PENTLAND BRANDS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1998

Registered number 1786360

PENTLAND BRANDS LIMITED

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 1998.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company's principal activity during the year was to market, develop and distribute Lacoste footwear internationally. This is not expected to change in the coming year.

RESULTS AND DIVIDENDS

The results for the period and proposed transfer to reserves are set out on page 5 of the financial statements. The directors do not propose a dividend (1997 - £Nil).

DIRECTORS AND THEIR INTERESTS

The following directors held office during the year:

PA Smith	(Chairman)	(resigned 1 May 1998)
AM Leslie		
PM Webber		
DC Pearson		(appointed 2 July 1998)

No director had any interest in the shares of the company in the year.

At 31 December 1998, Mr AM Leslie had a beneficial interest in 100,000 share options of Pentland Group plc under the Executive Share Option Scheme. The options were granted on 21 April 1993 and are exercisable at 117 pence per share of which 25,000 are discounted to 100 pence. In normal circumstances, these options may be exercised between three and ten years after the date of grant.

In addition, Mr AM Leslie had a beneficial interest in the Pentland Group plc Savings Related Share Option Scheme.

	At 31 December 1998 and 1997			
Date of grant	10 July 1992	30 March 1993	7 April 1994	20 April 1995
Number granted	4,500	3,776	8,625	3,791
Option price per share	100 pence	96 pence	80 pence	91 pence

At 31 December 1998, Mr PM Webber had a beneficial interest in 8,214 share options of Pentland Group plc under the Savings Related Share Option Scheme. The options were granted on 12 April 1997 and are exercisable at 84p. In normal circumstances these options may be exercised between five and seven years after grant.

The Pentland Group plc share price moved between a low of 75.5 pence per share to a high of 129.0 pence per share and closed on 31 December 1998 at 98.5 pence per share.

DIRECTORS' REPORT (CONTINUED)

YEAR 2000 COMPLIANCE

The company is a subsidiary of Pentland Group plc ("Pentland").

Pentland has implemented a Group-wide programme to ensure that all computer systems and micro processor reliant equipment are year 2000 compliant. This is to avoid the possibility of computers or other electronic equipment malfunctioning as a result of unpredictable date recognition in software applications.

A risk analysis was performed to determine the impact of the issue on all our activities. The analysis also considered the impact on our business of year 2000 related failures by our significant suppliers and customers. There has been formal communication with these other parties and this will continue throughout 1999.

Following a final detailed assessment in 1997 of the scale of the problem, a team of specialists, including external consultants and contractors, was established to manage the process and to monitor and report on progress. This specialist team has implemented the detailed plans for the company and, in so doing, minimised the risk of disruption to critical business processes. A Steering Committee, chaired by a Pentland Director, exercised executive control of the project to ensure that all systems are year 2000 compliant by the end of the first quarter of 1999. Current progress is in line with this objective.

In order to validate the quality and completion of the various projects within the year 2000 compliance programme, post-implementation and business continuity plan reviews are being conducted by Pentland Corporate Management Information and Internal Audit staff. The review process is scheduled to complete by the end of April 1999. Business continuity planning will be regularly monitored throughout 1999 and be subject to a further review process, scheduled to complete in September 1999.

The cost of achieving year 2000 compliance is mainly being borne by a fellow subsidiary undertaking.

INTRODUCTION OF THE EURO

The Company trades in certain continental European countries. In order to respond effectively to the needs and opportunities of the single market and to maintain customer service, the changes necessary to trade competitively in EMU member countries from 1999 have been implemented.

The Company, as part of a Group-wide initiative, has adapted its commercial and financial processes to enable it to do business in the Euro after its introduction on 1 January 1999. The capability to conduct business in national currencies will be retained as long as necessary.

The costs of this project are mainly being borne by a fellow subsidiary undertaking.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss for the period to that date. In preparing those financial statements the directors are required:

to select suitable accounting policies and then apply them consistently;

to make judgements and estimates that are reasonable and prudent;

to state whether applicable accounting standards have been followed, and subject to any material departures disclosed and explained in the financial statements; and

to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements of the company comply with the Companies Act 1985. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

AUDITORS

On 1 July 1998 Price Waterhouse merged with Coopers and Lybrand to form PricewaterhouseCoopers. A resolution was passed at the Board of Directors' meeting on 3 September 1998 to appoint PricewaterhouseCoopers as auditors to the company.

