ARTHUR
ANDERSEN

AAi Foster Grant Limited

Accounts 31 December 1998
together with directors' and auditors' reports

Registered number: 03487910

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Directors and Officers

Directors
Alan Coy
Daniel Triangolo
Stephen Carlotti
Gerald Cerce

Secretary
Pailex Corporate Services Limited
First Floor
154, Fleet Street
London
EC4A 2JD

Registered Office
Longbridge Hayes Road
Longport
Stoke-on-Trent
ST6 4DS

Auditors
Arthur Andersen
20 Old Bailey
London
EC4M 7AN

Bankers
National Westminster Bank Plc
PO Box 138
22 Castle Street
Liverpool
L69 2BE

Solicitors
Paisner & Co
Bouverie House
154, Fleet Street
London
EC4A 2JD

Directors' report

For the period ended 31 December 1998

The directors present their report on the affairs of the company, together with the accounts and auditors' report, for the period ended 31 December 1998.

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 of the profit or loss of the company 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 financial statements; and
- prepare the accounts 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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal activity and business review

The company was incorporated on 29 December 1997 and began trading on 1 March 1998.

On 4 March 1998, the company acquired the distribution of reading glasses and sunglasses business carried on by Eyecare Products Ltd.

The principal activity of the company is the importation and distribution of sunglasses and self selection reading glasses.

The loss after taxation for the period was £11,590.

The directors do not recommend the payment of a dividend for the period.

Directors' report (continued)

Directors and their interests

The directors who served during the period were:

Alan Coy	(appointed 25 February 1998)
Daniel Triangolo	(appointed 25 February 1998)
Stephen Carlotti	(appointed 25 February 1998)
Gerald Cerce	(appointed 25 February 1998)
Jonathan R Kropman	(resigned 25 February 1998)

Year 2000

The directors are aware of the significance of the Year 2000 issue and are taking steps to ensure that all relevant systems and equipment will be Year 2000 compliant. Costs, which are not expected to be significant, are being expensed as incurred.

Auditors

Arthur Andersen were appointed as first auditors to the company, during the period. In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Arthur Andersen be reappointed as auditors of the company will be put to the Annual General Meeting.

This report was approved by the Board on 14/12/99 .

Alan Coy

Auditors' report

London

To the shareholders of AAi Foster Grant Limited

We have audited the accounts on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

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

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
20 Old Bailey
London
EC4M 7AN

14 December 1999

Profit and loss account

For the period ended 31 December 1998

	Notes	1998
		£
Turnover	2	4,623,418
Cost of sales		(1,739,823)
Gross profit		2,883,595
Other operating expenses (net)		(2,741,067)
Operating profit		142,528
Interest receivable and similar income	4	29,025
Interest payable and similar charges	5	(99,397)
Profit on ordinary activities before taxation	6	72,156
Tax on profit on ordinary activities	8	(83,746)
Loss for the period		(11,590)

The company's turnover and expenses all relate to acquisitions in the period.

The company has no recognised gains or losses in the period, other than the loss for the period.

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

Balance sheet

31 December 1998

	Notes	1998 £
Fixed assets		
Goodwill	9	4,083
Tangible assets	10	681,886
		685,969
Current assets		
Stocks	11	2,280,179
Debtors	12	1,259,847
Cash at bank and in hand		840,020
		4,380,046
Creditors: amounts falling due within one year	13	(3,477,604)
Net current assets		902,442
Net assets		1,588,411
Capital and reserves		
Called up share capital	14	1,600,001
Profit and loss account		(11,590)
Shareholders' funds - equity	15	1,588,411

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

The financial statements on pages 5 to 14 were approved by the Board on 14/2 99 .

Director

Notes to the accounts

31 December 1998

1 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the period, are set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less accumulated depreciation.

Depreciation is provided over the assets' estimated useful economic lives on a straight-line basis at the following annual rates:

Fixtures	1-3 years
Furniture, fittings and equipment	3-10 years
Computer equipment	5 years

c) Intangible assets - Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life of twenty years.

d) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents all costs incurred in bringing stocks to their present state and location.

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.

e) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation represents the amount required to allow for the effect of certain items of income and expense (primarily depreciation) being attributable for tax purposes to periods different from those in which credits or charges are recorded in the accounts, and is computed using the liability method, whereby such taxation is determined by applying the rate of tax expected to prevail at the time of reversal.

Deferred taxation is not provided where, in the opinion of the directors, there is reasonable evidence that such taxation will not become payable in the foreseeable future (at least three years) and there is no indication that the situation is likely to change thereafter.

1 Accounting policies (continued)

f) Turnover

Turnover is stated net of credits, allowances, discounts and VAT.

g) Translation of transactions in foreign currencies

Assets and liabilities in foreign currencies have been translated into sterling at rates of exchange which approximate those ruling at the balance sheet date. Transactions in foreign currencies have been translated into sterling at approximate rates ruling at the date of the transaction. Gains or losses arising on translation are taken to the profit and loss account in the period in which they occur.

h) Cash flow statement

A cash flow statement has not been prepared as the company has taken advantage of the exemption under Financial Reporting Standard No.1 (revised), available to wholly owned subsidiaries of companies whose consolidated accounts, which are publicly available, include a consolidated cash flow statement.

i) Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

j) Related party transactions

The company has taken advantage of the exemptions contained in Financial Reporting Standard No. 8 and has not disclosed related party transactions with other group companies.

