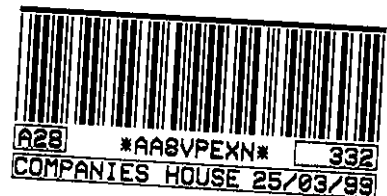


KANGAROOS INTERNATIONAL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1998

Registered number : 2982897



KANGAROOS INTERNATIONAL 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

During 1998 Kangaroos International Limited moved from being involved in the marketing and development of Kangaroos leisurewear products to a position where the marketing and development of the brand is now performed by the brands licencees. The primary role of the business is now to control and maintain the performance of its licencees.

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).

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.

KANGAROOS INTERNATIONAL LIMITED

INTRODUCTION OF THE EURO

Although operating mainly in the UK, 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.

DIRECTORS AND THEIR INTERESTS

The following directors held office during the year:

AM Leslie
AK Rubin

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

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 1997 and 1998		
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

The 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.

KANGAROOS INTERNATIONAL LIMITED

DIRECTORS' REPORT (CONTINUED)

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 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, 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



John Derek Gregory Hyde
Secretary
10 March 1999

AUDITORS' REPORT TO THE MEMBERS KANGAROOS INTERNATIONAL LIMITED

We have audited the financial statements on pages 5 to 10 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 profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
10 March 1999

KANGAROOS INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	<u>Notes</u>	<u>1998</u> £	<u>1997</u> £
Operating profit/(loss)	3	21,579	(55,719)
Interest receivable	4	20,045	5,480
Profit/(loss) on ordinary activities before taxation		41,624	(50,239)
Taxation	5	1,090	(15,000)
Profit/(loss) on ordinary activities after taxation		40,534	(35,239)
Retained profits brought forward		125,681	160,920
Retained profits carried forward		166,215	125,681

All activities are continuing.

The notes on pages 7 to 10 form part of these financial statements.

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

KANGAROOS INTERNATIONAL LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1998

	<u>Notes</u>	<u>1998</u> £	<u>1997</u> £
Current assets			
Debtors	7	116,096	40,866
Cash at bank		156,926	852,582
		<hr/> 273,022	<hr/> 893,448
Current liabilities			
Creditors - amounts falling due within one year	8	106,707	767,667
Net current assets		<hr/> 166,315	<hr/> 125,781
Total assets less current liabilities		<hr/> 166,315	<hr/> 125,781
Capital and reserves			
Called up share capital	9	100	100
Profit and loss account		166,215	125,681
Total shareholders' funds (all attributable to equity interests)		<hr/> 166,315	<hr/> 125,781

Approved by the Board on 10 March 1999

On behalf of the Board

Andrew K. Rubin

AK Rubin DIRECTOR

The notes on pages 7 to 10 form part of these financial statements.

KANGAROOS INTERNATIONAL LIMITED

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.

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.

KANGAROOS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

3 OPERATING PROFIT/(LOSS)

	<u>1998</u> £	<u>1997</u> £
Service charges receivable from group undertakings	245,373	984,000
	<hr/> 245,373	<hr/> 984,000
Purchase and direct charges	728	145,153
Auditors' remuneration	2,000	2,400
Staff costs:		
Wages and salaries	33,613	77,323
Social security costs	2,900	10,138
Other pension costs	4,658	7,146
Other external operating charges	136,102	409,978
Charges payable to group undertakings	43,793	387,581
	<hr/> 223,794	<hr/> 1,039,719
Operating Profit/(loss)	<hr/> 21,579	<hr/> (55,719)
	<hr/>	<hr/>

4 INTEREST RECEIVABLE

	<u>1998</u> £	<u>1997</u> £
Group undertakings	<hr/> 20,045	<hr/> 5,480

KANGAROOS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

5 TAXATION

	<u>1998</u> £	<u>1997</u> £
Corporation tax at 31% (1997 – 31.5%) based on profits/(losses) for the period	8,000	(15,000)
Under provision in previous years	(6,910)	-
	<hr/> 1,090	<hr/> (15,000)

6 DIRECTORS AND EMPLOYEES

The average number of persons, including directors, employed by the company during the period was:

	<u>1998</u>	<u>1997</u>
Management and administration	3	8

The directors received no remuneration from the company during the period.

7 DEBTORS

	<u>1998</u> £	<u>1997</u> £
Amounts due from fellow subsidiary undertakings	115,769	25,232
Other debtors	-	15,000
Prepayments and accrued income	327	634
	<hr/> 116,096	<hr/> 40,866

KANGAROOS INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

8 CREDITORS - amounts falling due within one year

	<u>1998</u>	<u>1997</u>
	£	£
Trade creditors	2,896	71,323
Amounts due to fellow subsidiary undertakings	55,465	647,543
Other creditors including taxation and social security	8,000	-
Accruals and deferred income	40,346	48,801
	<hr/> 106,707	<hr/> 767,667

9 SHARE CAPITAL

	<u>1998</u>	<u>1997</u>
	£	£
Authorised 1,000 ordinary shares of £1 each	1,000	1,000
Allotted, issued and fully paid 100 ordinary shares of £1 each	<hr/> 100	<hr/> 100

10 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.

11 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.

12 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.