss account	19	380	12,060
Equity shareholders' funds	20	53,758	60,629

Signed on behalf of the Board on 23 December 1998

R. A. Mason
Director

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

Notes to accounts

30 June 1998

1 Statement of accounting policies

A summary of the principal group accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of land and buildings, and in accordance with applicable accounting standards.

b) Basis of consolidation

The group accounts consolidate the accounts of Sara Lee UK Holdings PLC and all of its subsidiary undertakings made up to 30 June 1998. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

The group reorganisation which took place on 28 June 1996 and resulted in the acquisition of Douwe Egberts Coffee Systems Limited and the 1992 acquisitions of the Kiwi Holdings Limited group and the Sara Lee (UK) Limited group have been accounted for in accordance with the principles of merger accounting.

No profit and loss account is presented for Sara Lee UK Holdings PLC, as provided by Section 230 of the Companies Act 1985. The company's retained loss for the financial year, as defined by the Act, was £11,680,000 (1997: retained profit £8,990,000).

c) Goodwill

Purchased goodwill and goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is considered separately for each acquisition and is either amortised over a period of up to 40 years or written off immediately to reserves, depending on the directors' assessment of its likely future value to the group.

d) Investments

Fixed asset investments in subsidiary undertakings are shown at cost less provisions for permanent diminution in value. Where advantage is taken of merger relief under Section 131 of the Companies Act 1985, investments are shown at the nominal value of the shares issued plus the fair value of any other consideration given. Where advantage is taken of group reconstruction relief under Section 132 of the Companies Act 1995, investments are shown at the nominal value of the shares issued plus the fair value of any other consideration given plus a minimum share premium which is the amount by which the base value of the net assets transferred exceeds the nominal value of the shares allotted. Only dividends received or receivable are included in the company's profit for the year.

1 Statement of accounting policies (continued)

d) Investments (continued)

Treasury notes are shown at market value and are revalued annually. Where market value is less than cost, movements in value are taken to the profit and loss account. Where market value exceeds cost, the excess is taken to a revaluation reserve.

e) Tangible fixed assets

Tangible fixed assets are recorded at historical cost or subsequent valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or value of each asset over its expected useful life by equal annual instalments. The principal rates presently used are:

Freehold buildings	2.5% per annum
Leasehold improvements	33 1/3% per annum
Office equipment	10%-50% per annum
Plant and machinery	5%-20% per annum

f) Stocks and work in progress

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

Costs represents expenses incurred in bringing each product to its present location and condition and includes a reasonable level of labour and manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

g) Pension costs

For defined benefit schemes the amount charged to the profit and loss account in respect of pensions costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are externally funded, with the assets of the scheme held separately from those of the group in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1 Statement of accounting policies (continued)

h) Foreign currency

In the accounts of individual undertakings, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

For the purposes of consolidation the closing rate method is used, under which translation gains or losses are shown as a movement on reserves. Profit and loss accounts of overseas subsidiary undertakings are translated at the closing exchange rate.

i) Turnover

Group turnover comprises the value of sales (excluding VAT and similar taxes and trade discounts) of goods and services in the normal course of business.

j) Leases

Assets held under finance leases are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals under operating leases are charged on a straight line basis over the lease term

k) Revaluation reserve

Surpluses or deficits arising on the revaluation of individual fixed assets are credited or charged to a non-distributable reserve known as the revaluation reserve (see also Note 19). Revaluation deficits in excess of the amount of prior revaluation surpluses on the same asset are charged to the profit and loss account.

l) Taxation

Tax payable is provided on taxable profits at the rate ruling in the relevant taxing authority. Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated on the liability method. Deferred tax is provided on timing differences, which will probably reverse at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

m) Capital instruments

Loans payable are initially recorded at the fair value of the consideration received net of costs incurred directly in connection with the issue of the loan. These costs are amortised as interest expense over the period for which the directors expect the loan to be outstanding. This period is determined by reference to the scheduled repayment of the loan and the possibility and likelihood of early repayment.

1 Statement of accounting policies (continued)

n) Cash flow statement

As described in Note 22, the results of the group are included in the consolidated accounts of Sara Lee Corporation. These accounts include a consolidated cash flow statement. The directors have chosen to take advantage of the exemption set out in Financial Reporting Standard 1 (Revised) and have not presented a consolidated cash flow statement.

