Registered Number 237511

Arcadia Group Limited

(formerly Arcadia Group plc)

Annual report

for the year ended 31 August 2002

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Annual report
for the year ended 31 August 2002

Contents

Arcadia Group Limited

Directors' report for the year ended 31 August 2002

The directors are pleased to present their report together with the audited financial statements of the Company and the Group for the 53 weeks ended 31 August 2002.

Principal activities
The principal activities of the Group during the financial year were the retailing of clothing and clothing accessories in the United Kingdom and internationally through stores, home shopping catalogues and the Internet.

Post balance sheet events
At the year end, the Company was a public limited company with its shares listed on the London Stock Exchange. Subsequent to the year end, on 10 September 2002, Taveta Investments Limited ('Taveta') made a recommended cash offer to acquire the whole of the Company's issued share capital at a price of 408p per share. This offer was declared unconditional in all respects on 15 October 2002 and, accordingly, Taveta obtained control of the Company on that date.

As a consequence of the change of control, the Company's shares were de-listed from the London Stock Exchange on 9 December 2002 and the Company was re-registered as a private limited company on 10 December 2002.

Review of business and future developments
Both the level of business and the year-end financial position were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

On 31 August 2002, the Group completed the sale of its Warehouse, Principles and Hawkshead businesses to Rubicon Retail Limited, a management buy-out vehicle. The Racing Green brand was sold to Speciality Retail Group plc on 28 June 2002.

Results for the financial year and dividends
The consolidated profit and loss account is set out on page 6.

The Company paid a first interim dividend of 3.5p per share on 12 July 2002. On 5 September 2002 the directors declared a second interim dividend of 4.0p per share, payable on 21 February 2003 to shareholders on the register on 20 September 2002, making a total interim dividend for the year of 7.5p per share (2001: nil). The directors do not recommend the payment of a final dividend (2001: 2.0p). The aggregate dividends for the year amount to £11.7 million (2001: £3.5 million).

After payment of the second interim dividend, the retained profit for the year of £60.7 million will be transferred to reserves (2001: £70.0 million loss deducted from reserves).

Directors
The current directors of the Company are:

SAR Rose	
NP Hall	
CA Wilson	
Lord Grabiner QC	(appointed 31 October 2002)
PNR Green	(appointed 16 October 2002)
IM Allkins	(appointed 16 October 2002)
P Coackley	(appointed 16 October 2002)
JP Readman	(appointed 16 October 2002)

SAR Rose, NP Hall and CA Wilson held office throughout the year ended 31 August 2002. AHC Broadbent, AJ Carnwath, BA Cragg, DMC Michels and P Wicks, all of whom also held office throughout the year, resigned as directors of the Company on 16 October 2002.

Arcadia Group Limited

Directors' report for the year ended 31 August 2002 (continued)

Directors' interests

The beneficial interests of the directors and their immediate families in the share capital of the Company at the beginning and end of the financial year, according to the register maintained under section 325 of the Companies Act 1985, are shown below:

	No. of shares	
	31 August 2002	26 August 2001
Executive directors		
SAR Rose	**399,069**	621,819
NP Hall	**54,600**	54,600
CA Wilson	**548,162**	523,162
Non – executive directors		
AHC Broadbent	**30,000**	30,000
AJ Carnwath	**3,529**	-
BA Cragg	**10,000**	10,000
DMC Michels	**10,000**	10,000
P Wicks	**2,761**	2,761
	1,058,121	1,252,342

	No. of share options						
	At 26 August 2001	Exercised	Granted	**At 31 August 2002**	Option price (p)	Exercisable from	Exercisable to
SAR Rose	6,470,589	-	-	**6,470,589**(2)	51.0	13.11.03	12.11.10
	7,670	-	-	**7,670**(1)	220.0	01.08.06	31.01.07
	6,478,259	-	-	**6,478,259**			
NP Hall	17,852	-	-	**17,852**(4)	182.1	15.12.96	14.12.03
	7,522	-	-	**7,522**(4)	199.4	14.12.97	13.12.04
	100,000	-	-	**100,000**(3)	45.0	31.10.03	30.10.10
	764,000	-	-	**764,000**(2)	125.0	19.01.04	18.01.11
	4,403	-	-	**4,403**(1)	220.0	01.08.04	31.01.05
	893,777	-	-	**893,777**			
CA Wilson	2,350,000	-	-	**2,350,000**(2)	92.0	09.01.04	08.01.11

Notes:

(1) Options under the Sharesave scheme.

