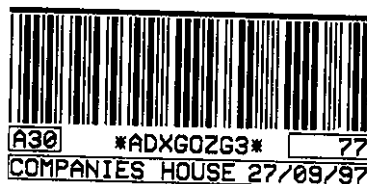


# ARTHUR ANDERSEN

## Levi Strauss (U.K.) Limited

Accounts 30 November 1996  
together with directors' and auditors' reports

Registered number : 892419



## Directors' report

For the year ended 30 November 1996

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 1996.

### Principal activity and business review

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

The results for 1996 represent an excellent achievement by the company. Turnover showed a further increase during the year. The directors expect trading levels in 1997 to be more competitive than in 1996, but that the company will remain highly profitable.

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 continuing support and interest in the company.

### Results and dividends

Results for the year were as follows:

	£'000
Retained profit at 30 November 1995	
Profit for the financial year	11,125
Dividends paid	9,976
	(19,944)
Retained profit at 30 November 1996	<u>1,157</u>

### Directors and their interests

The directors who served during the year were as follows:

J Ligon (Chairperson)

N Glasenk

A Malmfalt

G Grellman

T W Tusher

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

## Directors' report (continued)

### 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 £315,580 (1995 - £355,463) to charities during the year. No political contributions were made.

### Disabled employees

It is company policy to give fair consideration to the employment needs of disabled persons and to comply with current legislation with regard to such persons.

### 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.

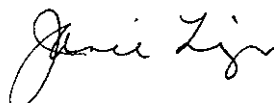
## Directors' report (continued)

### 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 handwritten signature in dark ink, appearing to read 'J Ligon', written in a cursive style.

J Ligon  
Director

14 August 1997

# ARTHUR ANDERSEN

## Auditors' report

Birmingham

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

We have audited the accounts on pages 5 to 18 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 directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 state of affairs of the company at 30 November 1996 and of its profit 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

1 Victoria Square  
Birmingham  
B1 1BD

14 August 1997

# Profit and loss account

For the year ended 30 November 1996

	Notes	1996 £'000	1995 £'000
Turnover	2	205,221	182,729
Cost of sales		(157,939)	(142,855)
Gross profit		47,282	39,874
Other operating expenses (net)	3	(30,378)	(22,820)
Operating profit		16,904	17,054
Interest receivable	4	1,361	1,289
Interest payable	5	(72)	(65)
Profit on ordinary activities before taxation	6	18,193	18,278
Tax on profit on ordinary activities	8	(8,217)	(6,562)
Profit for the financial year		9,976	11,716
Dividends paid	9	(19,944)	(14,352)
Retained loss for the year		(9,968)	(2,636)
Retained profit brought forward		11,125	13,761
Retained profit carried forward		1,157	11,125

In both years there were no recognised gains or losses other than the profit for the financial year.

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

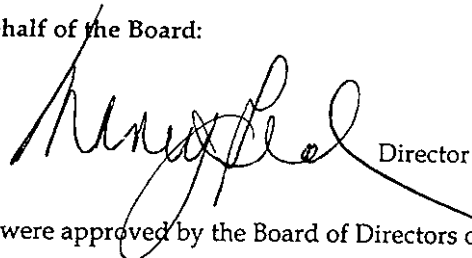
# Balance sheet

30 November 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	10	14,904	11,218
Current assets			
Stocks	12	19,813	15,792
Debtors	13	33,502	26,121
Cash at bank and in hand		-	4,177
		53,315	46,090
Creditors: amounts falling due within one year	14	(65,604)	(44,367)
Net current (liabilities) assets		(12,289)	1,723
Total assets less current liabilities		2,615	12,941
Deferred income	15	(608)	(966)
Net assets		2,007	11,975
Capital and reserves			
Called-up share capital	16	1	1
Share premium account		849	849
Profit and loss account		1,157	11,125
Total shareholders' funds - all equity	17	2,007	11,975

Signed on behalf of the Board:

N Glasenk



Director

The accounts were approved by the Board of Directors on 14 August 1997.