2 Turnover

Substantially all of the company's turnover arises within the United Kingdom, and relates to the importation and distribution of sunglasses and reading glasses.

3 Acquisition of trade

The Company has not traded prior to the period ended 31 December 1998. The company began trading on 1 March 1998 and, therefore, the results represent ten months of trade.

The commencement of trade followed the purchase of the distribution of reading glasses and sunglasses business of Eyecare Products Ltd. The identifiable assets and liabilities acquired are set out below:

	1998 £
Fixed assets	639,958
Current assets	
Stocks	2,112,163
Debtors	1,056,642
Creditors: amounts falling due within one year	(986,873)
Net assets	2,821,890
Consideration	(2,825,973)
Goodwill	(4,083)

The goodwill arising on acquisition has been capitalised and will be written off over a twenty year period.

4 Interest receivable and similar income

	1998 £
Bank interest receivable	29,025

Notes to the accounts (continued)

5 Interest payable and similar charges

	1998 £
Other group companies	99,397

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging or (crediting):

	1998 £
Depreciation and amounts written off tangible fixed assets	425,323
Profit on disposal of tangible fixed assets	1,900
Operating lease rentals	
- plant and machinery	86,274
Auditors' remuneration	18,000
Staff costs (see note 7)	724,027

Remuneration payable to the auditors in respect of non-audit services provided to the Company during the period amounted to £5,000.

7 Staff costs

	1998 £
Employee costs during the period amounted to:	
Wages and salaries	658,418
Social security costs	55,334
Other pension costs	10,275
	724,027

Notes to the accounts (continued)

7 Staff costs (continued)

The average weekly number of employees of the company during the period was:

	1998 Number
Selling and marketing	32
Administration	16
	48

The employee costs shown above include the following remuneration in respect of directors of the company:

	£
Emoluments (including pension contributions to personal pension plan of £5,000)	88,525

8 Tax on profit on ordinary activities

The tax charge was as follows:

	1998 £
UK corporation tax (31%)	83,746

There is a deferred tax asset of £60,616 that arises from timing differences relating to capital allowances and depreciation. This amount has not been recognised in these accounts.

9 Goodwill

	Total £
Cost	
At 29 December 1997	-
Additions	4,083
At 31 December 1998	4,083

Notes to the accounts (continued)

10 Tangible fixed assets

	Fixtures £	Furniture, fittings and equipment £	Computer equipment £	Total £
Cost				
At 29 December 1997	-	-	-	-
Additions	785,058	252,208	69,943	1,107,209
At 31 December 1998	785,058	252,208	69,943	1,107,209
Depreciation				
At 29 December 1997	-	-	-	-
Charge	381,157	30,080	14,086	425,323
At 31 December 1998	381,157	30,080	14,086	425,323
Net book value				
At 31 December 1998	403,901	222,128	55,857	681,886

11 Stocks

	1998 £
Goods for resale	2,280,179

The estimated replacement cost of the stocks is not materially different from their balance sheet value.

12 Debtors

	1998 £
Amounts falling due within one year:	
Trade debtors	970,889
Other debtors	144,030
Prepayments and accrued income	144,928
	1,259,847

Notes to the accounts (continued)

13 Creditors: Amounts falling due within one year

	1998 £
Trade creditors	1,224,324
Loan from parent company	1,225,973
Amounts owed to parent company	689,226
Other creditors	4,738
UK corporation tax payable	83,746
Social security and PAYE	17,785
Accruals and deferred income	231,812
	3,477,604

The loan from the parent company is repayable on demand and carries interest at a rate equal to 2% above National Westminster Bank Plc's base rate, payable on 31 December each year in arrears.

The assets of the Company are secured by means of a debenture in favour of Nations Bank NA, who under a financing agreement has granted the Foster Grant group credit facilities consisting of a revolving credit facility in the maximum principal amount of US$60,000,000 and a term loan in the maximum principal amount of US$10,000,000.

14 Share capital

The authorised share capital was increased from 1,000 to 2,000,000 ordinary shares of £1 on 4 March 1998, to increase the capital base of the company. In addition 1,600,000 ordinary shares of £1 each were allotted on the same date.

	1998 £
Ordinary shares (equity):	
Authorised	
2,000,000 ordinary shares of £1 each	2,000,000
Allotted, called-up and fully-paid	
1,600,001 ordinary shares of £1 each	1,600,001

15 Reconciliation of movements in shareholders' funds

	1998 £
Loss for the financial period	(11,590)
New shares issued	1,600,001
Net addition to shareholders' funds	1,588,411
Opening shareholders funds	-
Closing shareholders funds	1,588,411

Notes to the accounts (continued)

16 Commitments

Lease commitments

The company has entered into non-cancellable leases in respect of property and plant and machinery. Annual commitments under non-cancellable operating leases are as follows:

	1998	
	Property	Plant and machinery
	£	£
Operating leases which expire:		
- within 1 year	-	3,370
- within 2-5 years	85,500	60,078
- after 5 years	-	-
	85,500	63,448

17 Ultimate parent undertaking

Accessories Associates Inc, registered in Rhode Island, USA is the ultimate parent undertaking of the company. A copy of the group accounts can be obtained from AAi FosterGrant Accessories Inc., 500 George Washington Highway, Smithfield, Rhode Island, 02917, USA.