ARTHUR ANDERSEN

Levi Strauss (U.K.) Limited

Annual report and accounts
for the year ended 30 November 1999

Registered number: 892419

Directors' report

For the year ended 30 November 1999

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 30 November 1999.

Principal activity and business review

The principal activity of the company continues to be the distribution and sale of clothes.

The directors wish to record their appreciation of the continued efforts of all employees and to thank the company's customers and suppliers for their continued support and interest.

Results and dividends

Results for the year were as follows:

	£'000
Retained profit at 30 November 1998	22,819
Loss for the year	(12,810)
Retained profit at 30 November 1999	10,009

No dividend is proposed (1998 - £nil).

Directors and their interests

The directors who served during the year and subsequently were as follows:

A Wright
J Cosgrove
G Grellman
T Larcombe (appointed 8 March 2000)

None of the directors held any beneficial interest in the shares of the company during the year.

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 accounts; 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.

Charitable and political contributions

The company contributed £175,428 (1998 - £378,838) to charities during the year. No political contributions were made.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The company places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through regular briefing meetings.

Year 2000

The directors reviewed the Year 2000 project on a monthly basis. The project identified critical systems and set target completion dates against which progress is monitored. The cost of compliance was not material in the context of other normal operating costs.

No matters of non-compliance have been identified following the century date change.

The Euro

At present no significant changes in trading have occurred which relate to the introduction of the Euro. The company has reviewed its financial systems and its ability to cope with the Euro and found no significant areas of non-compliance. In addition, the company plans to implement and install a Euro compliant financial system in 2000.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

100 New Bridge Street
London
EC4V 6JA

By order of the Board,

A Wright

Director

25 September 2000

ARTHURANDERSEN

To the Shareholders of Levi Strauss (U.K.) Limited:

We have audited the accounts on pages 5 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 circumstances of the company, 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 state of affairs of the company at 30 November 1999 and of the company's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

Fothergill House
16 King Street
Nottingham
NG1 2AS

25 September 2000

Profit and loss account

For the year ended 30 November 1999

	Notes	1999 £'000	1998 £'000
Turnover	1	112,289	157,534
Cost of sales		(89,890)	(113,228)
Gross profit		22,399	44,306
Other operating expenses (net)	2	(18,451)	(28,037)
Operating profit		3,948	16,269
Costs of a fundamental restructuring of continuing operations	3	(20,492)	-
(Loss) profit on ordinary activities before finance charges		(16,544)	16,269
Finance charges (net)	4	(153)	39
(Loss) profit on ordinary activities before taxation, being (loss) profit for the financial year	5	(16,697)	16,308
Tax on (loss) profit on ordinary activities	7	3,887	(4,773)
(Loss) profit on ordinary activities after taxation	15	(12,810)	11,535
Retained profit brought forward		22,819	11,284
Retained profit carried forward		10,009	22,819

There are no recognised gains or losses in either year other than the (loss) profit for that year.

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

All operations of the company continued throughout both periods and no operations were acquired or discontinued.

Balance sheet

30 November 1999

	Notes	1999 £'000	1998 £'000
Fixed assets			
Tangible assets	8	35,526	38,495
Investments	9	70	70
		35,596	38,565
Current assets			
Stocks	10	9,956	9,981
Debtors	11	17,119	18,718
Cash at bank and in hand		-	1,428
		27,075	30,127
Creditors: Amounts falling due within one year	12	(51,812)	(44,002)
Net current liabilities		(24,737)	(13,875)
Total assets less current liabilities		10,859	24,690
Provisions for liabilities and charges	13	-	(1,021)
Net assets		10,859	23,669
Capital and reserves			
Called-up share capital	14	1	1
Share premium account	15	849	849
Profit and loss account	15	10,009	22,819
Shareholders' funds - all equity	16	11,859	23,669

The accounts on pages 5 to 20 were approved by the board of directors on 25 September 2000 and signed on its behalf by:

A Wright Director

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

Cash flow statement

For the year ended 30 November 1999

	Notes	1999 £'000	1998 £'000
Net cash inflow from operating activities	19	6,259	17,930
Returns on investments and servicing of finance	20	(153)	39
Taxation	20	(3,460)	(7,088)
Capital expenditure	20	(5,044)	(13,792)
Acquisitions	20	-	(70)
Decrease in cash in the year	21	(2,398)	(2,981)

The accompanying notes are an integral part of this cash flow statement.