(2) Options are divided into three equal tranches. Subject to the achievement of specified share price targets and sustained improvement in the Company's performance, one half of each tranche would normally have become exercisable three years after grant and the remainder four years after grant.

(3) Options subject to a performance condition requiring the Company to have achieved earnings per share growth of at least 9% in excess of inflation over a three year period.

(4) Performance conditions for these options had been satisfied prior to the beginning of the year.

(5) The market share price at the year end was 370p. During the year it ranged between 155p and 407p.

(6) As a consequence of Taveta Investments Limited obtaining control of the Company on 15 October 2002, all of the above options were exercised shortly afterwards.

Directors' report for the year ended 31 August 2002 (continued)

Directors' interests (continued)
The executive directors, together with all other employees of the Group, are potential beneficiaries of certain employee trusts and, as such, were deemed by the Companies Act 1985 to be interested in the shares of the Company held by those trusts. At 31 August 2002 these shareholdings totalled 7,306,787 shares (25 August 2001: 7,201,351 shares).

At no time during the year did any of the directors have a material interest in any significant contract with the Company or any of its subsidiaries.

Supplier payment policy and practice
The Company's policy concerning the payment of suppliers is either to agree terms of payment at the start of business with each supplier or to ensure that the supplier is made aware of the Company's standard payment terms, and in either case to pay in accordance with its contractual or other legal obligations. The Group's trade creditors figure at 31 August 2002 was equivalent to 32 days' purchases (2001: 32 days), based on average daily amounts invoiced by suppliers during the year.

Donations
During the year the Group made charitable donations totalling £0.1 million.

Employees
The Group is committed to the principle of equal opportunity in employment. It seeks to ensure that all applicants or employees receive equal treatment on the grounds of gender, marital status, race, colour, nationality, ethnic or national origin, religion, disability or sexuality and are not disadvantaged by conditions or requirements, including age limits, which cannot be objectively justified on job-related grounds. It applies employment policies that are fair and equitable and which ensure that entry into, and progression within, the Group are determined solely by the application of job criteria and by personal aptitude and competence.

It is the Group's policy to comply with best practice on the employment of disabled people. Full and fair consideration is given to every application for employment from disabled persons whose aptitude and skills can be utilised within the business and to their training and career development. Wherever possible, this includes the retraining and retention of staff who become disabled during their employment.

All staff are kept informed about matters concerning their interests as employees and the financial and economic factors affecting the Group. During the year, the Group promoted the involvement of employees in its performance through their participation in the Company's share schemes, in its various performance-related bonus schemes and in staff suggestion schemes. Wherever practicable, part-time employees were eligible to participate in these schemes on the same basis as full-time staff.

Directors' report for the year ended 31 August 2002 (continued)

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 August 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors
PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment as auditors, at a remuneration to be fixed by the directors, will be proposed at the annual general meeting.

On behalf of the Board

IP Jackman

Secretary

11 December 2002

Independent auditors' report to the members of Arcadia Group Limited

We have audited the financial statements which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the consolidated balance sheet, the Company balance sheet, the consolidated cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the Company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 1985. 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.

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 and of the Group as at 31 August 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Leeds
11 December 2002

Arcadia Group Limited

Consolidated profit and loss account for the year ended 31 August 2002

	Notes	2002 £m	2001 £m
Group turnover	2	**2,019.4**	1,889.8
Cost of sales (including exceptional items)	4	**(1,790.9)**	(1,729.2)
Gross profit		**228.5**	160.6
Net operating expenses (including exceptional items)	3,4	**(104.5)**	(102.1)
Group operating profit		**124.0**	58.5
Share of operating loss in joint ventures		**(0.1)**	(2.4)
Total operating profit	3	**123.9**	56.1
Total operating profit before exceptional items		**123.9**	73.5
Exceptional items	4	**-**	(17.4)
Loss on sale/closure of businesses	4	**(13.5)**	(74.7)
Write down of investment in own shares	4	**-**	(9.8)
Net interest payable and similar charges	5	**(10.6)**	(20.2)
Profit / (loss) before taxation		**99.8**	(48.6)
Taxation (including exceptional item)	7	**(27.4)**	(17.9)
Profit / (loss) for the financial year	8	**72.4**	(66.5)
Dividends	9	**(11.7)**	(3.5)
Retained profit / (loss) for the year	21	**60.7**	(70.0)
Earnings / (loss) per share			
Basic (pence)	10	**41.4**	(37.5)
Adjusted (pence)	10	**44.8**	20.8
Diluted (pence)	10	**37.1**	(37.5)

All of the results in the profit and loss account above relate to continuing activities.

