

PRINGLE OF SCOTLAND LIMITED
(formerly MM&S (2612) Limited)

Report and Financial Statements

31 March 2001

Deloitte & Touche
39 George Street
Edinburgh
EH2 2HZ

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REPORT AND FINANCIAL STATEMENTS 2001

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REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mr D Fang
Mr K Fang
Mr T Kim On Lau
Mrs K Winser
Mr A Wong

SECRETARY

Mr D Fang

Maclay, Murray & Spens

REGISTERED OFFICE

3 Glenfinlas Street
Edinburgh
EH3 6AQ

BANKERS

HSBC Bank Plc
PO Box 648
27-32 Poultry
London
EC2P 2BX

SOLICITORS

Maclay, Murray & Spens
3 Glenfinlas Street
Edinburgh
EH3 6AQ

AUDITORS

Deloitte & Touche
39 George Street
Edinburgh
EH2 2HZ

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period ended 31 March 2001.

INCORPORATION

The company was incorporated on 4 February 2000 and commenced to trade on 17 March 2000. The financial statements cover the period from incorporation to 31 March 2001.

CHANGE OF NAME

On 15 March 2000 the company changed its name from MM&S (2612) Limited to Pringle of Scotland Limited. On 17 March 2000, the company acquired the trade and assets of the "Pringle of Scotland" business which had previously operated within a division of Dawson International PLC.

ACTIVITIES

The principal activity of the company is the retail, manufacture and wholesale of clothing and other related products.

REVIEW OF DEVELOPMENTS

The company loss for the period was £1,654,000. No dividends were paid during the period and no dividends are proposed.

The results for the period ended 31 March 2001 reflect a number of significant trading and non-trading items.

The directors recommend that the retained loss of £1,654,000 be transferred against reserves.

The first year of the company's operation commenced with the acquisition of the Pringle business followed by a period of restructuring, redeveloping and repositioning.

The increase in Pringle brand sales for the first year and decrease in operating losses over the comparatives for previous year is a good step in building the foundations for the future. However the improved position on operating results includes short-term benefits achieved by the acquisition.

The new product positioning, aspiring to be a top quality fashion house sets an important platform for future growth and development. This is complemented with new retail positioning in the upper market.

The focus of Pringle's second year will be to increase turnover internationally within the new market position and to develop its own programme of Pringle brand retail stores.

DIRECTORS' REPORT - Continued**DIRECTORS AND THEIR INTERESTS**

The present membership of the board is set out on page 1.

The directors and their beneficial interests, as defined by the Companies Act 1985, in the shares of the company at 31 March 2001 or at the date of incorporation or, if subsequent, their appointment, were as follows:

	Ordinary shares of £1 each	
	31.3.01	4.2.00
Mr D Fang (appointed 22 Feb 2000)	-	-
Mr K Fang (appointed 22 Feb 2000)	-	-
Mr T Kim On Lau (appointed 19 March 2000)	-	-
Mr A Wong (appointed 23 Feb 2000)	-	-
Mrs K Winser (appointed 23 Feb 2000)	300,000	-
	<u>300,000</u>	<u>-</u>

The interests of the directors in the shares of the ultimate controlling company, SC Fang & Sons Company Limited, are disclosed in the statutory filing of that company.

EUROPEAN MONETARY UNION

The company is implementing financial systems which will be fully capable of being operated in Euros. The company expects to treat Euro transactions as it would any other foreign currency in the foreseeable future and does not expect any significant costs arising from the integration of the Euro.

EMPLOYMENT OF DISABLED PERSONS

It is the policy of the company to give full and fair consideration to employment applications from disabled persons, having regard to their aptitudes and ability and wherever possible, to continue the employment of, and to arrange appropriate training for, employees who become disabled during the period of their employment by the company. So far as possible, the same opportunities for training, career development and promotion are provided for disabled as for other employees.

EMPLOYEE INVOLVEMENT

Employees are encouraged to discuss with management any matters of concern and factors affecting the company and are kept informed of company progress and developments.

AUDITORS

Deloitte & Touche were appointed to fill a casual vacancy as first auditors of the company. They have expressed their willingness to continue in office as auditors and a resolution to officially appoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Director

31 August 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company 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; 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.

