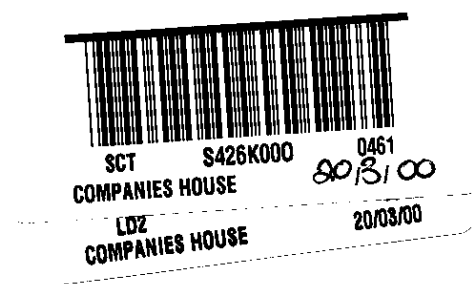


PENTLAND GROUP PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1999

Registered in Scotland, number 3935



DIRECTORS' REPORT

The Directors have pleasure in submitting their Report and the audited financial statements for the year ended 31 December 1999.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company is a management and industrial holding company. Its principal subsidiary undertakings are set out on page 3 and are primarily engaged in brand management, the supply of footwear, clothing and sports goods and international trading.

In November 1999 the Company's parent, Robert Stephen Holdings PLC ("RSH"), acquired the minority shareholdings in Pentland Group PLC through a Scheme of Arrangement.

The Directors have approved the results for the year and are in discussion with Robert Stephen Holdings plc, the ultimate parent undertaking, over possible internal restructuring.

RESULTS AND DIVIDENDS

The results for the year are set out on page 5 of the financial statements.

The directors do not recommend the payment of a final dividend (1998 : 2.32p per share). Dividends paid during the year, disclosed in note 9, totalled £195.3 million (1998 : £12.9 million).

YEAR 2000 COMPUTER COMPLIANCE

During 1998 and 1999 a Group-wide review was implemented to ensure that all of the Group's key systems and suppliers were Year 2000 compliant. Following this extensive review no Year 2000 problems have occurred within the Group.

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

ECONOMIC AND MONETARY UNION (EMU)

Those businesses with an immediate requirement to trade in euros had a permanent or interim solution in place from January 1999 to meet forecast business needs. The costs of the systems and other changes required as a result of the introduction of the euro are not material to the Group's financial condition, operations or liquidity.

DIRECTORS AND THEIR INTERESTS

The following directors held office during the year:

RS Rubin
AK Rubin
AJ de Keyser
JC Mayo (resigned 15 November 1999)
DC Pearson (resigned 19 November 1999)
JA Quelch (resigned 15 November 1999)
RP Shepherd (resigned 15 November 1999)
CV Silver (resigned 15 November 1999)
RA Stevens
NPH Webster

Other than the acquisition of the 43% minority interest in the Group by RSH none of the Directors had a beneficial interest in any contract of significance to which a member company of the Group was a party during the financial year. Given their interest in this transaction RS Rubin and AK Rubin were precluded from participating in the formulation of the Board's advice to the minority. So too were AJ de Keyser, D Pearson, RA Stevens and N Webster, who were members of the Management Team at the date this transaction took place.

Details of each Directors interest in the shares, share options and long term incentive schemes are given in note 6 to the accounts.

GOING CONCERN

The Directors, having taken account of the Company's net cash resources and bank facilities and having made enquiries through the planning process, consider that the Company has adequate resources to continue operations for the foreseeable future. Therefore it is appropriate to adopt the going concern basis in preparing the financial statements.

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 of the company for the period to that date. In preparing those financial statements the directors are required:

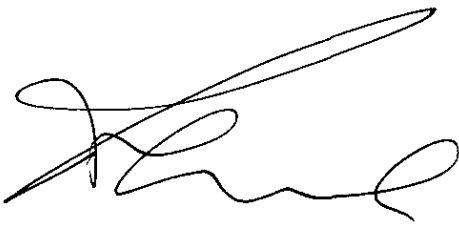
- ◆ to select suitable accounting policies and then apply them consistently;
- ◆ to make judgements and estimates that are reasonable and prudent;
- ◆ to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- ◆ 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

In accordance with Section 384 of the Companies Act 1985, a resolution to re-appoint PricewaterhouseCoopers as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to be 'R.A. Stevens', written over a horizontal line.