Statement of total recognised gains and losses

	2002	2001
Profit / (loss) for the financial year	**72.4**	(66.5)
Currency translation differences on overseas joint venture	**-**	(0.8)
Total recognised gains / (losses) for the year	**72.4**	(67.3)

Note of historical cost profits and losses

There is no significant difference between the profit before taxation and the retained profit for the year stated above and their historical cost equivalents.

Arcadia Group Limited

Balance sheets as at 31 August 2002

	Note	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Fixed assets					
Intangible assets	11	**33.7**	35.7	-	-
Tangible assets	12	**498.6**	557.3	**62.4**	63.4
Investments					
- joint venture - share of gross assets		-	0.8	-	-
- share of gross liabilities		-	(0.7)	-	-
	13	-	0.1	-	-
- other investments	13	**21.1**	21.3	**2,717.5**	1,989.5
	13	**21.1**	21.4	**2,717.5**	1,989.5
		553.4	614.4	**2,779.9**	2,052.9
Current assets					
Stocks		**101.3**	135.8	-	-
Debtors – due within one year	14	**90.6**	103.5	**105.0**	125.8
Debtors – due after one year	14	**49.5**	17.6	**34.2**	12.4
		140.1	121.1	**139.2**	138.2
Cash at bank and in hand		**302.4**	22.2	**294.6**	4.8
		543.8	279.1	**433.8**	143.0
Creditors: amounts falling due within one year	15	**(524.5)**	(338.6)	**(286.7)**	(156.5)
Net current assets / (liabilities)		**19.3**	(59.5)	**147.1**	(13.5)
Total assets less current liabilities		**572.7**	554.9	**2,927.0**	2,039.4
Creditors: amounts falling due after more than one year	16	**(119.3)**	(136.6)	**(2,173.4)**	(1,307.0)
Provisions for liabilities and charges					
- joint venture - share of gross assets		**2.2**	2.4	-	-
- share of gross liabilities		**(5.8)**	(6.0)	-	-
		(3.6)	(3.6)	-	-
- other provisions	19	**(3.0)**	(29.4)	**(3.0)**	(0.6)
	19	**(6.6)**	(33.0)	**(3.0)**	(0.6)
Net assets		**446.8**	385.3	**750.6**	731.8
Capital and reserves					
Called up share capital	20	**151.9**	151.6	**151.9**	151.6
Share premium account	21	**328.6**	328.1	**328.6**	328.1
Capital redemption reserve	21	**223.4**	223.4	**223.4**	223.4
Revaluation reserve	21	**44.8**	44.8	-	-
Profit and loss account	21	**(301.9)**	(362.6)	**46.7**	28.7
Equity shareholders' funds	22	**446.8**	385.3	**750.6**	731.8

The financial statements on pages 6 to 35 were approved by the board of directors on 11 December 2002 and were signed on its behalf by:

NP Hall

NP Hall
Director

Arcadia Group Limited

Consolidated cash flow statement for the year ended 31 August 2002

	Note	2002		2001	
		£m	£m	£m	£m
Cash flows from operating activities	26b				
Inflow before exceptional items		279.8		256.9	
Outflow from exceptional items		(17.7)		(36.3)	
			262.1		220.6
Returns on investments and servicing of finance					
Interest received		3.5		1.2	
Interest paid		(10.5)		(20.5)	
Interest paid on finance lease obligations		(0.1)		(0.1)	
Rentals paid under property lease obligations		(0.6)		(0.6)	
			(7.7)		(20.0)
Taxation paid			(10.8)		(10.0)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(55.4)		(64.6)	
Sale of tangible fixed assets		3.6		5.0	
Purchase of shares by ESOP		(1.3)		(12.5)	
Options exercised over ESOP shares		1.7		2.0	
			(51.4)		(70.1)
Acquisitions and disposals					
Purchase of additional shares in Dial (net of cash acquired)		-		(7.4)	
Disposal of Rubicon brands (net of cash disposed of)	26d	(13.7)		-	
Investment in associate	13c	(0.4)		-	
Investment in joint venture		-		(0.2)	
Disposal of Wade Smith		-		3.6	
			(14.1)		(4.0)
Equity dividends paid			(9.7)		-
Cash inflow before financing			168.4		116.5
Financing					
Issue of ordinary shares		0.8		0.7	
Repayment of bank and term loans		(42.3)		(130.4)	
Capital element of finance lease payments		(1.3)		(1.3)	
Net cash outflow from financing			(42.8)		(131.0)
Increase / (decrease) in cash	26c		125.6		(14.5)