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

## Notes to the accounts

30 November 1996

### 1 Accounting policies

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

#### *a) Basis of accounting*

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

#### *b) Cash flow statement*

The company has taken advantage of the exemption under Financial Reporting Standard No.1 (Revised) not to produce a cash flow statement on the basis that the consolidated accounts of the company's ultimate parent company, Levi Strauss Associates Inc., in which the results of Levi Strauss (UK) Limited are included, are publicly available.

#### *c) Tangible fixed assets*

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

Depreciation is provided at rates calculated to write off the cost less estimated residual value of fixed assets, on a straight-line basis over their expected useful lives as follows -

Buildings and leasehold improvements	- 20 years
Machinery and equipment	- 5 years
Office furniture and equipment	- 3 - 10 years

#### *d) Stocks*

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

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.

Advance corporation tax payable on dividends paid or proposed 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.



## Notes to the accounts (continued)

### 1 Accounting policies (continued)

#### e) *Taxation (continued)*

Deferred tax (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated on the liability method. Tax deferred or accelerated by the effect of timing differences is accounted for where it is probable that a liability or asset will crystallise, at the rate of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

#### f) *Foreign currency transactions*

Transactions denominated in foreign currencies are recorded in sterling using actual exchange rates ruling as of the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported using the rates of exchange prevailing at the balance sheet date or, where appropriate, at the rate of exchange in a related forward exchange contract. Differences on exchange are dealt with in the profit and loss account.

#### g) *Turnover*

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business.

#### h) *Leasing charges*

Rentals paid under operating leases are charged to the profit and loss account as incurred.

#### i) *Pension costs*

Details of the pension scheme operated by the company and the accounting policy for pension costs are given in note 18(c).

#### j) *Related party transactions*

The company is a wholly owned subsidiary of Levi Strauss Associates Inc. and has taken advantage of the exemption given in Financial Reporting Standard No. 8 which allows non disclosure of intergroup transactions as the consolidated accounts of Levi Strauss Associates Inc., in which the results of Levi Strauss (UK) Limited are included, are publicly available.

## Notes to the accounts (continued)

### 2 Segment information

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

	1996 £'000	1995 £'000
UK and Ireland	154,956	135,206
Rest of Europe	50,265	47,523
	<u>205,221</u>	<u>182,729</u>

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

### 3 Other operating expenses (net)

Other operating expenses comprise:

	1996 £'000	1995 £'000
Selling, distribution and marketing costs	17,834	16,250
Administrative expenses	12,807	6,756
Other operating income	(263)	(186)
	<u>30,378</u>	<u>22,820</u>

## Notes to the accounts (continued)

### 4 Interest receivable

Interest receivable comprises:

	1996 £'000	1995 £'000
Interest on balances due from other group undertakings	1,211	1,200
Interest on bank deposits	150	89
	<u>1,361</u>	<u>1,289</u>

### 5 Interest payable

Interest payable comprises:

	1996 £'000	1995 £'000
Interest on balances owed to other group undertakings	<u>72</u>	<u>65</u>

### 6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1996 £'000	1995 £'000
Depreciation of tangible fixed assets	2,988	2,904
Amortisation of government grants	358	358
Rentals payable under operating leases		
- property	684	630
- machinery and equipment	428	762
Other rentals	245	-
Staff costs (note 7)	32,575	25,459
Auditors' remuneration		
- audit fees	47	47
- non-audit fees	<u>74</u>	<u>55</u>

## Notes to the accounts (continued)

### 7 Staff costs

Staff costs during the year (including the remuneration of directors) amounted to:

	1996 £'000	1995 £'000
Wages and salaries	29,336	22,804
Social security costs	2,849	2,283
Pension charge (note 18c)	390	372
	<u>32,575</u>	<u>25,459</u>

The average monthly number of persons employed by the company during the year was as follows:

	1996 Number	1995 Number
Manufacturing	1,478	1,428
Distribution and sales	149	140
Administration	47	48
	<u>1,674</u>	<u>1,616</u>