PricewaterhouseCoopers have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board

RA Stevens
Secretary

10 March 1999

AUDITORS' REPORT TO THE MEMBERS OF PENTLAND BRANDS LIMITED

We have audited the financial statements on pages 5 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

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 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 the company's affairs at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
10 March 1999

PENTLAND BRANDS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £	1997 £
Turnover	3	1,769,793	2,463,696
Operating loss	4	(1,161,874)	(354,082)
Interest payable	5	(197,788)	(191,396)
Loss on ordinary activities before taxation		(1,359,662)	(545,478)
Taxation	6	(607,732)	70,000
Loss on ordinary activities after taxation		(751,930)	(615,478)
Retained losses brought forward		(1,362,385)	(746,907)
Accumulated losses carried forward		(2,114,315)	(1,362,385)

All activities are continuing.

The notes on pages 7 to 11 form part of these financial statements.

All recognised gains and losses are included in the profit and loss account. A separate movement of shareholder's funds statement is not provided as there are no changes for the current or previous year other than the accumulated losses in the profit and loss account.

PENTLAND BRANDS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1998

	Notes	1998 £	1997 £
Fixed assets			
Investments	9	250,210	250,210
Current assets			
Stock	10	46,654	88,070
Debtors	11	885,115	1,964,022
		931,769	2,052,092
Current liabilities			
Creditors - amounts falling due within one year	12	3,295,294	3,663,687
Net current liabilities		(2,363,525)	(1,611,595)
Total assets less current liabilities		(2,113,315)	(1,361,385)
Capital and reserves			
Called up share capital	13	1,000	1,000
Profit and loss account		(2,114,315)	(1,362,385)
Total shareholder's funds (all attributable to equity interests)		(2,113,315)	(1,361,385)

Approved by the Board on 10 March 1999

On behalf of the Board

P Webber

P Webber DIRECTOR

The notes on pages 7 to 11 form part of these financial statements.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

1 ACCOUNTING POLICIES

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

Turnover Turnover comprises invoiced sales net of value added tax and trade discounts.

Going concern basis The financial statements have been prepared on a going concern basis as the intermediate parent undertaking has indicated its intention to provide continuing financial support to the company.

Consolidation Consolidated accounts have not been prepared as the company is a wholly owned subsidiary of another UK undertaking which has produced consolidated accounts, see note 15.

Fixed asset investments Fixed asset investments are stated at cost less provision, if appropriate, for any permanent diminution in value.

Stock Stock is valued at the lower of cost and net realisable value.

Pensions The company's employees are members of the Pentland Group pension scheme which is a defined benefit scheme. The level of pension contributions is based upon the advice of qualified actuaries and a charge is made to the company in respect of its employee members. Details of the actuarial valuation of the pension scheme are disclosed in the financial statements of Pentland Group plc, the company's intermediate parent undertaking.

Deferred tax Deferred taxation is provided where appropriate for the estimated net liability in respect of timing differences to the extent that it is expected that such liabilities will crystallise in the foreseeable future.

Foreign currency translation Assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date, or at contracted rates where appropriate. Transactions in foreign currencies during the year are translated at the rates of exchange ruling at the dates of the transactions, or at contracted rates where appropriate. All exchange differences are dealt with in the profit and loss account in the same period as the underlying transactions to which they relate.

2 STATEMENT OF CASH FLOWS

Pentland Group plc, of which the company is a wholly owned subsidiary, has presented in its consolidated accounts a group cash flow statement drawn up under the provisions of Financial Reporting Standard 1: Cash Flow Statements (Revised 1996) (FRS 1). Accordingly the company has taken advantage of the exemption available under FRS 1 to dispense with presenting its own cash flow statement.