Arcadia Group Limited

Accounting policies

Accounting convention
The financial statements are drawn up under the historical cost convention as modified by the revaluation of certain properties and in accordance with applicable accounting standards. A summary of the more important group accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

Changes in accounting policies
The Group has adopted FRS 19 ' Deferred tax' for the first time in these financial statements. Whilst the adoption of FRS 19 has had no impact on the Group's results and financial position for the current or prior years, the new accounting standard does require additional disclosures. These are provided in notes 7 and 19 to the financial statements.

Basis of consolidation
The financial statements of all subsidiary undertakings are consolidated from the date of their acquisition to the date of their sale using the acquisition method of accounting.

All transactions with subsidiaries and inter-company profits or losses are eliminated on consolidation.

The Group's share of the results of joint ventures and associates is included in the consolidated profit and loss account. The Group's share of the net assets/liabilities of joint ventures and associates is included in the consolidated balance sheet using the gross equity and equity accounting methods, respectively.

Goodwill
Upon the acquisition of a business, goodwill is capitalised and written off by equal annual instalments over the shorter of 20 years or its estimated useful economic life. Purchased goodwill represents the difference between the fair value of the separately identifiable tangible assets/liabilities acquired and the fair value of the consideration given. No adjustment has been made to goodwill arising before 1999, which was written off directly to reserves, as permitted by FRS 10: Goodwill and intangible assets.

On disposal, any goodwill, which has not been amortised through the profit and loss account, is taken into account in calculating the profit or loss on disposal.

Goodwill is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Turnover
Turnover comprises the value of sales of all merchandise to third parties, including concession sales, and excludes value added tax. Sales to franchisees and home shopping customers are recognised on despatch of the goods.

Depreciation
Depreciation is provided so as to write off the cost of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Land : not depreciated
Freehold and long leasehold buildings over 50 years: depreciated to their estimated residual value over their estimated useful economic life (see below)
Short leasehold land and buildings: life of lease
Fit-out: 15 years
Retail fixtures and fittings: 3 to 10 years
Office equipment: 10 years
Computer equipment: 3 to 4 years
Motor vehicles are depreciated on the reducing balance basis at a rate of 25% per annum.

Land and buildings
Freehold and long leasehold land and buildings other than rack rented properties were revalued as at September 1995 on the basis of existing use value, open market value or depreciated replacement cost in accordance with the Royal Institution of Chartered Surveyors' guidance notes. On adoption of FRS 15: Tangible fixed assets, the Group followed the available transitional provisions and retained the book value of land and buildings, which had been revalued in 1995, but will not be adopting a policy of revaluation in the future.

These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11: Impairment of fixed assets and goodwill.

Accounting policies (continued)

Pension costs
The cost of providing pension benefits is charged to the profit and loss account as a constant percentage of pensionable earnings over the period benefiting from scheme employees' services. Actuarial surpluses are amortised over the expected remaining service lives of current scheme employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet. As disclosed in note 25 to the financial statements the Group has taken advantage of the transitional implementation arrangements provided by FRS 17 'Retirement benefits'.

Taxation
Deferred taxation is provided on all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will suitable taxable profits from which the future reversal of the underlying tax differences can be deducted. Deferred tax is not recognised on revalued assets unless there is a binding agreement at the balance sheet date to sell the revalued asset and the related gain or loss has been recognised in the financial statements. Deferred tax assets and liabilities are not discounted.

Leased assets
Assets held under finance leases are capitalised as tangible fixed assets and depreciated over the shorter of their estimated useful economic lives and the period of the lease. Rentals are apportioned between reductions in the capital obligations included within creditors and finance charges which are charged to the profit and loss account at a constant effective rate of interest.

