DIRECTORS' REPORT AND FINANCIAL STATEMENTS

HEMINGWAY LIMITED
(Registered Number 2460533)

28 December 1996

HEMINGWAY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 28 DECEMBER 1996

The directors submit their annual report together with the financial statements of Hemingway Limited ("the Company") for the fifty-two weeks ended 28 December 1996.

ACQUISITION BY THE BURTON GROUP PLC

On 21 October 1996 the entire share capital of the Company was acquired by The Burton Group plc.

ACTIVITIES

The Company's principal activity is the retailing of mens' and womens' clothing through its shops and mail order catalogues.

REVIEW OF BUSINESS

Turnover increased £2,262,000 (12%) in the year. The directors consider the financial position of the Company at 28 December 1996 and its future prospects to be satisfactory.

RESULTS AND DIVIDENDS

The results for the year are dealt with in the profit and loss account on page 6. The loss for the financial year was £3,697,000 which included £2,713,000 of exceptional items in respect of adjustments to reflect changes in the values of tangible and intangible fixed assets, the alignment of stock provisioning and catalogue prepayment policies with those of The Burton Group plc and to provide for the costs of the integration of the Company into The Burton Group plc. The directors do not recommend the payment of a dividend and, accordingly, the loss has been deducted from reserves.

FIXED ASSETS

Movements in fixed assets are shown in notes 8 and 9 to the accounts.

DIRECTORS

The following directors held office during the year:-

F.S. Allan	appointed 15.01.96	
R.C. Beharrell	appointed 13.01.97;	resigned 30.09.97
B.K. Blomgren		resigned 25.07.97
D.N. Brown	appointed 21.10.96	
P.R. Chappelow		resigned 21.10.96
A.T. Higginson	appointed 21.10.96;	resigned 13.01.97
J. Hodges	appointed 21.10.96	
I.P. Jackman	appointed 21.10.96	
R.M. Klein	appointed 05.02.97	
D.E. Kranz		resigned 21.10.96
R.G. Lipton		resigned 19.05.97
R.J. Maney	appointed 21.10.96;	resigned 13.01.97
C.A. Pearl	appointed 03.06.96	
A.K.P.Smith	appointed 29.04.96;	resigned 21.10.96

HEMINGWAY LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 28 DECEMBER 1996 (CONTINUED)

DIRECTORS' INTERESTS AND SHARE OPTIONS

These directors in office at the end of the year who had a beneficial interest in the Ordinary shares of the Company (including options granted under the Company's Option Scheme) as at the end of last year are given below. Following the acquisition of the Company by The Burton Group plc, the beneficial interest of all directors in office at the end of the year in the Ordinary shares of the Company was nil.

	Shares 30.12.95	Company Options 30.12.95
RG Lipton	250,000	25,000
BK Blomgren	125,000	25,000
PH Challen	-	25,000

The beneficial interests of the directors in office at the end of the year in the Ordinary shares of The Burton Group plc (including options granted, details of which are given in the Group accounts) are given below.

	Shares		Group Options				
	30.12.95 (or date of appointment if later)	28.12.96	30.12.95 (or date of appointment if later)	Granted during year	Exercised during year	Lapsed during year	28.12.96
RG Lipton	-	58,100	-	-	-	-	-
BK Blomgren	-	140,000	-	-	-	-	-
PH Challen	-	-	-	-	-	-	-
FS Allan	-	-	-	-	-	-	-
DN Brown	100	15,758	77,242	3,176	-	-	80,418
AT Higginson	20,681	28,681	1,367,122	48,529	-	-	1,415,651
J Hodges	20,033	33,208	78,893	3,000	-	-	81,893
IP Jackman	336,970	284,414	130,246	14,379	-	-	144,625
RJ Maney	100	10,438	979,570	51,764	-	-	1,031,334
CA Pearl	697	697	-	-	-	-	-

EMPLOYEES

The Company complies with the employment, employee communication and employee training policies of The Burton Group plc. Details of The Burton Group plc's policies are set out in the accounts of that company.

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 28 DECEMBER 1996 (CONTINUED)

SUPPLIER PAYMENT POLICY

The Company's policy concerning the payment of suppliers is either to agree terms of payment at the start of business with each supplier or to ensure that the supplier is made aware of the Company's standard payment terms, and in either case to pay in accordance with its contractual or other legal obligations.

