

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

RACING GREEN LIMITED
(Registered Number 2460533)

29TH AUGUST 1998



LD4
COMPANIES HOUSE

L0PG800A

0316
10/03/00

RACING GREEN LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 29TH AUGUST 1998

The directors submit their annual report together with the audited financial statements of Racing Green Limited ("the Company") for the year ended 29th August 1998.

NAME CHANGE, PRINCIPAL ACTIVITY, RESULTS AND DIVIDENDS

On 23rd January 1998 the Company changed its name from Hemingway Limited to Racing Green Limited.

The principal activity of the Company, up to 30th June 1998, was the retailing of mens' and womens' clothing through its shops and mail order catalogues.

On 30th June 1998 the Company's business and assets were transferred to the parent undertaking, Arcadia Group Brands Limited, which also assumed the Company's liabilities. Consideration equal to the net book amount of the assets transferred and liabilities assumed was received. The Company's principal activity is now to act as an undisclosed agent for Arcadia Group Brands Limited in respect of the Company's former business, for which it received a fee of £61,000 during the year.

The Company forms part of Arcadia Group plc (formerly The Burton Group plc) and a review of that Group's businesses during the year and position at the year end is given in the accounts of that Company. The results of the Company for the financial year are set out in the profit and loss account on page 7. The directors do not recommend the payment of a dividend and the retained profit of £671,000 (1997 profit of £401,000) has been transferred to reserves.

DIRECTORS

The following directors held office during the period: -

F.S. Allan		Resigned 03.11.97
R.C. Beharrell		Resigned 30.09.97
D.N. Brown		
P.E. Budge	Appointed 03.11.97	Resigned 22.10.98
A A Goldman	Appointed 15.01.98	
J. Hodges		Resigned 15.01.98
I.P. Jackman		
R.M. Klein		Resigned 03.11.97
C.A. Pearl		Resigned 03.11.97
H.S. Riva	Appointed 03.11.97	Resigned 22.10.98

RACING GREEN LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 29TH AUGUST 1998 (CONTINUED)

DIRECTORS' INTERESTS AND SHARE OPTIONS

At the period end none of the directors had an interest in the share capital of the Company. Their interests in the share and loan capital of the ultimate parent undertaking, Arcadia Group plc, were as follows:

	<u>DN</u> <u>Brown</u>	<u>AA</u> <u>Goldman</u>	<u>IP</u> <u>Jackman</u>	<u>P E</u> <u>Budge</u>	<u>H S</u> <u>Riva</u>
<u>At 29th August 1998 – Arcadia Group plc shares</u>					
Ordinary shares of 80p each	1,568	29	30,064	148	10,120
Options to acquire ordinary shares of 80p each	24,563	14,115	74,862	78,311	149,994
Provisional share allocation	2,596	753	11,962	7,280	11,448
Options exercised – The Burton Group plc shares	72,915	661	22,754	82,578	-
Options granted – Arcadia Group plc shares	24,563	14,115	74,862	65,621	124,525
<u>At 31st August 1997 or later date of appointment –</u>					
<u>The Burton Group plc shares</u>					
Ordinary shares of 10p each	15,858	7,173	232,948	1,089	91,103
Options to acquire ordinary shares of 10p each	72,915	661	22,754	119,254	73,602
Provisional share allocation	7,503	2,176	34,571	21,042	33,087

On 26th January 1998 every 8 shares of 10p each in The Burton Group plc were consolidated into 1 share of 80p each and The Burton Group plc changed its name to Arcadia Group plc. The provisional share allocations were made under the Long Term Share Plan operated by Arcadia Group plc and have been adjusted in number to reflect the demerger of Debenhams plc.

YEAR 2000

The Company is a subsidiary undertaking of Arcadia Group Plc, which has developed a comprehensive compliance project which was started in October 1996 and is expected to result in all of its systems being millennium compliant by June 1999. For certain key systems – including the point-of-sale systems in the Group's 2000 outlets – capital expenditure programmes will result in their replacement with millennium – compliant systems. Remaining systems will be made compliant by enhancing existing software and work on the Group's primary stock and supply chain management system is already complete. Suppliers are being evaluated to ensure they will be able to deliver products normally in the year 2000.

The Group is working towards the British Standard Institute definition of compliance – DISC PD 2000-1. It is a member of Impact, an organisation which shares information on the millennium issue and helps to benchmark progress. The estimated total revenue cost of the project for the Group is £5m, of which £4.5m was spent in the year under review with the remainder to be spent in 1998/99. It is envisaged that none of this cost will be recharged to the company.