2 Segment information

By geographical destination:	1998 £'000	1997 £'000
United Kingdom	351,509	310,925
Rest of Europe	32,340	28,633
Africa	16,594	17,347
Other	7,836	6,625
	408,279	363,530

Other segmental information has been omitted.

3 Analysis of continuing and acquired operations

Cost of sales and operating expenses may be analysed as follows:

	1998			1997
	Continuing £'000	Acquired £'000	Total £'000	Total £'000
Cost of sales	218,860	1,822	246,872	217,480
Operating expenses:				
Distribution costs	39,584	2,268	41,852	36,876
Sales and administrative expenses	97,613	2,794	100,407	95,661
	137,197	5,062	142,259	132,537

On 1 July 1997 the group acquired the Brossard UK bakery business from Grand Metropolitan Plc and on 29 December 1997 the group acquired the entire share capital of Loveable Italiana International Limited. Both of these acquisitions are detailed in Note 12.

4 Investment income

Investment income comprises:

	1998 £'000	1997 £'000
Interest receivable from other group undertakings	163	787
Other interest receivable	2,778	1,464
Exceptional item: Amortisation of receipt under covenant not to compete, net of related costs	-	1,233
	2,941	3,484

During the year ended 30 June 1992, the group received US$60 million under a non-competition agreement associated with the sale of the pharmaceutical business. This income was recognised over the 5 year life of the agreement.

Related taxation on the exceptional item:

	1998 £'000	1997 £'000
Deferred taxation at 33%	-	(406)

5 Interest payable and similar charges

	1998 £'000	1997 £'000
On loans repayable within five years:		
- bank loans and overdrafts	1,553	793
- loans from group undertakings	426	244
On finance leases	42	204
On 9.43 % guaranteed bonds due 2004	4,809	4,809
On overdue taxation	-	781
On all other loans	80	22
Amortisation of debt issue costs	32	32
	6,942	6,885

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998 £'000	1997 £'000
Depreciation and amounts written off:		
i. consolidation goodwill	902	902
ii. purchased goodwill and other intangibles	1,910	1,906
iii. tangible fixed assets		
- owned	14,192	8,931
- leased	592	729
Hire of plant and machinery	2,012	1,680
Other operating lease rentals	2,053	1,870
Auditors' remuneration - audit services	295	316
- other services	239	337

7 Staff costs

Particulars of employees (including executive directors) are as shown below:

	1998 £'000	1997 £'000
Employee costs during the year amounted to:		
Wages and salaries	62,273	50,442
Social security costs	5,235	4,235
Other pension costs (see also Note 21c)	2,863	2,429
	70,371	57,106

The average weekly number of persons employed by the group during the year was as follows:

	1998 Number	1997 Number
Production	3,331	2,837
Sales and administration	1,379	1,203
	4,710	4,040

7 Staff costs (continued)

Directors' remuneration:

The directors of the company received remuneration from subsidiary undertakings as follows:

	1998 £'000	1997 £'000
Emoluments	526	433

The above amounts for remuneration include the following in respect of the highest paid director:

	1998 £'000	1997 £'000
Highest paid director	309	293

Three of the directors are members of defined benefit pension schemes administered by the group (1997: Three). Details of the group's pension schemes are given in Note 21c.

8 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	1998 £'000	1997 £'000
UK corporation tax at 31% (1997: 32.5%)	4,757	2,191
Deferred taxation	3,722	1,516
Overseas taxation	1,529	1,669
	10,008	5,376
Write off of irrecoverable ACT	2,269	-
Adjustment of current taxation in respect of prior years	554	998
Adjustment of deferred taxation in respect of prior years	-	(802)
	12,831	5,572

An overseas tax charge arises as certain overseas members of the group have generated profits against which the surplus losses of other group undertakings cannot be offset. The profits of the UK members of the group have been offset in part by the surplus losses of other UK group members and the utilisation of brought forward losses. The consolidated tax charge also reflects disallowable charges on income such as the amortisation of intangible assets.