AUDITORS

Price Waterhouse were appointed auditors following the acquisition of the Company by The Burton Group plc on 21 October 1996 and the resignation of the previous auditors, Wilson Wright & Co.

Price Waterhouse have expressed their willingness to continue in office and a resolution for their reappointment as auditors will be proposed at the annual general meeting.

By order of the Board

I JACKMAN
~~Secretary~~ Director

7 November 1997

Registered Office:

214 Oxford Street
London
W1N 9DF

DIRECTORS' RESPONSIBILITIES

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.

9 Bond Court
Leeds LS1 2SN

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0113-243 9745

Price Waterhouse

AUDITORS' REPORT TO THE MEMBERS OF HEMINGWAY LIMITED

We have audited the financial statements on pages 6 to 17 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4, 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 28 December 1996, and of the loss of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants
and Registered Auditors

9 Bond Court
Leeds
LS1 2SN

7 November 1997

HEMINGWAY LIMITED

PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 28 DECEMBER 1996

	Notes	Before exceptional items £'000	Exceptional items £'000	1996 Total £'000	1995 Total £'000
TURNOVER		20,623	-	20,623	18,361
Cost of sales	2	(10,124)	(781)	(10,905)	(8,210)
GROSS PROFIT		10,499	(781)	9,718	10,151
Distribution costs	2	(9,816)	(918)	(10,734)	(7,936)
Administrative costs	2	(1,697)	(1,014)	(2,711)	(2,193)
OPERATING (LOSS)/PROFIT	3	(1,014)	(2,713)	(3,727)	22
Interest receivable				14	8
Amounts written off investments				-	(70)
Provision for reorganisation costs				-	(105)
Interest payable	6			(242)	(145)
LOSS BEFORE TAX				(3,955)	(290)
Taxation				258	-
LOSS FOR THE FINANCIAL YEAR	16			(3,697)	(290)

There are no recognised gains and losses other than these shown above in the profit and loss account.

Movements in reserves are shown in note 16 to the accounts.

HEMINGWAY LIMITED

BALANCE SHEET 28 DECEMBER 1996

	Notes	£'000	1995 £'000
FIXED ASSETS			
Intangible assets	8	-	16
Tangible assets	9	1,546	2,384
		1,546	2,400
CURRENT ASSETS			
Investments	10	-	35
Stocks	11	2,351	3,303
Debtors	12	1,129	1258
Cash at bank and in hand		-	7
		3,480	4,603
CREDITORS - amounts falling due within one year	13	(7,471)	(5,771)
NET CURRENT LIABILITIES		(3,991)	(1,168)
TOTAL ASSETS LESS CURRENT LIABILITIES		(2,445)	1,232
CREDITORS - amounts falling due after more than one year	13	(451)	(431)
NET (LIABILITIES)/ASSETS		(2,896)	801
CAPITAL AND RESERVES			
Called up share capital	14	500	500
Profit and loss account	16	(3,396)	301
SHAREHOLDERS' (DEFICIT)/FUNDS		(2,896)	801

APPROVED BY THE BOARD ON
7 NOVEMBER 1997

DIRECTORS

HEMINGWAY LIMITED

NOTES TO THE ACCOUNTS - 52 WEEKS ENDED 28 DECEMBER 1996

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;

Trade mark registrations	- 20%
Fixtures, fittings & equipment	- 20%-25%
Motor vehicles	- 25%
Leasehold properties	- over the shorter of 10 years or the unexpired term of the lease

(4) **Pension costs**

The Company operates a defined contribution pension scheme. The contributions are charged to the profit and loss account as incurred.

(5) **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.

(6) **Stock valuation**

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

(7) **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.