Statement of accounting policies

30 November 1999

The principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are as follows:

Basis of accounting

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

Intangible assets - Goodwill

Levi Strauss (U.K.) Limited has no capitalised goodwill. Goodwill arising on the future acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, would be capitalised and written off on a straight line basis over its useful economic life, which would be assessed at the time of acquisition. Provision would be made for any impairment.

Goodwill arising on acquisitions in the year ended 31 December 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Tangible fixed assets

Tangible fixed assets are shown at cost, net of depreciation and any provision for impairment. Any related government grants are accounted for as deferred income and amortised over the expected useful life of the asset concerned.

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

Buildings and leasehold improvements	3 - 20 years
Plant and machinery	4 - 10 years
Fixtures and fittings	3 - 10 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Net realisable value is based on estimated 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.

Taxation

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

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported using the rates of exchange prevailing at that date. All exchange differences are included in the profit and loss account.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts and VAT.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even of the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread over on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

The company has departed from this policy during the years under review and charged rentals to the profit and loss account as incurred however, due to the size of lease payments, this has not made a material impact on the accounts.

Pension costs

For defined benefit schemes, the amount charged to the profit and loss account in respect of pension costs is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company in separately managed funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

Details of the pension scheme operated by the company are given in note 18.

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

1 Segment information

All turnover was derived from the company's principal activity. The analysis of turnover by geographical destination is as follows:

	1999 £'000	1998 £'000
UK and Ireland	86,053	113,893
Rest of Europe	26,236	43,641
	112,289	157,534

Substantially all of the net assets of the company are located in the UK and substantially all of the turnover and profit before taxation of the company arose in the UK.

2 Other operating expenses (net)

	1999 £'000	1998 £'000
Selling, distribution and marketing costs	17,823	19,382
Administrative expenses	665	8,865
Other operating income	(37)	(210)
	18,451	28,037

Notes to the accounts (continued)

3 Costs of a fundamental restructuring of continuing operations

The costs of a fundamental restructuring of continuing operations arose in respect of the closure of one manufacturing plant and downsizing of other manufacturing operations, which has had a material effect on the nature and focus of the company's operations.

The effects of the exceptional items reported after operating profit on the amounts credited to the profit and loss account for taxation were:

	Tax on loss on ordinary activities	
	1999 £'000	1998 £'000
Costs of fundamental restructuring of continuing operations	5,338	-
Increase in credit to profit and loss account	5,338	-

4 Finance charges (net)

Interest payable and similar charges:

	1999 £'000	1998 £'000
Interest payable to other group undertakings	284	197
Less: Interest on balances due from group undertakings	(93)	(190)
Interest on bank deposits	(38)	(46)
	153	(39)

5 (Loss) profit on ordinary activities before taxation

(Loss) profit on ordinary activities before taxation is stated after charging:

	1999 £'000	1998 £'000
Depreciation and amounts written off tangible fixed assets	8,002	2,585
Amortisation of government grants	40	235
Operating lease rentals		
- plant and machinery	101	329
- other	1,530	1,278
Auditors' remuneration for audit services	41	38

Amounts payable to Arthur Andersen and their associates by the company and its UK subsidiary undertakings in respect of non-audit services were £122,000 (1998 - £70,000).

6 Staff costs

The average monthly number of employees (including executive directors) was:

	1999 Number	1998 Number
Manufacturing	1,403	1,502
Distribution and sales	82	124
Administration	49	45
	1,534	1,671

Their aggregate remuneration comprised:

	1999 £'000	1998 £'000
Wages and salaries	21,758	26,163
Social security costs	2,992	2,735
Other pension costs (note 18)	657	850
	25,407	29,748

Directors' remuneration

The remuneration of the directors was as follows:

	1999 £'000	1998 £'000
Emoluments	539	504
Amounts receivable under long-term incentive schemes	-	39
	539	543

Directors are awarded units under a long-term incentive scheme, the value of which fluctuates in accordance with local and worldwide group performance over a three year period.

6 Staff costs (continued)

Pensions

The number of directors who were members of pension schemes was as follows:

	1999 Number	1998 Number
Defined benefit schemes	2	3

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	1999 £'000	1998 £'000
Emoluments and long-term incentive schemes	269	318

The highest paid director is a member of the Revised Home Office Pension Plan of Levi Strauss & Co. defined benefit scheme. The company's contributions to this scheme during the year were £19,951 (1998 - £18,473).