9 Dividends paid and proposed

	1998 £'000	1997 £'000
Interim dividend paid of £0.47 per £1 A ordinary share	16,000	-

10 Intangible fixed assets

The movement in the year was as follows:

	Consolidation goodwill £'000	Purchased goodwill and other intangibles £'000	Total £'000
Cost			
Beginning of year	36,110	32,744	68,854
Purchase of trade marks	-	58	58
End of year	36,110	32,802	68,912
Amounts written off			
Beginning of year	9,725	10,400	20,125
Amortisation	902	1,910	2,812
End of year	10,627	12,310	22,937
Net book value			
Beginning of year	26,385	22,344	48,729
End of year	25,483	20,492	45,975

11 Tangible fixed assets

Group	Land and buildings					
	Freehold £'000	Leasehold improvements £'000	Office equipment £'000	Plant and machinery £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation						
Beginning of year	36,034	496	7,734	74,873	1,620	120,757
Exchange adjustment	9	-	230	389	-	628
Additions	681	720	1,916	9,745	3,895	16,957
Acquisition of business undertakings	2,000	-	-	4,750	-	6,750
Disposals	(14)	-	-	(3,567)	-	(3,581)
Transfers	116	-	47	1,510	(1,673)	-
End of year	38,826	1,216	9,927	87,700	3,842	141,511
Depreciation						
Beginning of year	4,099	229	4,278	44,453	-	53,059
Exchange adjustment	10	-	112	314	-	436
Charge	1,360	614	1,374	11,436	-	14,784
Disposals	-	-		(1,442)	-	(1,442)
End of year	5,469	843	5,764	54,761	-	66,837
Net book value						
Beginning of year	31,935	267	3,456	30,420	1,620	67,698
End of year	33,357	373	4,163	32,939	3,842	74,674

11 Tangible fixed assets (continued)

Company	Freehold land and buildings £'000	Office equipment £'000	Plant and machinery £'000	Total £'000
Cost				
Beginning of year	3,500	3,618	19,347	26,465
Additions	-	720	1,330	2,050
Disposals	-	(938)	(1,873)	(2,811)
End of year	3,500	3,400	18,804	25,704
Depreciation				
Beginning of year	738	1,554	14,418	16,710
Charge	123	571	1,031	1,725
Disposals	-	(765)	(1,852)	(2,617)
End of year	861	1,360	13,597	15,818
Net book value				
Beginning of year	2,762	2,064	4,929	9,755
End of year	2,639	2,040	5,207	9,886

a) Revalued assets

Group

The value of certain land and buildings in the United Kingdom was reviewed on 31 March 1996 by an independent valuer, Hickman Shearer Chartered Surveyors. The resulting revaluation, on an existing use open market value basis, amounted to £16,850,000 including property enhancements and was reflected in the consolidated accounts at 30 June 1996.

The original cost and aggregate depreciation based on cost of land and buildings included at a valuation is:

	1998 Freehold £'000	1997 Freehold £'000
Original cost	15,069	15,069
Depreciation based on cost	(4,391)	(3,933)
	10,678	11,136

11 Tangible fixed assets (continued)

b) Leased assets

The net book value of assets capitalised under finance leases is as follows:

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Included within plant and machinery	564	879	-	-

c) Freehold land

Group

Freehold land amounting to £8,306,000 has not been depreciated.

12 Fixed asset investments

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Subsidiary undertakings	-	-	193,549	93,049
Other investments	1,894	1,894	-	-
	1,894	1,894	193,549	93,049

a) Principal group investments

At 30 June 1998 the company had investments in the following subsidiary undertakings. Investments held by subsidiary undertakings are shown inset under their immediate holding company. Unless otherwise stated, the company holds a 100% interest in the ordinary share capital of its subsidiary undertakings.