AUDITORS' REPORT TO THE MEMBERS OF PRINGLE OF SCOTLAND LIMITED

We have audited the financial statements on pages 6 to 18 which have been prepared under the accounting policies set out on pages 12 and 13.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

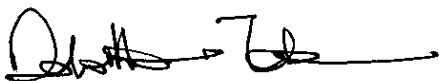
Basis of opinion

We conducted our audit in accordance with United Kingdom 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 March 2001 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants and Registered Auditors

21 August 2001

PROFIT AND LOSS ACCOUNT
Period ended 31 March 2001

	Note	Period 4.2.2000 to 31.3.2001 £'000
TURNOVER	2	20,015
Cost of sales		<u>(12,623)</u>
Gross profit		7,392
Administrative expenses		<u>(8,929)</u>
OPERATING LOSS	4	(1,537)
Interest payable and similar charges	5	<u>(51)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,588)
Tax on loss on ordinary activities	6	<u>(66)</u>
RETAINED LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD	16	<u><u>(1,654)</u></u>

The above results all relate to activities acquired during the current financial period.

There have been no recognised gains and losses attributable to the shareholders other than the profit for the current period and, accordingly, no Statement of Total Recognised Gains and Losses is included.

BALANCE SHEET
As at 31 March 2001

	Note	2001 £'000
FIXED ASSETS		
Intangible assets	7	-
Tangible assets	8	1,181
		<u>1,181</u>
CURRENT ASSETS		
Stocks	9	2,745
Debtors	10	5,420
Cash at bank and in hand		47
		<u>8,212</u>
CREDITORS: amounts falling due within one year	11	<u>(8,018)</u>
NET CURRENT ASSETS		<u>194</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,375
CREDITORS: amounts falling due after more than one year	12	<u>(29)</u>
		<u>1,346</u>
CAPITAL AND RESERVES		
Called up share capital	15	3,000
Profit and loss account	16	(1,654)
EQUITY SHAREHOLDERS' FUNDS	17	<u>1,346</u>

These financial statements were approved by the Board of Directors on 31 August 2001.

Signed by order of the Board of Directors



Director

CASH FLOW STATEMENT
Period ended 31 March 2001

	Note	Period from 4.2.2000 to 31.3.2001 £'000
Net cash flow from operating activities	(i)	(777)
Returns on investments and servicing of finance	(ii)	(51)
Taxation		(66)
Acquisitions	(ii)	(3,847)
Capital expenditure and financial investment	(ii)	(671)
Net cash outflow before financing		(5,412)
Financing	(ii)	5,459
Increase in cash in the period		<u>47</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

Increase in cash in the period	(iii)	47
Cash inflow from increase in debt and hire purchase	(iii)	(2,459)
		<u>(2,412)</u>
New hire purchase and finance lease contracts		(47)
Movement in net debt		<u>(2,459)</u>
Opening net debt		-
Closing net debt	(iii)	<u>(2,459)</u>

All cash flows relate to the operation acquired during the financial period.

NOTES TO THE CASH FLOW STATEMENT

Period ended 31 March 2001

(i) RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 £'000
Operating loss	(1,537)
Depreciation charge	454
Amortisation charge	100
Profit on sale of tangible fixed assets	(27)
Increase in stocks	(1,296)
Increase in debtors	(4,012)
Increase in creditors	5,541
Net cash outflow from operating activities	<u><u>(777)</u></u>

(ii) ANALYSIS OF CASH FLOWS

	2001 £'000
Returns on investments and servicing of finance	
Interest paid	(50)
Interest element of hire purchase repayments	(1)
Net cash flow from returns on investments and servicing of finance	<u><u>(51)</u></u>
Acquisitions	(3,847)
Purchase of trade and assets (refer Note iv)	<u><u>(3,847)</u></u>
Net cash flow from capital expenditure and financial investments	<u><u>(3,847)</u></u>
Capital expenditure and financial investments	
Purchase of tangible fixed assets	(698)
Sale of tangible fixed assets	27
Net cash flow from capital expenditure and financial investments	<u><u>(671)</u></u>

NOTES TO THE CASH FLOW STATEMENT
Period ended 31 March 2001**(ii) ANALYSIS OF CASH FLOWS - Continued**

	2001 £'000
Financing	
Net proceeds of new loans	2,460
Proceeds from issue of ordinary shares	3,000
Capital element of finance lease and hire purchase repayments	(1)
Net cash flow from financing	<u><u>5,459</u></u>