RACING GREEN LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 29TH AUGUST 1998 (CONTINUED)

ECONOMIC AND MONETARY UNION

The company is a subsidiary of Arcadia Group plc, which is making preparation for the introduction of the Euro on behalf of the whole group, including the company. Following the introduction of a new multi-currency, point-of-sales till into the company's store the company will be able to accept multi-currencies in the near future. Should the UK adopt the Euro in future, the impact on all of Arcadia Group's business would be significant. All systems would be affected and all of them would have to be made Euro-compatible. Group contingency planning for the necessary investment in systems and training are in place.

EMPLOYEE SHARE SCHEMES

Employees of the Company are entitled to participate in the employee share schemes administered by the ultimate parent undertaking, Arcadia Group plc. Details of these schemes are disclosed in the financial statements of the ultimate parent undertaking.

EMPLOYMENT POLICIES

The Company is committed to the principle of equal opportunity in employment. It seeks to ensure that no applicant or employee receives less favourable treatment on the grounds of gender, marital status, race, colour, nationality, ethnic or national origin, religion, disability or sexuality or is disadvantaged by conditions or requirements, including age limits, which cannot be objectively justified. It applies employment policies which are fair and equitable and which ensure that entry into, and progression within, the Company are determined solely by the application of job criteria and by personal aptitude and competence.

It is the Company'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 Company. Established management communication channels are supplemented by the distribution to all staff of 'In View', Arcadia Group's quarterly staff magazine, and Arcadia Group's annual report and financial statements. Proper consideration is given to the interests of employees when management decisions are made. To encourage the two-way flow of information, particularly on operational issues, employee suggestion schemes operate throughout the Company.

RACING GREEN LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 29TH AUGUST 1998 (CONTINUED)

EMPLOYMENT POLICIES (CONTINUED)

The directors recognise that continued improvement in the Company's results depends upon its ability to attract, motivate and retain employees of the highest calibre. Accordingly, the Company promotes the involvement of employees in its performance through their participation in the share schemes operated by Arcadia Group and in various performance-related bonus schemes. Wherever practicable, part-time employees are eligible to participate in these schemes on the same basis as full-time staff.

The directors also recognise the importance of a well educated and highly trained workforce. The Company 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.

DIRECTORS' RESPONSIBILITIES

The Directors set out below their responsibilities in connection with the financial statements.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

RACING GREEN LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 29TH AUGUST 1998 (CONTINUED)

AUDITORS

Following their merger with Coopers & Lybrand to form PricewaterhouseCoopers, on 1 July 1998 Price Waterhouse resigned as auditors. The board appointed PricewaterhouseCoopers to fill the casual vacancy arising. PricewaterhouseCoopers have indicated their willingness to be re-appointed at the forthcoming annual general meeting.

On behalf of the Board



D N Brown
Director

Registered Office

Colegrave House
70 Berners Street
London W1P 3AE

21st October 1998

RACING GREEN LIMITED

AUDITORS' REPORT TO THE MEMBERS OF RACING GREEN LIMITED

We have audited the financial statements on pages 7 to 15 which have been prepared under the historical cost convention and the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 5, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

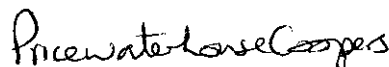
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 29th August 1998, and of the profit of the Company for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

9 Bond Court
Leeds
LS1 2SN

21st October 1998

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 29TH AUGUST 1998

	<u>Notes</u>	<u>12 months to</u> <u>29th August</u> <u>1998</u> <u>£'000</u>	<u>8 months to</u> <u>30th August</u> <u>1997</u> <u>£'000</u>
TURNOVER		14,209	12,586
Cost of Sales		<u>(13,228)</u>	<u>(6,001)</u>
GROSS PROFIT		981	6,585
Distribution costs		-	(6,289)
Administrative costs		-	(1,220)
Other operating income		<u>-</u>	<u>1,038</u>
OPERATING PROFIT	2,3,4	981	114
Interest payable	5	<u>-</u>	<u>(26)</u>
PROFIT BEFORE TAXATION		981	88
Taxation	6	<u>(310)</u>	<u>313</u>
PROFIT AFTER TAXATION			
TRANSFERRED TO RESERVES		<u><u>671</u></u>	<u><u>401</u></u>

STATEMENT OF RETAINED EARNINGS

At 31 st August 1997	(2,995)	(3,396)
Capital contribution	4,000	-
Transfers to reserves	<u>671</u>	<u>401</u>
At 29 th August 1998	<u><u>1,676</u></u>	<u><u>(2,995)</u></u>


STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The only recognised gains and losses for the year are those dealt with in the profit and loss account above.