Name	Country of registration	Principal activity
Kitchens of Sara Lee UK Ltd	England and Wales	Manufacturer of frozen cakes and desserts
Finnegan's Famous Cakes Ltd	England and Wales	Manufacturer of frozen cakes and desserts
Hanes UK Ltd	England and Wales	Importing, selling and distribution of cotton knitwear products
Aris Isotoner UK Ltd	England and Wales	Importing and distribution of haberdashery products
Coach (UK) Ltd	England and Wales	Selling and marketing of leather goods
Pretty Polly Ltd	England and Wales	(D)
Elbeo Ltd	England and Wales	(D)

12 Fixed asset investments (continued)

a) Principal group investments (continued)

Sara Lee Direct Marketing UK Ltd	England and Wales	Retail distribution of knitwear and hosiery
Champion UK Ltd	England and Wales	Importing, selling and distribution of sportswear products
Inter Food Service Ltd	England and Wales	Importation and marketing of food products
Playtex Ltd	England and Wales	(A)
Loveable Italiana International Ltd	England and Wales	(A)
Playtex Trading Ltd	England and Wales	(D)
Kiwi Holdings Ltd	England and Wales	(B)
Sara Lee (UK Investments) Ltd	England and Wales	(B)
Sara Lee Household & Body Care UK Ltd	England and Wales	(C)
APD Chemicals Ltd	England and Wales	Export of raw materials to overseas group undertakings
Kiwi Caribbean Ltd	England and Wales	(C)
Kiwi Overseas Investments Ltd	England and Wales	(D)
Kiwi (Nigeria) Ltd (51% holding)	Nigeria	(C)
Kiwi (East Africa) Ltd	Kenya	(D)
Kiwi Brands Ltd	Zambia	(C)
Kiwi (EA) Ltd	England and Wales	(B)
Kiwi Brands Ltd	Kenya	(C)
Kiwi Brands (Private) Ltd	Zimbabwe	(C)
Douwe Egberts Coffee Systems Ltd	England and Wales	Distribution of beverage concentrates
Douwe Egberts (UK) Ltd	England and Wales	Distribution of coffee
Beverage Dispensing Systems Ltd	England and Wales	(D)
Jaffafarm Ltd	England and Wales	(D)
Jaffa-Lux Ltd	England and Wales	(D)
Laurentis UK Ltd	England and Wales	(D)
MacLachlan Catering Supplies Ltd	England and Wales	(D)
Moccomat (Leasing) Ltd	England and Wales	(D)
Paramount Refrigeration Services Ltd	England and Wales	(D)
Rasco Foods Ltd	England and Wales	(D)
R.A.S Jaffa Foods Ltd	England and Wales	(D)
Ashe Ltd	England and Wales	(C)
A.C.P. (UK) Ltd	England and Wales	(D)
Ashe Chemicals Ltd	England and Wales	(D)
Ashe Laboratories Ltd	England and Wales	(D)
Bath Road Ltd	England and Wales	(D)
Intec Proprietaries Ltd	England and Wales	(D)
Ipevet Ltd	England and Wales	(D)

12 Fixed asset investments (continued)

a) Principal group investments (continued)

NED-CF Holdings Ltd	England and Wales	(D)
Temana International Ltd	England and Wales	Development and supply of consumer insecticide and air freshener products

(A) These companies are all involved in the manufacture and distribution of hosiery and ladies foundation products.

(B) These companies are all investment holding companies.

(C) These companies are all involved in the manufacture or marketing of household products, cosmetics and toiletries.

(D) These companies are all dormant.

b) Investment in subsidiary undertakings

	1998 £'000	1997 £'000
Cost		
Beginning of year	95,549	85,629
Additions at cost	100,000	9,920
End of year	195,549	95,549
Provision for permanent diminution in value		
Beginning of year	(2,500)	-
Released (provided) in year	500	(2,500)
End of year	(2,000)	(2,500)
Net book value		
Beginning of year	93,049	85,629
End of year	193,549	93,049

During the year the following significant events and movements in fixed asset investments took place:

i) On 27 January 1998 the company subscribed at par for 100,000,000 ordinary shares of £1 each issued by its subsidiary undertaking, Sara Lee Finance UK.

ii) On 1 August 1997 the trade and certain assets and liabilities of Aris Isotoner UK Limited were sold as part of a worldwide divestment by Sara Lee Corporation. A provision for the resulting permanent diminution in value of the company's investment in Aris Isotoner UK Limited of £2,500,000 was made as at 30 June 1997 based on the expected loss on disposal. This has been adjusted to £2,000,000 following the completion of the disposal.