HEMINGWAY LIMITED

NOTES TO THE ACCOUNTS - 52 WEEKS ENDED 28 DECEMBER 1996 (CONTINUED)

2 EXCEPTIONAL ITEMS

The operating (loss)/profit is stated after charging:

	Cost of sales £'000	Distribution costs £'000	Administrative expenses £'000	1996 Total £'000
Write-off of intangible and tangible fixed assets	-	336	272	608
Stock provision policy alignment	581	-	-	581
Prepayment policy alignment	200	252	-	452
Bonuses and consultancy fees	-	330	492	822
Provision for integration costs	-	-	250	250
	781	918	1,014	2,713

The Company was acquired by The Burton Group plc on 21 October 1996. With effect from that date, the intangible and tangible fixed assets were written down to reflect their ongoing value to the Company and adjustments were made to the value of both stocks and prepayments in order to bring them in line with the stock and prepayments policies of The Burton Group plc. Bonuses and consultancy agreements were also established to secure the services, over a pre-determined future period, of all the Company's employees at the acquisition date to ensure a smooth transition in ownership. A provision was also established for the integration of the Company's accounting department into that of Debenhams plc, a wholly owned subsidiary of The Burton Group plc.

3 OPERATING (LOSS)/PROFIT

	1996 £'000	1995 £'000
The operating (loss)/profit is stated after charging/(crediting):		
Amortisation of intangible fixed assets	11	5
Depreciation of tangible fixed assets		
- owned assets	410	322
- assets held under hire purchase	47	41
Operating lease rentals	-	842
Auditors' remuneration (all in relation to audit)	24	27
(Gain)/loss on foreign exchange	-	(13)

NOTES TO THE ACCOUNTS - 52 WEEKS ENDED 28 DECEMBER 1996 (CONTINUED)

4 STAFF COSTS

	1996	1995
	£'000	£'000
Wages and salaries	3,072	2,758
Social security costs	246	232
Other pension costs	62	44
	3,380	3,034

	Number	Number
The average number of employees (including directors) during the year was:	289	252

5 DIRECTORS' REMUNERATION

	1996	1995
	£'000	£'000
Emoluments	360	262
Pension scheme contributions	27	15
	387	277

Emoluments excluding pension scheme contributions of:-

The Chairman	71	78
The Highest Paid Director	87	86

Directors were paid within the following ranges:

£nil to £5,000	7	2
£35,001 to £40,000	-	1
£45,001 to £50,000	1	-
£60,001 to £65,000	1	1
£70,001 to £75,000	1	-
£75,001 to £80,000	-	1
£80,001 to £85,000	1	-
£85,001 to £90,000	1	1

HEMINGWAY LIMITED

NOTES TO THE ACCOUNTS - 52 WEEKS ENDED 28 DECEMBER 1996 (CONTINUED)

6 INTEREST PAYABLE

	1996 £'000	1995 £'000
Interest payable on:-		
Bank overdrafts	218	136
Hire purchase	24	9
	242	145

7 TAXATION

Based on the loss for the period

	1996 £'000	1995 £'000
UK corporation tax credit at 33% (1995: 33%)		
Current year	243	-
Prior years	15	-
	258	-

The current year tax credit is lower than expected primarily because no credit has been recognised for deferred tax assets.

The potential asset at 33% for deferred taxation, none of which has been recognised in the accounts, is set out below:

	1996 £'000	1995 £'000
Capital allowances	244	-
Other timing differences	611	-
	855	-

HEMINGWAY LIMITED

NOTES TO THE ACCOUNTS - 52 WEEKS ENDED 28 DECEMBER 1996 (CONTINUED)

8 INTANGIBLE FIXED ASSETS

	£'000
Intangible fixed assets represent the cost of acquiring trade mark registrations.	
Cost	
At 31 December 1995	24
Additions	49
At 28 December 1996	73
Depreciation	
At 31 December 1995	8
Provision for the year	11
Write-offs	54
At 28 December 1996	73
Net Book Values	
At 28 December 1996	Nil
At 30 December 1995	16

HEMINGWAY LIMITED

NOTES TO THE ACCOUNTS - 52 WEKS ENDED 28 DECEMBER 1996 (CONTINUED)

9 **TANGIBLE FIXED ASSETS**

	Short leasehold properties £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 31 December 1995	1,478	1,402	128	3,008
Additions	21	114	65	200
Disposals	-	(22)	(42)	(64)
At 28 December 1996	1,499	1,494	151	3,144
Depreciation				
At 31 December 1995	85	495	44	624
Charge for the year	97	321	39	457
Write-offs	8	538	8	554
Disposals	-	(12)	(25)	(37)
At 28 December 1996	190	1,342	66	1,598
Net Book Value				
At 28 December 1996	1,309	152	85	1,546
At 30 December 1995	1,393	907	84	2,384
Net Book Value of assets held under hire purchase agreements				
At 28 December 1996		55	72	127
At 30 December 1995		63	58	121