3 TURNOVER

Turnover by geographical area was as follows:

	1998 £	1997 £
U.K.	324,284	540,726
Far East	79,002	458,005
Europe	1,059,497	1,138,996
Other	307,010	325,969
	1,769,793	2,463,696

4 OPERATING LOSS

	1998 £	1997 £
Turnover	1,769,793	2,463,696
(Decrease)/increase in stocks of finished goods	(41,416)	44,422
Other operating income - group	917,045	1,322,972
	2,645,422	3,831,090
Purchase and direct charges	1,636,898	2,260,727
Staff costs:		
Wages and salaries	668,166	430,930
Social security costs	64,353	43,093
Other pension costs	51,915	30,562
Auditors' remuneration	6,600	5,400
Management and warehouse charges payable to group undertakings	341,970	318,876
Other operating charges	1,037,394	1,095,584
	3,807,296	4,185,172
Operating loss	(1,161,874)	(354,082)

PENTLAND BRANDS LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

5 INTEREST PAYABLE

	1998 £	1997 £
Interest payable - Group undertakings	197,788	191,396

6 TAXATION

	1998 £	1997 £
Corporation tax		
Losses surrendered for group relief at 31% (1997 – 31.5%)	(413,000)	(160,000)
(Over)/under provision in previous years	(194,732)	230,000
	(607,732)	70,000

7 EMPLOYEES

The average number of persons, including directors, employed by the company during the year was 23 (1997 : 18).

8 DIRECTORS' EMOLUMENTS

	1998 £	1997 £
Aggregate emoluments	118,859	130,640

The number of directors to whom retirement benefits are accruing under a defined benefit scheme is 3 (1997 : 2).

9 INVESTMENTS

At 1 January 1998	250,210
At 31 December 1998	250,210

At 31 December 1998 the company held 17,500 "A" voting shares representing a 70% interest in the share capital of Luc Berjen - Paris - Limited, a shoe wholesaling company registered in England. The company also held 72,500 Irredeemable 10% Preference Shares.

In the opinion of the directors, the value of the investment is not less than the amount at which it is stated in the balance sheet.

10 STOCK

The company's stock consists of finished goods held for resale.

11 DEBTORS

	1998	1997
	£	£
Trade debtors	91,444	331,098
Amounts due from fellow subsidiary undertakings	341,375	1,399,602
Amounts due from undertakings in which the group has a participating interest	-	273
Other debtors	418,926	163,322
Prepayments and accrued income	33,370	69,727
	885,115	1,964,022

12 CREDITORS - amounts falling due within one year

	1998	1997
	£	£
Bank overdraft	2,193,655	2,513,616
Trade creditors	109,161	181,524
Amounts due to fellow subsidiary undertakings	630,342	686,789
Other creditors including taxation and social security	682	1,202
Accruals and deferred income	361,454	280,556
	3,295,294	3,663,687

13 SHARE CAPITAL

	1998	1997
	£	£
Authorised, allotted and fully paid		
500 "A" ordinary shares of £1 each	500	500
500 "B" ordinary shares of £1 each	500	500
	1,000	1,000

The "A" ordinary shares and "B" ordinary shares rank "pari-passu" in rights to dividends, amounts receivable on winding up of the company and voting rights of Pentland Brands Limited.

14 COMMITMENTS AND CONTINGENCIES

The company is party to a guarantee in favour of Pentland Group's bankers regarding the aggregate set-off of the sterling current account balances, of Pentland Group plc and its subsidiaries.

The company's liability under this guarantee is limited to the lower of the aggregate account indebtedness of the relevant group companies and its own sterling current account credit balance with the bank.

15 PARENT UNDERTAKINGS

The intermediate parent undertaking, Pentland Group plc, a company registered in Scotland, will produce consolidated accounts for the year ended 31 December 1998 which will be available from Albany House, 58 Albany Street, Edinburgh, EH1 3QR. The ultimate parent undertaking is Robert Stephen Holdings Limited, a company registered in England. Consolidated accounts will be prepared by Robert Stephen Holdings Limited for the year ended 31 December 1998 and these can be obtained from the company's registered office at 8 Manchester Square, London W1M 5AB.

16 RELATED PARTIES

Pentland Group plc, of which the company is a wholly owned subsidiary, has presented in its consolidated accounts, which are publicly available, a related parties disclosure note under the provisions of Financial Reporting Standard 8 : Related Party Disclosures (FRS8). Accordingly, the company has taken advantage of the exemption available under FRS8 to dispense with disclosing related party transactions with entities within the group, or investees of the group, qualifying as related parties.