12 Fixed asset investments (continued)

iii) On 1 July 1997 the group acquired the UK trade and assets of the Brossard cake business of Grand Metropolitan Plc for £4,489,000 and on 29 December 1997 the group acquired the entire share capital of Loveable Italiana International Limited for £46,000.

The aggregate net assets acquired, and their fair values, were as follows:

	Brossard UK			Loveable
	Book value £'000	Revaluation £'000	Fair value to the group £'000	Book value £'000
Fixed assets				
Tangible	9,478	(2,728)	6,750	-
Current assets				
Debtors	-	-	-	505
Cash	-	-	-	46
Total assets	9,478	(2,728)	6,750	551
Creditors	-		-	(505)
	9,478	(2,728)	6,750	46
Goodwill			(2,261)	-
Cash consideration			4,489	46

The valuation of tangible fixed assets was performed by an independent valuer.

The directors do not consider either of these acquisitions to constitute substantial acquisitions and accordingly no further information has been presented.

iv) On 20 March 1998 the group acquired a further 11% of the issued ordinary share capital of Kiwi Nigeria Limited for £61,000, giving a total stake at the end of the year of 51%. The net assets of Kiwi Nigeria Limited at 20 March 1998 were £11,000, giving rise to £60,000 of goodwill which has been written off against reserves.

c) Other investments

	1998 £'000	1997 £'000
Cost or valuation		
Beginning and end of year	1,894	1,894

Other investments comprise UK government treasury stocks with an original cost of £990,000 (1997: £990,000), which are valued at market value, and bank deposits of £1,000,000 (1997: £1,000,000) redeemable in 2004.

Notes to accounts (continued)

13 Stocks

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Raw materials and consumables	10,541	7,838	2,357	2,169
Work in progress	7,718	7,194	5,347	4,724
Finished goods and goods for resale	29,384	29,353	7,360	7,342
	47,643	44,385	15,064	14,235

14 Debtors

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	47,456	42,001	4,742	4,772
Amounts owed by other group undertakings	44,190	43,035	117	407
VAT	1,192	732	-	-
Other debtors	1,453	1,996	966	1,329
Prepayments and accrued income	3,556	3,345	-	-
Corporation tax recoverable	42	20	-	-
Deferred tax asset (see Note 17)	-	-	504	3,210
	97,889	91,129	6,329	9,718
Amounts falling due after more than one year:				
Pension prepayment	18,889	19,737	3,191	3,175
	116,778	110,866	9,520	12,893

15 Creditors: Amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Obligations under finance leases	207	806	-	-
Bank overdraft	5,240	6,597	8,219	21
Trade creditors	33,048	28,188	6,336	5,911
Amounts owed to other group undertakings	20,593	22,509	102,815	9,756
Other creditors				
- corporation tax payable	10,130	7,208	1,458	-
- other taxation and social security payable	3,496	3,471	-	311
- VAT	604	760	-	16
- other creditors	345	252	-	-
- dividends payable to minority interests	3	-	-	-
Accruals and deferred income	38,022	26,904	4,640	3,184
	111,688	96,695	123,468	19,199

The bank overdraft is unsecured and is repayable upon demand.

16 Creditors: Amounts falling due after more than one year

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
9.43% guaranteed bonds due 2004	50,793	50,761	50,793	50,761
Obligations under finance leases	66	284	-	-
	50,859	51,045	50,793	50,761

On 13 January 1995 the company issued at par, less related issue costs of £319,000, £51,000,000 of 9.43% bonds redeemable at par on 15 December 2004. These bonds are listed on the London Stock Exchange, and they have been guaranteed by Sara Lee Corporation, the company's ultimate parent undertaking. Under the terms and conditions of the bonds in certain circumstances the company has the option to redeem the bonds prior to maturity.

Obligations under finance leases fall due within five years.