Rentals payable under operating leases are charged to the profit and loss account as incurred except where incentives to sign the leases have been received. Such incentives are spread on a straight-line basis over the lease term, or if shorter, the period to the next open market rent review date.

Stock valuation
Stocks are stated at the lower of cost and net realisable value using the retail method and represent goods for resale.

Foreign exchange
Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Profits and losses of overseas branches and joint ventures which have currencies of operation other than sterling are translated into sterling at the average rates of exchange for the period. Assets and liabilities recorded in foreign currencies are translated either at the rates ruling at the balance sheet date or the rates fixed by forward contracts. Exchange differences arising from the re-translation of the opening net assets of overseas joint ventures are taken to reserves. Other exchange differences are dealt with in the profit and loss account.

Treasury instruments
Gains and losses on hedges of payments or receipts are deferred and only recognised as they crystallise. Gains and losses on forward currency contracts entered into as hedges of future purchases denominated in foreign currency are carried forward and are recognised as part of the purchase cost on maturity. Receipts and payments from interest rate swaps used to manage interest on borrowings or deposits are accrued to match the income or expense of the underlying borrowing or deposit.

Share schemes
The Group has a number of ESOP trusts that hold shares in the Company for subsequent transfer to employees, under various share option and incentive schemes. The shares are initially stated at cost and subsequently written down to the realisable value of the underlying option over the performance measurement period of the employees concerned. Where awards are contingent on future events (other than continued employment) an assessment of the likelihood of these conditions being achieved is made at the end of each reporting period and an appropriate liability recognised.

Own shares held which are deemed to have suffered a permanent diminution in value are immediately written down to their realisable amount.

Costs of administering the ESOP trusts are included in the profit and loss account as they accrue.

Advantage has been taken of the exemption available under UITF 17 from applying its provisions to the Group's Inland Revenue approved sharesave schemes.

Arcadia Group Limited

Notes to the financial statements for the year ended 31 August 2002

1 Trading period

The financial year ended 31 August 2002 comprises a 53 week trading period (2001: 52 weeks).

2 Turnover

Turnover is wholly attributable to the Group's principal activities and can be analysed as follows:

	2002	2001
	£m	£m
Total retail and joint ventures	**2,019.1**	1,896.8
Less : share of joint ventures	**(0.5)**	(21.6)
Add : sales to joint ventures	**0.8**	14.6
Group turnover	**2,019.4**	1,889.8

Turnover arises in the United Kingdom apart from £132.0 million (2001 - £112.6 million) arising from overseas retailing operations, predominantly in the Republic of Ireland and Germany.

3 Total operating profit

	2002	2001
a. Net operating expenses (including exceptional items) comprise:	**£m**	£m
Distribution costs	**43.2**	47.5
Administrative expenses	**61.8**	56.0
Other operating income	**(0.5)**	(1.4)
	104.5	102.1

b. Total operating profit before exceptional items is stated after charging/ (crediting)	**2002**	2001
	£m	£m
Employment costs (note 6)	**281.2**	272.2
Depreciation		
- owned assets	**85.7**	84.9
- under finance leases	**0.3**	0.3
Accelerated depreciation (refer below)	**5.3**	-
Amortisation of goodwill	**2.0**	2.4
Professional fees associated with aborted take-over approach	**1.5**	-
Store closure costs	**3.1**	4.4
Property rentals (net)	**180.0**	179.4
Other operating lease rentals	**3.0**	2.9
Royalties receivable	**(0.5)**	(1.4)
Auditors' remuneration	**0.4**	0.4
Other fees paid to auditors	**1.3**	0.7

3 Total operating profit (continued)

During the year, the directors reviewed the useful economic lives of the Group's information technology assets. This review resulted in a shortening of the depreciable life of the Group's point of sale equipment from 6 to 4 years and a consequent £5.3 million increase in the depreciation charge for the year.

Auditors' remuneration includes £0.1 million (2001: £0.1 million) in respect of the parent undertaking. Other fees paid to the Group's auditors principally relate to advisory services in respect of taxation, the disposal of the Rubicon brands and the take-over approaches for the Company. By appointing the auditors to perform this work, the Group benefited from their prior knowledge of the Group whilst satisfying the requirements of confidentiality and cost control.