R.A. STEVENS
Secretary

20 March 2000

PRINCIPAL SUBSIDIARY UNDERTAKINGS

Company and % owned if not 100% +	Country of operation	Country in incorporation
Holding Companies		
Pentland Industries Ltd	UK	England
Pentland Holdings B.V.	Netherlands	Netherlands
Pentland USA Inc	USA	USA
Pentland Ventures Ltd	UK	England
Trading Subsidiary Undertakings		
International Brands		
Berghaus Ltd	UK	England
Brasher Boot Company Ltd (75%)	UK	England
Ellesse International SpA	Italy	Italy
Ellesse (UK) Ltd	UK	England
Mitre Sports International Ltd	UK	England
Pentland Australia Pty Ltd	Australia	Australia
Pentland Brands Ltd	UK	England
Pentland Brands (UK) Ltd	UK	England
Pentland France sarl	France	France
Pony International Inc	USA	USA
Reusch International GmbH & Co	Germany	Germany
Speedo Holdings BV	Netherlands	Netherlands
Speedo International Ltd	UK	England
Speedo Australia Pty Ltd	Australia	Australia
UK Footwear & Fashion		
Airborne Footwear Ltd	UK	England
Airborne Leisure Ltd	UK	England
Kangaroos International Ltd	UK	England
Kangaroos Ltd	UK	England
Luc Berjen-Paris Ltd (70%)	UK	England
Pentland Shoe Company Ltd	UK	England
Red or Dead Ltd (95%)	UK	England
Sportsflair Ltd	UK	England
International Trade		
Asco General Supplies (Far East) Ltd	Hong Kong	Bahamas
Asco-Eegim (Far East) Ltd (51%)	Hong Kong	Bahamas
Service Companies		
Asco General Supplies Ltd	UK	England
H&H Refrigeration Ltd	UK	England
Pentland Management Services Ltd	UK	England
Pentland Shipping Services Ltd	UK	England

AUDITORS' REPORT TO THE MEMBERS OF PENTLAND GROUP PLC

We have audited the financial statements on pages 5 to 13 which have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, 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 2, the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom 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.

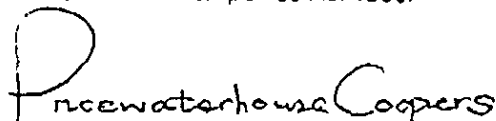
Basis of audit opinion

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 affairs of the company as at 31 December 1999 and of the loss of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London

20 March 2000

Pentland Group plc
Profit and Loss Account
for the year ended 31 December 1999

		<u>1999</u>	<u>1998</u>		
	Notes	Before exceptional items £m	Exceptional items £m	Total £m	£m
Operating loss					
Continuing operations	3	(13.8)	-	(13.8)	(7.4)
Exceptional items					
Privatisation fees	4	-	(1.4)	(1.4)	-
Total operating loss		(13.8)	(1.4)	(15.2)	(7.4)
Net interest income	5	5.4	-	5.4	7.8
(Loss)/profit on ordinary activities before taxation		(8.4)	(1.4)	(9.8)	0.4
Tax on profit on ordinary activities	8	2.3	-	2.3	(0.1)
(Loss)/profit on ordinary activities after taxation		(6.1)	(1.4)	(7.5)	0.3
Dividends	9	(8.3)	(187.0)	(195.3)	(12.9)
Transferred from reserves		(14.4)	(188.4)	(202.8)	(12.6)

Pentland Group plc
Balance Sheet
at 31 December 1999

		<u>1999</u>		<u>1998</u>	
	Notes	£m	£m	£m	£m
Fixed assets					
Investments	9		80.0		127.2
Current assets					
Debtors - amounts falling due after more than one year	10	94.1		135.2	
- amounts falling due within one year	10	2.4		4.5	
Investments	11	0.5		0.6	
Cash and bank deposits	12	53.4		99.8	
		<u>150.4</u>		<u>240.1</u>	
Creditors - amounts falling due within one year	13	(112.5)		(48.1)	
Net current assets			<u>37.9</u>		<u>192.0</u>
Total assets less current liabilities			<u>117.9</u>		<u>319.2</u>
Capital and reserves					
Called up equity share capital	14		84.9		84.5
Reserves attributable to equity shareholders	15		33.0		234.7
Equity shareholders' funds			<u>117.9</u>		<u>319.2</u>

Andrew K. Rubin

A K Rubin
Chief Executive

N P H Webster
N P H Webster
Finance Director

Approved by the Board, 20 March 2000

1 Accounting Policies

Basis of accounting The accounts are prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with applicable accounting standards.

Consolidation Consolidated accounts have not been prepared as the company is a wholly owned subsidiary undertaking of Robert Stephen Holdings plc ("RSH"), and is exempt from preparing Group accounts by virtue of S.228 Companies Act 1985.