7 Tax on (loss) profit on ordinary activities

The tax (credit) charge is based on the taxable profit for the year and comprises:

	1999 £'000	1998 £'000
UK Corporation tax	(3,785)	3,929
Deferred tax	-	1,050
Overseas tax	214	-
Adjustments in respect of prior years		
- UK Corporation tax	705	(20)
- Deferred tax	(1,021)	(186)
	(3,887)	4,773

8 Tangible fixed assets

	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost					
Beginning of year	23,763	1,226	29,224	5,275	59,488
Additions	260	1,689	1,044	2,057	5,049
Disposals	-	(580)	(835)	(637)	(2,052)
End of year	24,023	2,335	29,432	6,695	62,485
Depreciation					
Beginning of year	3,239	1,226	13,194	3,334	20,993
Charge for the year	1,012	61	3,423	613	5,239
Impairment losses	-	-	-	2,763	2,763
Disposals	-	(580)	(807)	(622)	(2,036)
End of year	4,251	707	15,810	6,191	26,959
Net book value					
Beginning of year	20,524	-	16,030	1,941	38,495
End of year	19,772	1,628	13,622	504	35,526

Freehold land amounting to £3,326,000 (1998 - £3,326,000) has not been depreciated.

9 Fixed asset investments

As permitted by Section 229 of the Companies Act 1985, the following wholly owned subsidiary undertakings have not been consolidated as, in the opinion of the directors, their inclusion is not material for the purpose of giving a true and fair view. None of the subsidiary undertakings traded during either year. The nominal value of the issued share capital, profit for the year ended 30 November 1999 and net assets at 30 November 1999 of each subsidiary undertaking are shown below.

Subsidiary undertaking	Country of incorporation	Nominal value of issued share capital	Profit for the year ended 30 November 1999	Net assets at 30 November 1999
		£	£'000	£'000
RetailIndex Limited	England	2	-	281
Farvista Limited	England	2	-	1
Middlebrook Limited	Ireland	2	-	2
Dockers Ireland Limited	Ireland	1	-	6
Dockers UK Limited	England	1	-	76

On 24 November 1998, as part of a group reorganisation, the company acquired the share capital of Dockers UK Limited and Dockers Ireland Limited for consideration equal to the net book value of the assets at that date. On 29 November 1998 the trade and assets of Dockers UK Limited and Dockers Ireland Limited were transferred to the company for a consideration equal to the net book value.

10 Stocks

	1999	1998
	£'000	£'000
Work-in-progress	107	254
Finished goods	9,849	9,727
	9,956	9,981

There is no material difference between the balance sheet value of stocks and their replacement cost.

11 Debtors

	1999 £'000	1998 £'000
Amounts falling due within one year:		
Trade debtors	10,644	14,536
Amounts owed by group undertakings	2,840	3,288
Tax recoverable	3,571	-
Other debtors	15	494
Prepayments and accrued income	49	400
	17,119	18,718

12 Creditors: Amounts falling due within one year

	1999 £'000	1998 £'000
Bank loans and overdrafts	970	-
Trade creditors	3,150	4,015
Amounts owed to subsidiary undertakings	281	281
Amounts owed to other group undertakings	21,636	16,897
Other taxation and social security	2,244	6,753
Accruals and deferred income	23,531	16,056
	51,812	44,002

13 Provisions for liabilities and charges

Deferred taxation provided is as follows:

	1999 £'000	1998 £'000
Accelerated capital allowances	-	2,037
Other timing differences	-	(1,016)
	-	1,021

There was no unprovided deferred tax liability at either year end.

14 Called-up share capital

Called-up share capital comprises:

	1999 £'000	1998 £'000
Authorised, allotted, called-up and fully-paid		
1,000 shares of £1 each	1	1

15 Reserves

	Profit and loss account £'000	Share Premium Account £'000	Total £'000
At 1 December 1998	22,819	849	23,668
Loss for the year	(12,810)	-	(12,810)
At 30 November 1999	10,009	849	10,858

16 Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
(Loss) profit for the financial year	(12,810)	11,535
Net (decrease in) addition to shareholders' funds	(12,810)	11,535
Opening shareholders' funds	23,669	12,134
Closing shareholders' funds	10,859	23,669

17 Financial commitments

Capital commitments

Capital commitments are as follows:

	1999 £'000	1998 £'000
Contracted for but not provided for	471	3,850

Lease commitments

The company has rental commitments under operating leases in respect of certain items of machinery, equipment, land and buildings. The total annual rental for 1999 was £1,631,000 (1998 - £1,222,000).