Directors' remuneration:

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

	1996 £'000	1995 £'000
Emoluments for management services	<u>614</u>	<u>650</u>

Directors received emoluments (excluding pensions and pension contributions) for services wholly or mainly performed in the United Kingdom in the following ranges:

	1996 Number	1995 Number
Up to £5,000	3	3
£175,001 - £180,000	1	-
£285,001 - £290,000	-	1
£360,001 - £365,000	-	1
£435,001 - £440,000	1	-
	<u>1</u>	<u>-</u>

## Notes to the accounts (continued)

### 7 Staff costs (continued)

The directors' emoluments shown above (excluding pensions and pension contributions) include:

	1996 £'000	1995 £'000
Chairperson and highest paid director	<u>436</u>	<u>361</u>

### 8 Tax on profit on ordinary activities

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

	1996 £'000	1995 £'000
Corporation tax at 33%	8,534	6,856
Deferred tax	<u>(317)</u>	<u>(294)</u>
	<u>8,217</u>	<u>6,562</u>

### 9 Dividends paid

	1996 £'000	1995 £'000
Dividend paid of £19,944 per share (1995 -£14,352 per share)	<u>19,944</u>	<u>14,352</u>

## Notes to the accounts (continued)

### 10 Tangible fixed assets

	Freehold land and buildings £'000	Leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
<b>Cost</b>					
Beginning of year	7,817	1,207	13,452	3,163	25,639
Additions	4,272	11	1,557	842	6,682
Disposals	-	-	(142)	(33)	(175)
End of year	<u>12,089</u>	<u>1,218</u>	<u>14,867</u>	<u>3,972</u>	<u>32,146</u>
<b>Depreciation</b>					
Beginning of year	2,036	935	9,556	1,894	14,421
Charge	403	184	1,693	708	2,988
Disposals	-	-	(140)	(27)	(167)
End of year	<u>2,439</u>	<u>1,119</u>	<u>11,109</u>	<u>2,575</u>	<u>17,242</u>
<b>Net book value</b>					
Beginning of year	<u>5,781</u>	<u>272</u>	<u>3,896</u>	<u>1,269</u>	<u>11,218</u>
End of year	<u>9,650</u>	<u>99</u>	<u>3,758</u>	<u>1,397</u>	<u>14,904</u>

Freehold land amounting to £3,304,000 (1995 - £9,000) has not been depreciated.

### 11 Fixed asset investments

As permitted by Section 229 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. The principal activity of each subsidiary undertaking is the sale of clothes purchased from the company. The nominal value of the issued share capital, profit for the financial year ended 30 November 1996 and net assets at 30 November 1996 of each subsidiary undertaking are also shown.

Subsidiary undertaking	Country of registration or incorporation	Nominal value of issued share capital £	Profit for the year ended 30 November 1996 £'000	Net assets (liabilities) at 30 November 1996 £'000
RetailIndex Limited	England	2	79	262
Farvista Limited	England	2	47	2
Middlebrook Limited	Ireland	<u>2</u>	<u>3</u>	<u>(44)</u>

## Notes to the accounts (continued)

### 12 Stocks

	1996 £'000	1995 £'000
Raw materials	1,201	561
Work-in-progress	1,672	1,771
Finished goods	16,940	13,460
	<u>19,813</u>	<u>15,792</u>

The directors consider that there is no significant difference between the balance sheet value and the replacement cost of stocks.

### 13 Debtors

	1996 £'000	1995 £'000
Amounts falling due within one year:		
Trade debtors	15,839	14,488
Amounts owed by subsidiary undertakings	877	1,210
Amounts owed by other group undertakings	15,466	9,564
Other debtors	769	614
Prepayments and accrued income	234	245
	<u>33,185</u>	<u>26,121</u>
Amounts falling due in more than one year:		
Deferred tax	317	-
	<u>33,502</u>	<u>26,121</u>

The value of the deferred tax asset, which relates to accelerated capital allowances and short term timing differences, is recognised to the extent to which the directors have concluded that future benefits will be realised. There was no unprovided deferred tax liability at either year end.