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

Financial instruments Derivative instruments utilised by the Group, to reduce risks associated with fluctuations in foreign exchange and interest rates include forward foreign exchange contracts, currency option contracts, interest rate swaps, and forward rate agreements. Gains or losses on forward exchange and currency option contracts used to hedge firm commitments or anticipated transactions, plus fees paid, are deferred and recognised when the transaction occurs. Foreign exchange swaps, used as an alternative to currency loans for hedging the working capital requirements of various Group companies, are valued at the year end rate and gains or losses taken to the profit and loss account. Amounts payable or receivable in respect of the interest rate derivatives are recognised as adjustments to interest income or expense over the period of the contracts.

Foreign currencies Transactions are translated at the rate of exchange applicable at the transaction date or, if hedged forward, at the contracted rate. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year or contracted rates where hedging arrangements are in place.

Deferred taxation Deferred taxation is provided for the estimated net liability in respect of timing differences and profits retained in overseas subsidiary undertakings to the extent that it is expected that liabilities will crystallise in the foreseeable future. Deferred taxation assets are recognised only to the extent that amounts are considered to be recoverable.

2 Statement of Cash Flows

RSH, of which the company is a wholly owned subsidiary undertaking, 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) (FRS1). Accordingly the company has taken advantage of the exemption available under FRS1 to dispense with presenting its own cash flow statement.

3 Operating loss before Exceptional Items

	1999 Total £m	1998 Total £m
Staff costs:		
Wages and salaries	3.2	2.0
Social security costs	0.4	0.2
Other pension costs	0.3	0.3
Foreign exchange profit on intercompany loans	(0.6)	(0.2)
Auditors' remuneration	0.1	0.1
Other operating charges	10.4	5.0
	<hr/> 13.8 <hr/>	<hr/> 7.4 <hr/>

	1999 £m	1998 £m
Privatisation		
Fees	(0.8)	-
Cancellation of options	(2.4)	-
Profit on disposal of shares held by the Company's Employee Share Ownership Plan	1.8	-
	<u>(1.4)</u>	<u>-</u>

	1999 £m	1998 £m
Interest receivable	5.9	7.8
Less interest payable	(0.5)	-
	<u>5.4</u>	<u>7.8</u>

Emoluments	1999 £000's	1998 £000's
Remuneration for management services	1,280.1	1,104.7
Compensation for loss of office	489.2	-
Pension contributions - defined benefit scheme	102.4	48.7
- money purchase scheme	33.3	31.8
Fees	134.8	137.2
Benefits	180.3	139.1
Bonuses	573.0	272.5
Bonuses arising from the cancellation of save as you earn and phantom options	239.2	-
	3,032.3	1,734.0

	1999	
	£000's	
Highest paid Director		
Aggregate emoluments, including compensation for loss of office	740.9	
Defined benefit scheme - accrued pension at year end	22.5	
	1999	1998
	£000's	£000's
Chairman		
Aggregate emoluments	370.6	360.8
Defined benefit scheme – accrued pension at year end	169.1	158.6

6 Directors (continued)

Interest in shares

The interests of RS Rubin and AK Rubin in the shares and share options of the Company at the end of the financial year were as follows:

	Ordinary shares of 25 pence each	
	31 December 1999	31 December 1998
RS Rubin	339,722,474	203,130,255
AK Rubin	nil	1,085,546

Mr RS Rubin holding includes 339,722,474 (1998: 194,397,474) ordinary shares held by RSH. At 31 December 1999, Mr RS Rubin and his wife held 4,369,511 ordinary shares in RSH (1998: 4,020,000 ordinary shares). Mr RS Rubin has no other beneficial interest in the shares of RSH. Mr RS Rubin and Mr AK Rubin received one RSH share for every 25 Pentland Group plc shares held in lieu of the 145p paid for Pentland shares as detailed within the scheme of arrangement.

Mr AK Rubin holds 28,736 (1998: nil) shares in RSH and in addition has a beneficial interest in trust income from 942,462 shares of RSH (1998: 927,778 shares).