BALANCE SHEET - 29TH AUGUST 1998

	<u>Notes</u>	<u>1998</u> £'000	<u>1997</u> £'000
FIXED ASSETS			
Tangible assets	7	—	<u>1,426</u>
CURRENT ASSETS			
Stocks	8	-	2,212
Debtors	9	<u>2,176</u>	<u>1,397</u>
Cash at bank and in hand		—	<u>3</u>
		2,176	3,612
CREDITORS – due within one year	10	—	<u>(5,077)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>2,176</u>	<u>(1,465)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,176	(39)
CREDITORS – due after one year	10	—	<u>(2,456)</u>
NET ASSETS/(LIABILITIES)		<u>2,176</u>	<u>(2,495)</u>
CAPITAL AND RESERVES			
Called up share capital	11	500	500
Profit and loss account		<u>1,676</u>	<u>(2,995)</u>
SHAREHOLDERS' FUNDS	14	<u>2,176</u>	<u>(2,495)</u>

Approved by the Board on 21st October 1998



D N BROWN
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS – YEAR ENDED 29TH AUGUST 1998

1 ACCOUNTING POLICIES

(1) Basis of accounting

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

(2) Turnover

Turnover represents net invoiced sales of goods, excluding value added tax.

(3) Depreciation

Depreciation is provided on a straight line basis at the following annual rates in order to write off each asset over its estimated useful life:

Fixtures, fittings & equipment	20%-25%
Motor vehicles	25%
Short leasehold properties	Over the shorter of 10 years or the unexpired term of the lease

(4) 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.

(5) Deferred 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.

(6) Leased assets

Assets used by the Company which have been funded through finance leases and hire purchase agreements 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.

(7) Stock valuation

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

(8) Foreign exchange

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions are converted into sterling at the average rate for the month in which the transactions occurred, or the contracted rate if subject to a forward exchange contract. Exchange differences are taken into account in arriving at the operating profit.

NOTES TO THE FINANCIAL STATEMENTS - 29TH AUGUST 1998 (continued)

2 OPERATING PROFIT

	<u>12 months to 29th August 1998</u> <u>£'000</u>	<u>8 months to 30th August 1997</u> <u>£'000</u>
The operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned assets	124	108
- assets held under hire purchase	-	19
Profit on sale of fixed assets	-	(4)
Operating lease rentals - property	-	705
Auditors' remuneration (all in relation to audit)	-	22
Other operating income - contribution to costs from parent undertaking	<u>-</u>	<u>(1,038)</u>

Distribution and administrative expenses, including auditors remuneration, have been borne by the ultimate parent undertaking.

3 STAFF COSTS

Wages and salaries	1,227	2,128
Social security costs	80	181
Other pension costs	<u>-</u>	<u>47</u>
	<u>1,307</u>	<u>2,356</u>
	<u>Number</u>	<u>Number</u>
The average number of employees (including directors) during the period was:	<u>220</u>	<u>307</u>

NOTES TO THE FINANCIAL STATEMENTS – 29TH AUGUST 1998 (continued)

4 DIRECTORS' REMUNERATION

	<u>12 months</u> <u>to 29th</u> <u>August 1998</u> <u>£'000</u>	<u>8 months to</u> <u>30th August</u> <u>1997</u> <u>£'000</u>
<i>The remuneration of the directors comprised:</i>		
Emoluments	<u>-</u>	<u>115</u>

All directors are members of the defined benefit pension scheme operated by Arcadia Group plc.