## Notes to the accounts (continued)

### 14 Creditors: amounts falling due within one year

	1996 £'000	1995 £'000
Bank overdraft	146	-
Trade creditors	4,860	3,609
Amounts owed to other group undertakings	36,148	22,674
Other creditors		
- UK corporation tax payable	3,351	2,814
- ACT payable	3,615	2,601
- VAT	1,682	2,531
- social security and PAYE	704	670
Accruals and deferred income	15,098	9,468
	<u>65,604</u>	<u>44,367</u>

### 15 Deferred income

Deferred income comprises government grants and the movement during the year was as follows:

	1996 £'000	1995 £'000
Balance at beginning of year	966	1,324
Government grant received	-	-
Amortised to the profit and loss account	(358)	(358)
Balance at end of year	<u>608</u>	<u>966</u>

### 16 Called-up share capital

Called-up share capital comprises:

	1996 £'000	1995 £'000
<i>Authorised, allotted, called-up and fully-paid -</i> 1,000 shares of £1 each	<u>1</u>	<u>1</u>



## Notes to the accounts (continued)

### 17 Reconciliation of movements in shareholders' funds

	1996 £'000	1995 £'000
Profit for the financial year	9,976	11,716
Dividend paid	(19,944)	(14,352)
Net reduction in shareholders' funds	(9,968)	(2,636)
Opening shareholders' funds	11,975	14,611
Closing shareholders' funds	2,007	11,975

### 18 Guarantees and other financial commitments

#### a) Capital commitments

At the end of the year, capital commitments were:

	1996 £'000	1995 £'000
Authorised but not contracted for	28,768	1,380

Capital commitments at 30 November 1996 relate to a new warehouse and office facility, with construction expected to commence in 1997.

#### b) Lease commitments

The company has rental commitments under operating leases in respect of certain items of land and buildings, machinery and equipment. The total annual rental for 1996 was £1,112,000 (1995 - £1,392,000).

## Notes to the accounts (continued)

### 18 Guarantees and other financial commitments (continued)

The minimum future annual rentals payable in respect of these leases are as follows:

	Property £'000	Machinery and equipment £'000	Total £'000
1996			
Leases which expire:			
- within one year	101	196	297
- within 2 - 5 years	464	232	696
- after 5 years	119	-	119
	<u>684</u>	<u>428</u>	<u>1,112</u>
1995			
Leases which expire:			
- within one year	30	17	47
- within 2 - 5 years	481	485	966
- after 5 years	119	-	119
	<u>630</u>	<u>502</u>	<u>1,132</u>

### c) 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 Fraser Limited, using triennial valuations on the basis of the projected unit credit method. The most recent formal valuation was at 1 April 1995. 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 1995 valuation it was assumed that the annual investment returns would be 9%, that the annual salary increases would be 7.5% on a long term basis, that pension increases would be 4.5% and that there would be an annual long term dividend yield of 4.3%. Using these assumptions, the actuarial valuation showed the market value of the scheme's assets was £10.9 million and that the actuarial value of those assets represented 113% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

## Notes to the accounts (continued)

### 18 Guarantees and other financial commitments (continued)

#### *c) Pension arrangements (continued)*

The pension charge for the year was £390,000 (1995 - £372,000). This comprised a regular pension cost of £549,000 (1995 - £534,000) less £159,000 (1995 - £162,000) in respect of the amortisation of experience surpluses that are being recognised over 15 years, the average remaining service lives of scheme participants. During the year the company paid no contributions to the scheme because of this surplus.

### 19 Ultimate parent company

The company is a subsidiary undertaking of Levi Strauss International Inc., incorporated in the USA. The ultimate parent company and controlling party is Levi Strauss Associates Inc., incorporated in the USA.

The accounts of Levi Strauss Associates Inc. are the only accounts in which those of the company are consolidated. The accounts of Levi Strauss Associates Inc. are available at The Securities and Exchange Commission, 901 Market Street, San Francisco, California, USA.