No other Director had any interest in the shares of Pentland Group plc at the end of the financial year. As part of the acquisition of the minority shareholdings in Pentland Group PLC by RSH the shares held by the directors were sold and options held either exercised or cancelled at a price of 145p per share under the scheme of arrangement, as follows:

	Ordinary Shares of 25p each	Executive Options	Savings Related Share Options	Phantom Share Option Scheme
DC Pearson	10,000	-	-	200,000 at 94.5p
AJ de Keyser	226,459	400,000 at 101.875p	11,500 at 90p	-
RA Stevens	26,419	320,000 at 1.01375p	-	-
NPH Webster	10,000	-	-	200,000 at 112.5p
JA Quelch	5,000	-	-	-
AK Rubin	(see above)	-	-	250,000 at 134.0p

The Company's Employee Share Ownership Plan ("ESOP") was cancelled as a result of the privatisation (see note 4). Directors, being members of a class of potential beneficiaries of the ESOP, are to that extent interested in all the Company's ordinary shares acquired by the Trustee and not allocated. At 15 November 1999, the date the company was delisted, the Trust held 7,944,040 (31 December 1998 - 5,904,040) unallocated ordinary 25 pence shares, purchased at the following price:

	No. of shares	Purchase price
1995	1,105,000	133p
1996	325,000	106p
1997	500,000	115p
1997	1,109,000	118p
1998	2,365,040	126.5p
1998	500,000	84p
16 April 1999	2,040,000	107P
	<hr/> 7,944,040	

The trustee waived all dividends on shares held by the ESOP. The value of dividends waived during the year was £198,601 (1998 - £220,196).

During the period from 31 December 1999 to 29 February 2000 there has been no change in the Directors' interests in shares and share options as set out above.

Long term incentive schemes

The Phantom Share Option Scheme and Executive Share Option Scheme were cancelled or exercised as part of the acquisition of minority shareholders.

There are no other long term incentive arrangements in respect of the Executive Directors.

7 Taxation

	1999 £m	1998 £m
United Kingdom		
Corporation tax credit/(charge) of 30.25% (1998 - 31%) based on profits for the year	2.3	(0.1)

8 Dividends

	1999 £m	1998 £m
Interim paid 1 November 1999 - 1.65p per share (1998 - 1.54p per share)	5.6	5.3
Second interim paid 29 November 1999 - 0.85p per share (1998: nil)	2.7	-
Third interim paid 29 November 1999 -	187.0	-
Proposed final - Nil (1998 - 2.32p per share)	-	7.9
	<u>195.3</u>	<u>13.2</u>
Released on shares repurchased	-	(0.3)
	<u>195.3</u>	<u>12.9</u>

9 Fixed Asset Investments

	Own Shares £m	Loans £m	Total £m
Cost			
At 1 January 1999	7.2	120.0	127.2
Additions	1.1	-	1.1
Repaid	-	(40.0)	(40.0)
Disposal on privatisation	(8.3)	-	(8.3)
At 31 December 1999	<u>-</u>	<u>80.0</u>	<u>80.0</u>

Own Shares

As explained in note 6, the Company had an Employee Share Ownership Plan (ESOP). At 1 January 1999 the ESOP Trust held 5,904,040 shares acquired at an average of 120.4p per share. During 1999 the ESOP Trustee acquired a further 2,040,000 shares at 107p per share. The shares were disposed of on the cancellation of the Phantom options on completion of the RSH acquisition.

On 22 December 1999 the company sold its investment in Pentland Ventures Limited to Pentland Industries Limited, a wholly owned subsidiary, for £1,000 (being the cost of Pentland Ventures Limited to the Company). The net assets of Pentland Ventures Limited at this date were £52,649,000. The principal subsidiary undertakings of the Group are listed on page 3. Advantage has been taken of Section 231(5) of the Companies Act 1985 in that a full list of subsidiary and associated undertakings will be annexed to the Company's next Annual Return.

10 Debtors

	1999 £m	1998 £m
Due within one year		
Corporation tax recoverable	2.3	2.5
Prepayments and accrued income	0.1	2.0
	<u>2.4</u>	<u>4.5</u>
Due after one year		
Amounts owed by subsidiary undertakings	94.1	135.2
	<u>96.5</u>	<u>139.7</u>

11 Investments Held as Current Assets

	1999 £m	1998 £m
Listed in the UK	-	0.1
Certificates of tax deposit	0.5	0.5
	<u>0.5</u>	<u>0.6</u>
Market value of listed investments	<u>-</u>	<u>0.1</u>

12 Cash and Bank Deposits

	1999 £m	1998 £m
Cash and bank deposits	<u>53.4</u>	<u>99.8</u>

13 Creditors - Amounts Falling Due Within One Year

	1999 £m	1998 £m
Bank overdrafts	29.4	21.7
Bank loans	60.0	-
Amounts due to subsidiary undertakings	22.8	17.4
Current taxation	-	1.1
Proposed dividend	-	7.9
Accruals and deferred income	0.3	-
	<u>112.5</u>	<u>48.1</u>

Bank overdrafts are reported gross, but the Company and its UK subsidiaries have arrangements with their clearing banks whereby sterling current account credit balances are set off against debit balances and interest is paid only on the aggregate net overdraft.