4 Exceptional items

	2002	2001
	£m	£m
Charged in arriving at operating profit		
Within cost of sales:		
- Costs arising from BrandMAX	-	(6.0)
Within administrative expenses:		
- Impairment of goodwill	-	(7.6)
- Payments to directors	-	(3.8)
	-	(11.4)
	-	(17.4)
Charged after operating profit		
Loss on sale/closure of businesses		
- Loss on sale of Rubicon brands (refer below)	**(13.5)**	(59.4)
- Loss on disposal of Wade Smith	-	(15.8)
- Provision for closure of Principles for Men	-	0.5
	(13.5)	(74.7)
Write down of investment in own shares	-	(9.8)
	(13.5)	(84.5)
Total exceptional items	**(13.5)**	(101.9)

On 31 August 2002, the Group completed the sale of the Warehouse, Principles and Hawkshead brands to Rubicon Retail Limited, a management buy out vehicle. The Group had earlier completed the sale of the Racing Green business. These businesses are hereafter collectively referred to as 'the Rubicon brands'.

As indicated in last year's financial statements, the consideration for the sale of the Rubicon brands was in line with their net assets at the date the contract for their disposal was exchanged. However, the businesses traded profitably during the period preceding legal completion and as a result their net assets at that date exceeded the agreed proceeds by £5.6 million (note 26d).

A further loss of £7.9 million has been incurred as a result of professional fees and the Group's commitment to incur expenditure separating the Rubicon brands from the continuing business. The total exceptional loss arising from the sale of the Rubicon brands was therefore £13.5 million.

Goodwill arising on the original acquisition of the Rubicon brands (£59.4 million) was written off in 2001.

The tax credit relating to exceptional items amounts to £0.6 million (2001: £0.9 million).

Notes to the financial statements for the year ended 31 August 2002 (continued)

5 Net interest payable and similar charges

	2002 £m	2001 £m
Payable on bank loans, overdrafts and term loans:		
- repayable within five years	**(3.9)**	(8.3)
- repayable in more than five years	**(9.4)**	(9.5)
Payable on debenture loans:		
- repayable within five years	**-**	(2.5)
Payable to joint venture	**-**	(0.2)
Payable on finance lease obligations	**(0.1)**	(0.1)
Amortisation of issue costs of bank loans	**(0.3)**	(0.1)
Rentals payable on property lease obligations	**(0.6)**	(0.6)
Group interest and similar charges payable	**(14.3)**	(21.3)
Share of joint venture's interest payable	**-**	(0.1)
Total interest and similar charges payable	**(14.3)**	(21.4)
Interest receivable	**3.7**	1.2
Net interest payable and similar charges	**(10.6)**	(20.2)

6 Employees and directors

Particulars of employee costs (including executive directors) are shown below:

Employees	2002 £m	2001 £m
Wages and salaries	**265.9**	257.4
Social security costs	**14.9**	14.5
Other pension costs (note 25)	**0.4**	0.3
Total employment costs	**281.2**	272.2

Notes to the financial statements for the year ended 31 August 2002 (continued)

6 Employees and directors (continued)

The average number of people employed by the Group was 22,826 (2001: 22,066) including 15,589 (2001: 14,454) part-time employees.

Total Directors' remuneration				**2002**	2001
	Salaries/fees	**Benefits**	**Bonus**	**Total**	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000
Executive directors					
SAR Rose	**600**	**25**	**600**	**1,225**	1,568
NP Hall	**280**	**24**	**280**	**584**	551
CA Wilson	**320**	**20**	**320**	**660**	869
Non-executive directors					
AHC Broadbent	**175**	-	-	**175**	175
AJ Carnwath	**35**	-	-	**35**	20
BA Cragg	**40**	-	-	**40**	40
DMC Michels	**34**	-	-	**34**	34
P Wicks	**34**	-	-	**34**	11
Former directors					
J Hoerner	-	-	-	-	1,511
K Cameron	-	-	-	-	864
R Maney	-	-	-	-	819
C Marland	-	-	-	-	14
C Snowball	-	-	-	-	14
Total	**1,518**	**69**	**1,200**	**2,787**	6,490

All executive directors are members of the Group's defined benefit pension scheme (2001: 3 directors). Messrs Rose and Wilson are members of this scheme in relation to their basic salaries up to the Inland Revenue salary cap and are members of individual money purchase schemes, funded by the Company, in respect of the excess portion of their basic salary. The amounts contributed by the Company to Messrs Rose and Wilson's personal pension arrangements were £298,000 and £65,000 (2001: £217,000 and £38,000), respectively.