(iii) ANALYSIS OF CHANGES IN NET DEBT

	At 4 February 2000 £'000	Cash flows £'000	Other Non-cash Movements £'000	At 31 March 2001 £'000
Cash at bank	-	47	-	47
	-	47	-	47
Debt due within one year	-	(2,460)	-	(2,460)
Finance leases and hire purchase contract	-	1	(47)	(46)
	-	(2,459)	(47)	(2,506)
Total	<u><u>-</u></u>	<u><u>(2,412)</u></u>	<u><u>(47)</u></u>	<u><u>(2,459)</u></u>

NOTES TO THE CASH FLOW STATEMENT

Period ended 31 March 2001

(iv) ACQUISITIONS

The fair values of the assets of the acquired operation were as follows:

	2001 £'000
Tangible fixed assets	890
Stock and work in progress	1,449
Trade debtors	1,408
	<hr/>
<i>Fair value of consideration:</i>	3,747
Cash	3,847
	<hr/>
Goodwill	100
	<hr/>

Prior to the acquisition on 17 March 2000, the "Pringle of Scotland" business was integrated within a division of Dawson International Plc, with certain common services and costs, and was not subject to separate financial reporting. Consequently, the directors are of the opinion that there is no sufficient information available to disclose of the results of the operations acquired for the accounting period prior to acquisition, the year ended, 31 December 1999, or the period from 1 January 2000 to acquisition on 17 March 2000.

NOTES TO THE ACCOUNTS**Period ended 31 March 2001****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Goodwill and intangible fixed assets

The company accounts for acquisitions and business combinations using the acquisition method of accounting. Goodwill arises on the acquisition of a business and represents the fair value of the consideration less the fair value of the assets and liabilities acquired.

For acquisitions of a business, including an interest in an associated undertaking, purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of 20 years with a full year's charge for amortisation in the year of acquisition.

Adjustments in the first full financial period following the period of acquisition to the estimated fair values of assets and liabilities acquired are accounted for on a consistent basis with the provisional value of goodwill recorded on the initial acquisition. The amount of goodwill recognised on acquisition will however be a provisional amount and may be subject to adjustments created by future fair value reviews.

Trademarks and brands acquired on purchase of the company have not been capitalised. The company does not capitalise trademarks, brands or other intangibles.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off their cost less estimated residual value on a straight line basis over their expected useful lives as follows:-

Leasehold building improvements	- over the life of the lease
Plant and equipment	- 10%-25%
Fixtures and fittings	- 10%-33%
Motor vehicles	- 25%

Stocks and work in progress

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

Leasing and hire purchase commitments

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of income and expenditure in taxation computations in years different from those in which they are included in the financial statements, only to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

NOTES TO THE ACCOUNTS

Period ended 31 March 2001

1. ACCOUNTING POLICIES - CONTINUED

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2. TURNOVER

Turnover represents amounts derived from the sale of clothing and other products throughout the UK and the rest of the world excluding value added tax. The directors do not believe it is in the company's interest to provide a geographical analysis of turnover.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001 £'000
Staff costs during the period (including directors)	
Wages and salaries	4,751
Social security costs	398
Pension costs	243
	<hr/> 5,392 <hr/>
	No
Directors' remuneration	
Other emoluments	218
Benefits in kind	10
Pension contributions	12
	<hr/> 240 <hr/>

All of the above directors' remuneration relates to the services of one director.

The directors had no share options in place at the year end.

There is one director accruing benefits under the pension scheme.

Average number of persons employed:

	No
Office and administration	151
Production	115
	<hr/> 266 <hr/>

NOTES TO THE ACCOUNTS

Period ended 31 March 2001

4. OPERATING LOSS

	2001 £'000
Operating loss is stated after charging/(crediting):	
Auditors' remuneration	
Audit fees	23
Depreciation	
Owned assets	413
Leased assets	41
Amortisation of goodwill	100
Rentals under operating leases	92
Profit on sale of fixed assets	(27)
	<u>51</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £'000
Bank loans, overdrafts and other loans repayable	
within one year	50
Finance leases and hire purchase contracts	1
	<u>51</u>

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	2001 £'000
Foreign withholding tax	
	66
	<u>66</u>

There is no UK corporation tax charge for the period due to the availability of losses.