17 Provisions for liabilities and charges

Provisions for liabilities and charges comprise:

	Group	
	1998	1997
	£'000	£'000
Deferred taxation	6,928	3,279

Deferred taxation comprises:

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Accelerated capital allowances				
(Excess of tax allowances over book depreciation of fixed assets)	2,636	254	(382)	(677)
Other timing differences related to				
- pensions	5,737	6,118	962	984
- other	(1,445)	(3,093)	(1,084)	(3,517)
	6,928	3,279	(504)	(3,210)

The movement on deferred taxation comprises:

	Group	
	1998	1997
	£'000	£'000
Beginning of year	3,279	2,926
Exchange differences	(73)	(49)
Transferred to non-distributable reserve	-	(312)
Charged to profit and loss account	3,722	714
End of year	6,928	3,279

17 Provisions for liabilities and charges (continued)

The transfer to the non-distributable reserve reflects the impact of the change in corporation tax rate during the prior year on the deferred tax and non-distributable reserve associated with the pension prepayment which arose on the implementation of SSAP24 (Accounting for Pension Costs).

A deferred tax asset relating to losses available for offset against future profits has not been recognised in the accounts. Provision has not been made for taxes that would arise if land and buildings were to be disposed of at their book values as, in the opinion of the directors, there is no likelihood of properties being disposed of in the foreseeable future giving rise to significant tax liabilities.

18 Called-up share capital

	1998 £'000	1997 £'000
Authorised:		
92,135,538 A ordinary shares of £1 each	92,136	92,136
7,864,462 B ordinary shares of £1 each	7,864	7,864
	100,000	100,000

Allotted, called-up and fully paid:

	1998 £'000	1997 £'000
33,895,499 (1997: 32,492,473) A ordinary shares of £1 each	33,895	32,492
7,864,462 B ordinary shares of £1 each	7,864	7,864
	41,759	40,356

18 Called-up share capital (continued)

On 28 June 1996, 7,864,462 B shares were issued to Sara Lee/DE NV as consideration for the acquisition of Douwe Egberts Coffee Systems Limited. The rights of the A and B shareholders are governed by a shareholders' agreement. The A shares relate to the Sara Lee UK Holdings PLC (SLUKHP) business prior to the merger with Douwe Egberts Coffee Systems Limited (DECS) and the B shares relate to the DECS business. Dividends and any surplus on winding up are to be paid to each class of share based on the results of the respective businesses as determined by non audited accounts drawn up analysing the combined group into these two businesses.

On 17 January 1995 the company entered into a conditional share subscription agreement with Oegstgeest Capital BV, a company incorporated in The Netherlands. Under the terms of this agreement, upon notice of redemption of the bonds and provided that the fair market value of the shares at the date of redemption exceeds the subscription price as determined by the agreement, Oegstgeest Capital BV will be required to subscribe for £1 'A' ordinary shares in the company for cash consideration of £51,000,000 in order to finance the redemption of the bonds. Details of the redemption terms of these bonds are given in Note 16 above. The subscription price for the shares will be determined by reference to an agreed formula, and the number of shares to be issued will be calculated accordingly.

On 17 January 1995 the company entered into a further share subscription agreement with Oegstgeest Capital BV. Under the terms of this agreement, Oegstgeest Capital BV is required to subscribe for a number of ordinary shares for a total cash consideration of £1,977,157 on 15 June 1995 and £2,404,650 on 15 December and 15 June of each subsequent year for which the bonds are in issue in order to finance the interest payments on the bonds, at a subscription price which is determined by an agreed formula.

In accordance with the terms of this latter agreement, on both 15 December 1997 and 15 June 1998 the company issued 701,513 £1 A ordinary shares for £3.43 each in cash.

19 Reserves

Group	Share premium account £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss account £'000	Merger reserve £'000	Minority interests £'000
Beginning of year	8,213	4,035	11,428	77,305	(11,973)	99
Premium on allotment	3,406	-	-	-	-	-
Retained loss for the year	-	-	-	(13,587)	-	-
Transfer to profit and loss account	-	-	(596)	596	-	-
Loss attributable to minority interests	-	-	-	-	-	(97)
Currency translation differences on foreign currency net investments	-	-	-	(148)	-	(2)
Goodwill written off (see Note 12)	-	-	-	(60)	2,261	-
End of year	11,619	4,035	10,832	64,106	(9,712)	-

The cumulative amount of goodwill written off against the group's reserves is £20,870,000 (1997: £20,810,000).

The other reserves brought forward result from the recognition of a pension surplus on the implementation of SSAP24 (Accounting For Pension Costs) in a group company and are considered non-distributable. Further details are given in Note 21c to the accounts.