Benefits in kind include the provision of a company car, private medical and dental insurance.

Total directors' remuneration comprises:	**2002**	2001
	£'000	£'000
Aggregate emoluments	**2,787**	3,758
Money purchase pension scheme contributions	**363**	302
Compensation for loss of office	-	2,732
	3,150	6,792

Highest paid director

Mr Rose's accrued annual pension entitlement under the Group's defined benefit scheme is £3,000 (2001:£2,000). He also accrued a deferred pension of £87,000 per annum during his previous period of employment with the Group.

7 Taxation

a. Analysis of charge for the year	**2002** **£m**	2001 £m
Based on the profit / (loss) for the year		
UK corporation tax at 30% (2001: 30%):		
- Current year	**40.1**	14.6
- Prior years	**11.0**	-
- Share of joint ventures	**-**	(1.5)
Overseas taxation	**1.6**	1.1
Total current tax (note 7b)	**52.7**	14.2
Deferred tax	**(16.3)**	3.7
Exceptional deferred tax (note 19)	**(9.0)**	-
Total deferred taxation – origination and reversal of timing differences (note 19)	**(25.3)**	3.7
Total taxation	**27.4**	17.9

The tax assessed for the period is higher than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

b. Factors affecting the tax charge for the year	**2002** **£m**	2001 £m
Profit /(loss) before taxation	**99.8**	(48.6)
Profit /(loss) before taxation multiplied by the standard rate of corporation tax in the United Kingdom of 30% (2001: 30%)	**29.9**	(14.6)
Effects of:		
Expenses not deductible for tax purposes	**11.4**	33.5
Adjustments to tax charge in respect of prior periods	**11.0**	-
Capital allowances in excess of depreciation	**1.2**	3.1
Utilisation of tax losses	**-**	(7.2)
Adjustment in respect of foreign tax rates	**(0.8)**	(0.6)
Current tax charge for the year (note 7a)	**52.7**	14.2

c. Factors that may affect future tax charges

Based on current capital investment plans, the Group expects to be able to claim capital allowances in excess of depreciation in future years at a similar rate to the current year. No provision has been made for deferred tax on gains recognised on revaluing properties or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the properties were sold without it being possible to claim rollover relief. The total amount unprovided in this regard is £14.3 million. At present it is not envisaged that any such tax would become payable in the foreseeable future.

Notes to the financial statements for the year ended 31 August 2002 (continued)

8 Profit / (loss) for the financial year

Arcadia Group Limited has not presented its own profit and loss account as permitted by Section 230(1) of the Companies Act 1985.

The amount of the consolidated profit for the financial year dealt with in the financial statements of the parent undertaking is £29.7 million (2001: £8.6 million).

9 Dividends

	2002 £m	2001 £m
First interim paid: 3.5p (2001: nil) per ordinary share	6.4	-
Second interim declared: 4.0p (2001: nil) per ordinary share	5.8	-
	12.2	-
Final proposed: nil (2001 : 2p) per ordinary share	-	3.5
	12.2	3.5
Receivable by ESOP trusts	(0.5)	-
	11.7	3.5

Baugur and A Holding, a wholly – owned subsidiary of Baugur, have waived their right to receive a second interim dividend of £1.5 million in respect of their shareholding in the Company.

Certain of the Group's ESOP trusts (note 13a) have also waived their right to receive dividends.

10 Earnings per share

Basic earnings/(loss) per share has been calculated by dividing the earnings attributable to shareholders by the weighted average number of shares in issue during the year, excluding those held in the Group's ESOP trusts (note 13a). For diluted earnings/(loss) per share, the weighted average number of shares in issue has been adjusted to assume conversion of all dilutive potential ordinary shares.

A reconciliation of the earnings/(loss) and weighted average number of shares used in the calculation of basic and diluted earnings/(loss) per share is provided below:

	2002		2001	
	Earnings £m	Weighted average no. of shares million	Earnings / (loss) £m	Weighted average no. of shares million
Basic earnings/(loss) per share	72.4	175.0	(66.5)	177.1
Dilutive potential ordinary shares from employee share options	-	20.3	-	10.3
Diluted earnings/(loss) per share	72.4	195.3	(66.5)	187.4

For the purposes of calculating the diluted loss per share for 2001, the impact of the Group's dilutive potential ordinary shares has been ignored as they would reduce the loss per share.