NOTES TO THE ACCOUNTS

Period ended 31 March 2001

7. INTANGIBLE FIXED ASSETS

	Goodwill £'000
Cost	
Additions (refer Note iv to cash flow)	100
At 31 March 2001	100
Accumulated amortisation	
At 4 February 2000	-
Amortisation for the period	100
At 31 March 2001	100
Net book value	
At 31 March 2001	-

The goodwill additions above represent the goodwill arising on acquisition of the trade and certain assets of the 'Pringle of Scotland' business from Dawson International PLC. The directors have reviewed the goodwill value and regard one year as a reasonable period for the estimated useful life of this goodwill value. Consequently, the balance has been fully amortised in the year of acquisition.

8. TANGIBLE FIXED ASSETS

Company	Leasehold Land & Buildings £'000	Plant and equipment £'000	Fixtures & Fittings £'000	Motor Vehicles £'000	Total £'000
Cost					
At 4 February 2000	-	-	-	-	-
Additions	493	796	328	18	1,635
Disposals	-	-	(27)	-	(27)
At 31 March 2001	493	796	301	18	1,608
Accumulated depreciation					
At 4 February 2000	-	-	-	-	-
Charge for the period	41	300	111	2	454
Disposals	-	-	(27)	-	(27)
At 31 March 2001	41	300	84	2	427
Net book value					
At 31 March 2001	452	496	216	17	1,181

The net book value of assets held under finance leases and hire purchase contracts at 31 March 2001 is £52,000 the depreciation on which is given on note 4 to the accounts.

NOTES TO THE ACCOUNTS
Period ended 31 March 2001

9. STOCKS

	2001 £'000
Finished goods	1,789
Work in progress	430
Raw materials	526
	<hr/> 2,745 <hr/>

10. DEBTORS

	2001 £'000
Trade debtors	4,568
Prepayments and other debtors	852
	<hr/> 5,420 <hr/>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £'000
Bank loans (Note 13)	2,460
Trade creditors	2,878
Taxes and social security	177
Accruals and deferred income	464
Obligations under finance leases and hire purchase contracts	17
Other creditors	427
Amounts owed to parent company	1,595
	<hr/> 8,018 <hr/>

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2001 £'000
Obligations under finance leases and hire purchase contracts	29
	<hr/> 29 <hr/>

NOTES TO THE ACCOUNTS

Period ended 31 March 2001

13. ANALYSIS OF BORROWINGS

	2001 £'000
Borrowings are repayable as follows:	
Within one year or on demand	2,460

Borrowings are secured by a company guarantee given by SC Fang & Sons Company Limited, the ultimate holding company of Pringle of Scotland Limited.

Hire purchase and finance lease creditors are secured by the related assets and are wholly repayable within five years.

14. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred tax

There is no provision for deferred tax for the period to March 2001.

The amount of deferred tax asset unprovided is:-

	2001 £'000
Depreciation in excess of capital allowances	53
Other timing differences	274
	<u>327</u>

15. SHARE CAPITAL

	2001 £'000
Authorised	
Ordinary shares of £1p each	3,000
Allotted, called up fully paid	
Ordinary shares of £1 each	3,000

On 4 February 2000, the date of incorporation, two shares were issued at par. On 12 July 2000, the authorised and issued share capital was increased by £2,999,998 to £3,000,000. The new shares were issued at par to provide the ongoing capital base of the company.

NOTES TO THE ACCOUNTS
Period ended 31 March 2001

16. RESERVES

	Profit and Loss Account £'000
Retained loss for the financial period	(1,654)

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £'000
Loss for the financial period	(1,654)
New share capital subscribed	3,000
Net increase in shareholders' funds	1,346
Opening shareholders' funds	-
Closing shareholders' funds	1,346

18. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

	Land and Buildings £'000	Other £'000
Annual commitments under operating leases which expire are as follows:		
- within one year	-	9
- between two and five years	-	92
- more than five years	140	-
	140	101

19. ULTIMATE CONTROLLING PARTY

The ultimate parent company is SC Fang & Sons Company Limited, the consolidated accounts of which include the results of Pringle of Scotland Limited. The consolidated accounts of SC Fang & Sons Company Limited are available from 20-24 Kwai Wing Road, Kwai Chung, New Territories, Hong Kong.

The ultimate parent company has provided a guarantee on the company's bank facilities (Note 13)