Company	Share premium account £'000	Profit and loss account £'000
Beginning of year	8,213	12,060
Premium on allotment	3,406	-
Retained loss for the year	-	(11,680)
End of year	11,619	380

20 Reconciliation of movements in shareholders' funds

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Retained (loss) profit for the financial year	(13,587)	4,574	(11,680)	8,990
Other recognised gains and losses	(148)	243	-	-
New share capital subscribed	4,809	4,809	4,809	4,809
Goodwill written off (see Note 12)	2,201	(1,259)	-	-
Net (reductions in) additions to shareholders' funds	(6,725)	8,367	(6,871)	13,799
Opening shareholders' funds	129,364	120,997	60,629	46,830
Closing shareholders' funds	122,639	129,364	53,758	60,629

21 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments were as follows:

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Contracted for but not provided for	739	955	739	908

21 Guarantees and other financial commitments (continued)

b) Lease commitments

The minimum annual rentals under operating leases are as follows:

	Group		Company	
	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
1998				
Operating leases which expire:				
- within 1 year	15	785	-	12
- within 2-5 years	339	1,757	79	25
- after 5 years	991	26	144	-
	1,345	2,568	223	37
1997				
Operating leases which expire:				
- within 1 year	246	168	4	13
- within 2-5 years	429	1,302	5	25
- after 5 years	1,007	11	214	-
	1,682	1,481	223	38

c) Pensions

The group operates a number of pension schemes. The major schemes which cover significantly all of its UK employees are of the funded defined benefit type. The assets for these schemes are held in separate trustee administered funds.

Actuarial valuations of the schemes are carried out by professionally qualified actuaries at regular intervals. The latest actuarial valuations were carried out between 1 January 1997 and 6 April 1997 and used the projected unit method. The assumptions which had the most significant effect on the results of the valuations were:

Investment returns	8% - 9.5%	per annum
Salary increases	6.5% - 7%	per annum
Pension increases	2.5% - 5%	per annum

The most recent actuarial valuations were completed prior to the announcement in the Budget that pension schemes will be unable to reclaim tax credits on UK dividends. The directors' view, based on initial actuarial advice, is that reflection of this new factor would not significantly alter the pension charge for the period or the amounts in the balance sheet at 30 June 1998. The directors are considering the implications of the Budget for future funding of the pension scheme and the associated costs to the company.

21 Guarantees and other financial commitments (continued)

c) Pensions (continued)

There are actuarial differences which have been taken to prepayments, accruals and reserves. At 30 June 1998 the prepayment was £18,889,000 (1997: £19,737,000) and the accrual was £73,000 (1997: £336,000). The differences are being amortised over the expected remaining service life of the relevant scheme's members.

The market value of the assets at the date of their most recent valuation totalled £97,973,000 (1997: £94,693,000).

The pension charge may be analysed as follows:

	1998 £'000	1997 £'000
UK defined benefit	2,467	2,059
UK defined contribution	362	320
Overseas defined contribution	34	50
	2,863	2,429

The charge for group pension costs under its defined benefit schemes consisted of a regular cost of £3,399,000 (1997: £2,996,000) plus variations from regular cost of £1,030,000 (1997: £918,000) less interest on the prepayment of £1,962,000 (1997: £1,855,000).

d) Guarantees

Group companies have total contingent liabilities in respect of various third party guarantees of £1,020,000 (1997: £900,000).

The company is a party to a joint and several guarantee in favour of its bankers, entered into by the company and certain of its subsidiary undertakings.

The company has given letters of financial support to certain of its subsidiary undertakings.

22 Ultimate holding company

The company's immediate parent company is Sara Lee International Corporation, a company incorporated in the State of Maryland, United States of America. The company's ultimate holding company is Sara Lee Corporation, which is incorporated in the State of Maryland, United States of America.

The only group in which these results are consolidated is that headed by the ultimate holding company. Copies of these accounts are available from Sara Lee Corporation, Three First National Plaza, Chicago, Illinois 60602-4260 USA.

The company has taken advantage of the exemptions from disclosure of certain related party transactions available in Financial Reporting Standard 8 to wholly owned subsidiaries of companies with publicly available accounts.