Annual commitments under non-cancellable operating leases are as follows:

	1999		1998	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiry date:				
- within one year	21	40	283	66
- between 2 and 5 years	190	31	645	119
- after five years	808	-	330	-
	1,019	71	1,258	185

18 Pension arrangements

The company has a defined benefit, contributory, self-administered pension scheme, available to all full time employees over twenty five years of age. The scheme is funded by contributions made by the company and employees.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are based upon the recommendations of the scheme's actuary, William M. Mercer Limited, using triennial valuations on the basis of the projected unit method. The most recent formal valuation was at 1 April 1998. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. For the purposes of the 1 April 1998 valuation it was assumed that the annual investment returns would be 9%, that the annual salary increases would be 7.0% on a long term basis, that pension increases would be 4.5% and that there would be an annual long term dividend yield of 4.5%. Using these assumptions, the actuarial valuation showed that the value of the scheme's assets represented 90% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The market value of the scheme's assets was £16.9 million.

The pension charge for the year was £657,000 (1998 - £850,000). This comprised a regular pension cost of £521,000 (1998 - £576,000) plus £136,000 (1998 – £274,000) in respect of a variation from regular cost necessary to make good the pension deficit discussed above, which is being recognised over 15 years, the average remaining service lives of scheme participants.

19 Reconciliation of operating profit to operating cash flows

	1999 £'000	1998 £'000
Operating profit	3,948	16,269
Depreciation charges	8,002	2,585
Amortisation of government grant	(40)	(235)
Loss on disposal of fixed assets	11	8
Decrease in stocks	25	6,845
Decrease in debtors	5,170	5,012
Increase (decrease) in creditors	(3,840)	(12,554)
Cash impact of fundamental restructuring	(7,017)	-
Net cash inflow from operating activities	6,259	17,930

20 Analysis of cash flows

Returns on investments and servicing of finance

	1999 £'000	1998 £'000
Interest received	131	236
Interest paid	(284)	(197)
Net cash outflow	(153)	39

Taxation

	1999 £'000	1998 £'000
UK corporation tax paid	(3,460)	(7,088)

Capital expenditure and financial investment

	1999 £'000	1998 £'000
Purchase of tangible fixed assets	(5,049)	(13,792)
Sale of tangible fixed assets	5	-
Net cash outflow	(5,044)	(13,792)

Acquisitions

	1999 £'000	1998 £'000
Purchase of subsidiary undertaking	-	(70)

21 Analysis and reconciliation of net debt (funds)

	1999 £'000	1998 £'000
Cash in hand, at bank	-	(1,428)
Overdrafts	970	-
Net debt (funds)	970	(1,428)

	Cash flow £'000
Decrease in cash in the year	2,398
Movement in net debt in year	2,398
Net funds at 1 December 1999	(1,428)
Net debt at 30 November 1999	970

22 Related Party Transactions

During the year the company purchased goods in the ordinary course of business from Levi Strauss Europe, a fellow subsidiary undertaking, at a cost of £59,518,000 (1998 - £65,277,000). During the year, in the normal course of business the company sold services to Levi Strauss Europe to the value of £26,236,000 (1998 - £43,641,000).

During the year the company incurred and recharged various costs arising in the ordinary course of business to Levi Strauss Europe, a fellow subsidiary undertaking to the amount of £11,575,000 (1998 - £9,141,000).

The company paid royalties to Levi Strauss & Co. to the amount of £340,000 (1998 - £463,000).

Amounts owed by and to subsidiaries and other group undertakings are disclosed in notes 11 and 12. These amounts all relate to trading balances, except for short term loans of £12,834,508 (1998 - £864,000) included in creditors.

23 Ultimate parent company

The company is a subsidiary undertaking of Levi Strauss International, incorporated in the State of California, USA. The ultimate parent company and controlling party is Levi Strauss & Co, incorporated in the State of California, USA.

The accounts of Levi Strauss & Co. are the only accounts in which those of the company are consolidated and are not publicly available.