HEMINGWAY LIMITED

NOTES TO THE ACCOUNTS - 25 WEEKS ENDED 28 DECEMBER 1996 (CONTINUED)

10 CURRENT ASSET INVESTMENT

	£'000
At 31 December 1995	35
Disposal	(35)
At 28 December 1996	Nil

The company's investment represented 50% of the unsecured loan notes issued by The Music Store Limited.

The investment was sold in February 1996 for £35,000.

11 STOCKS

	1996 £'000	1995 £'000
Finished goods and goods held for resale	2,351	3,303

12 DEBTORS

	1996 £'000	1995 £'000
Trade debtors	43	496
Prepayments	828	762
Corporation tax recoverable	258	-
	1,129	1,258

HEMINGWAY LIMITED

NOTES TO THE ACCOUNTS - 52 WEEKS ENDED 28 DECEMBER 1996 (CONTINUED)

13 CREDITORS

	1996 £'000	1995 £'000
Amounts falling due within one year:		
Bank overdrafts	3,252	2,208
Trade creditors	1,231	1,895
Hire purchase	69	48
Corporation tax	-	240
Social security and other taxes	624	726
Accruals	2,295	654
	7,471	5,771

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.

	1996 £'000	1995 £'000
Amounts falling due after more than one year:		
Loan payable to parent company	400	-
Loans	-	400
Hire purchase	51	31
	451	431

The loan payable to parent company is interest free and has no fixed repayment terms. Loans in the prior year included £355,000 from a director and all were repayable in October 2001 or earlier at the Company's discretion. These loans were repaid when the Company was acquired by The Burton Group plc.

14 CALLED UP SHARE CAPITAL

	1996 £'000	1995 £'000
Authorised ordinary shares of 10p each	1,000	1,000
Allotted, issued and fully paid ordinary shares of 10p each	500	500

NOTES TO THE ACCOUNTS - 52 WEEKS ENDED 28 DECEMBER 1996 (CONTINUED)

15 MATURITY OF DEBT

The debt and borrowings of the Company fall due as follows:

	1996 £'000	1995 £'000
In one year or less, or on demand	69	48
Between one and two years	47	19
Between two and five years	4	12
In five years or more	-	400
	120	479

16 PROFIT AND LOSS ACCOUNT

	£'000
At 31 December 1995	301
Retained loss for the year	(3,697)
At 28 December 1996	(3,396)

17 FINANCIAL COMMITMENTS

At 28 December 1996, the Company had annual commitments under non cancellable operating leases as follows:-

	Land and buildings	
	1996 £'000	1995 £'000
Within one year	-	5
Within one to five years	-	-
After more than five years	1,693	810

The leases are subject to rent reviews.

There is no capital expenditure that has been contracted for but not provided (1995: £Nil).

HEMINGWAY LIMITED

NOTES TO THE ACCOUNTS - 52 WEEKS ENDED 28 DECEMBER 1996 (CONTINUED)

18 PENSION COSTS

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in independently administered funds.

The pension cost charge represents contributions paid by the Company to the funds, and amounted to £62,092. (1995: £44,465)

19 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' (DEFICIT)/FUNDS

	1996 £'000	1995 £'000
Loss for the financial year	(3,697)	(290)
Opening shareholders' funds	801	1,091
Closing shareholders' (deficit)/funds	(2,896)	801

20 PARENT COMPANY

Hemingway Limited is wholly owned by The Burton Group plc, a company incorporated in Great Britain.

Copies of the group accounts of The Burton Group plc may be obtained from the following address:

Company Secretary
The Burton Group plc
214 Oxford Street
London
W1N 9DF

The group accounts of The Burton Group plc include a group cash flow statement and, accordingly, no cash flow statement has been prepared by the Company.

The Burton Group plc has indicated its willingness to provide the necessary financial support so as to enable the Company to meet its liabilities to third parties.