The Company has various short term borrowing facilities at its disposal. The above bank overdrafts obligations represent usage of these facilities, which are repayable upon demand.

13 Creditors - Amounts Falling Due Within One Year (continued)

At 31 December 1999, the Company had available a term and revolving credit facility arranged by Barclays Capital and syndicated amongst various relationship banks. The facility, which totals £150.0 million, comprises a term loan for £90.0 million and a revolving credit/acceptance credit facility for £60.0 million. It replaces the Company's existing undrawn committed bilateral facilities for £100.0 million (1998 : £100.0 million) and, having been used to finance the payment of the special interim dividend to RSH, remains available for general corporate purposes. Any undrawn term loan commitments will be cancelled on 10 January 2000 and the final maturity date of the facility, which is not subject to annual review, is 2 September 2003. Usage at 31 December 1999 comprised £60.0 million by way of term loan and all conditions precedent of the facility had been observed.

14 Share Capital

	1999 £m	1998 £m
Authorised 480,000,000 ordinary shares of 25p each (1998 - 480,000,000)	120.0	120.0
Alotted, issued and fully paid 339,722,474 ordinary shares of 25p each (1998 - 338,087,149)	84.9	84.5

During the year members exercised their options held under the Pentland Group plc Executive Share Option Scheme to purchase 1,430,000 shares. The aggregate nominal value of these shares was £357,500 and the consideration received was £1,353,680. During the year options on 298,000 shares lapsed and options on 666,000 shares were cancelled as a result of the privatisation.

During the year employees exercised their options held under the Pentland Group plc Savings Related Share Option Scheme to purchase 205,325 shares. The aggregate nominal value of these shares is £51,331 and the consideration received was £170,492 in cash. During the year options to purchase 927,600 shares at 86p per share were granted. During the year options on 449,365 shares lapsed and options on 3,135,525 shares were cancelled as a result of the privatisation.

15 Reserves

	Capital redemption reserve £m	Share premium £m	Profit and loss £m	Total £m
At 1 January 1999	6.8	2.8	225.1	234.7
Deficit for year	-	-	(202.8)	(202.8)
Shares issued	-	1.1	-	1.1
At 31 December 1999	6.8	3.9	22.3	33.0

The attributable loss dealt with in the Company's profit and loss account for the year is £7.5 million. The Company holds a revaluation reserve of £30,000 (1998 - £30,000).

16 Contingent Liabilities

Contingent liabilities in respect of deferred taxation relate to the liability to taxation on the remittance of certain profits retained by certain overseas subsidiary undertakings;

17 Related Party Transactions

i) Disclosure of control

The Company's ultimate parent undertaking is Robert Stephen Holdings Ltd ("RSH"), a company registered in England. Consolidated accounts will be prepared by Robert Stephen Holdings Ltd for the year ended 31 December 1999 and these will be obtainable from that company's Registered Office at 8 Manchester Square, London W1M 5AB. Details of the interests in the Company's shares held by RSH are set out in note 6. Mr R S Rubin and Mr A K Rubin, who are Directors of the Company, are also directors of RSH. At 31 December 1999, Mr R S Rubin and his close family exercised control over RSH.

During the year certain legal and accounting services were provided by the Group to RSH, while the Group makes use of various properties owned by RSH. In the opinion of the Directors, the value of the unremunerated services provided by RSH to the Group and by the Group to RSH were comparable and did not aggregate to more than £100,000 during 1999.

ii) Subsidiary undertakings

Details of investments in principal subsidiary undertakings are included on page 4. In accordance with Financial Reporting Standard 8 on Related Party Disclosures, disclosure is not required of transactions and balances between Group companies where such transactions are eliminated on consolidation.

iii) Pension funds

Information relating to pension fund arrangements is disclosed in the consolidated accounts of Robert Stephen Holdings plc.

iv) Directors and key management

Details of Directors' emoluments, Directors' interests in shares and Directors' long term incentive schemes are set out in note 6.

18 Approval of Accounts

These accounts were approved at a Directors' meeting held on 20 March 2000.