5 INTEREST PAYABLE

Interest payable on:-		
Bank overdrafts	-	10
Hire purchase	<u>-</u>	<u>16</u>
	<u>-</u>	<u>26</u>

6 TAXATION

Based on the profit for the period:

UK corporation tax at 31 % (1997: credit at 32%)	<u>(310)</u>	<u>313</u>
--	--------------	------------

The tax credit for 1997 was higher than expected primarily due to tax relief obtained on costs provided for in the previous year for which no deferred tax asset was set up in that year. The potential asset at 31 % (1997 – 33 %) for deferred taxation, none of which has been recognised in the financial statements, is set out below:

	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u>
Capital allowances	-	291
Other timing differences	<u>-</u>	<u>377</u>
	<u>-</u>	<u>668</u>

NOTES TO THE FINANCIAL STATEMENTS – 29TH AUGUST 1998 (continued)

7 TANGIBLE FIXED ASSETS

	Short Leasehold Properties £'000	Other Assets £'000	Total £'000
<u>Cost</u>			
At 31 st August 1997	1,398	760	2,158
Additions	-	394	394
Reclassifications	(988)	988	-
Transfers to Group Companies	<u>(410)</u>	<u>(2,142)</u>	<u>(2,552)</u>
At 29th August 1998	-	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>
<u>Depreciation</u>			
At 31 st August 1997	237	495	732
Charge for the period	-	124	124
Reclassifications	(138)	138	-
Transfers to Group Companies	<u>(99)</u>	<u>(757)</u>	<u>(856)</u>
At 29th August 1998	-	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>
<u>Net Book Value</u>			
At 29th August 1998	-	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>
At 30th August 1997	<u>1,161</u>	<u>265</u>	<u>1,426</u>
<u>Net Book Value of assets held under hire purchase agreements</u>			
At 29th August 1998	-	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>
At 30th August 1997	<u>-</u>	<u>30</u>	<u>30</u>

NOTES TO THE FINANCIAL STATEMENTS – 29TH AUGUST 1998 (continued)

	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u>
8 STOCKS		
Finished goods and goods held for resale	<u>-</u>	<u>2,212</u>

9 DEBTORS

Trade debtors	-	71
Other debtors	-	91
Prepayments	-	638
Amounts owed by Group undertakings	2,176	26
Corporation tax recoverable	<u>-</u>	<u>571</u>
	<u>2,176</u>	<u>1,397</u>

10 CREDITORS

Due within one year:

Bank overdrafts	-	441
Trade creditors	-	837
Hire purchase	-	53
Other creditors	-	1,868
Amounts owed to group undertakings	-	458
Accruals	<u>-</u>	<u>1,420</u>
	<u>-</u>	<u>5,077</u>

The bank overdrafts are secured by a fixed charge over the Company's book debts and by a floating charge over the other assets and undertakings of the Company.

Due after one year:

Loan payable to parent company	-	2,439
Hire purchase – repayable between 1 and 2 years	<u>-</u>	<u>17</u>
	<u>-</u>	<u>2,456</u>

The loan payable to the parent company is interest free and has no fixed repayment terms

NOTES TO THE FINANCIAL STATEMENTS – 29TH AUGUST 1998 (continued)

	<u>1998</u> <u>£'000</u>	<u>1997</u> <u>£'000</u>
11 CALLED UP SHARE CAPITAL		
Authorised ordinary shares of 10p each	<u>1,000</u>	<u>1,000</u>
Allotted, issued and fully paid ordinary shares of 10p each	<u>500</u>	<u>500</u>

12 FINANCIAL COMMITMENTS

At 29th August 1998, the Company had annual commitments under non-cancellable operating leases in respect of property as follows: -

After more than five years	<u>Nil</u>	<u>1,695</u>
----------------------------	------------	--------------

13 PENSION COSTS

Arcadia Group plc operates pension schemes on behalf of the Company covering all employees who are eligible on the basis of age and length of service. These schemes, which are of the defined benefit type, are financed through separate trustee administered funds. Contributions to these funds are based upon actuarial advice following the most recent valuation of the funds. The most recent such valuations took place as at 26th January 1998. Further details of these valuations can be found in the accounts of Arcadia Group plc.

14 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

Profit for the financial period	671	401
Capital contribution	4,000	-
Opening shareholders' funds (deficit)	<u>(2,495)</u>	<u>(2,896)</u>
Closing shareholders' funds	<u>2,176</u>	<u>(2,495)</u>

NOTES TO THE FINANCIAL STATEMENTS – 29TH AUGUST 1998 (continued)

**15 ULTIMATE PARENT UNDERTAKING AND RELATED PARTY
DISCLOSURES**

The company's ultimate parent undertaking is Arcadia Group plc and the company is included in its consolidated financial statements which are publicly available. Consequently, the company has taken advantage of the exemption under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of Arcadia Group plc group or investees of Arcadia Group plc. Copies of the accounts of Arcadia Group plc can be obtained by writing to the Secretary at Colegrave House, 70 Berners Street, London W1P 3AE.