10 Earnings per share (continued)

An adjusted earnings per share figure, excluding goodwill amortisation and exceptional items, has also been provided on page 6 as the directors believe that this measure provides a better indication of the Group's underlying performance. A reconciliation between basic and adjusted earnings/(loss) per share is provided below:

	2002		2001	
	Earnings	**Earnings per share**	Earnings / (loss)	Earnings / (loss) per share
	£m	**Pence**	£m	Pence
Earnings/(loss) and basic earnings/(loss) per share	**72.4**	**41.4**	(66.5)	(37.5)
Exceptional items	**13.5**	**7.7**	101.9	57.5
Exceptional release of deferred tax	**(9.0)**	**(5.1)**	-	-
Tax on exceptional items	**(0.6)**	**(0.3)**	(0.9)	(0.5)
Goodwill amortisation	**2.0**	**1.1**	2.4	1.3
Adjusted earnings and adjusted earnings per share	**78.3**	**44.8**	36.9	20.8

11 Intangible fixed assets

	Goodwill
Group	**£m**
Cost	
At 26 August 2001	67.4
Disposals	(18.4)
At 31 August 2002	**49.0**
Amortisation	
At 26 August 2001	31.7
Charge for the year	2.0
Disposals	(18.4)
At 31 August 2002	**15.3**
Net book value	
At 31 August 2002	**33.7**
At 25 August 2001	35.7

Goodwill carried forward at 31 August 2002 arose on the acquisition of the Sears Womenswear businesses in 1999 and is being amortised on a straight line basis over 20 years. This period reflects the directors' estimate of the goodwill's useful economic life.

Goodwill disposed of during the year relates to the sale of the Warehouse business to Rubicon Retail Limited and was fully provided against in last year's financial statements (note 4).

Notes to the financial statements for the year ended 31 August 2002 (continued)

12 Tangible fixed assets

Group	Land and buildings £m	Fit out, fixtures and equipment £m	Total £m
Cost or valuation			
At 26 August 2001	500.5	511.4	1,011.9
Additions	7.7	43.9	51.6
Disposals	(19.0)	(68.3)	(87.3)
On sale of Rubicon brands	(8.6)	(22.4)	(31.0)
At 31 August 2002	**480.6**	**464.6**	**945.2**
Depreciation			
At 26 August 2001	139.0	315.6	454.6
Charge for the year	13.5	77.8	91.3
Reclassifications	(2.0)	2.0	-
Disposals	(18.1)	(65.6)	(83.7)
On sale of Rubicon brands	(1.0)	(14.6)	(15.6)
At 31 August 2002	**131.4**	**315.2**	**446.6**
Net book amount			
At 31 August 2002	**349.2**	**149.4**	**498.6**
At 25 August 2001	361.5	195.8	557.3

Company	Land and buildings £m	Fit out, fixtures and equipment £m	Total £m
Cost or valuation			
At 26 August 2001	1.8	142.5	144.3
Additions	-	21.9	21.9
Group transfers in (net)	-	3.5	3.5
Disposals	-	(16.6)	(16.6)
At 31 August 2002	**1.8**	**151.3**	**153.1**
Depreciation			
At 26 August 2001	0.6	80.3	80.9
Charge for the year	-	21.4	21.4
Group transfers in (net)	-	5.0	5.0
Disposals	-	(16.6)	(16.6)
At 31 August 2002	**0.6**	**90.1**	**90.7**
Net book value			
At 31 August 2002	**1.2**	**61.2**	**62.4**
At 25 August 2001	1.2	62.2	63.4

12 Tangible fixed assets (continued)

Assets held under finance leases and included in fit out, fixtures and equipment:

Group and company	2002 £m	2001 £m
Cost	**4.1**	3.2
Accumulated depreciation	**(0.6)**	(0.3)
Net book amount	**3.5**	2.9

a. Analysis of land and buildings

	Group		Company	
	2002	2001	**2002**	2001
Analysis of land and buildings	**£m**	£m	**£m**	£m
Net book amount				
Freehold	**66.9**	67.6	**0.8**	0.8
Long leasehold	**141.3**	149.9	**-**	-
Short leasehold	**141.0**	144.0	**0.4**	0.4
	349.2	361.5	**1.2**	1.2

	Group	
	2002	2001
Analysis of land and buildings at cost or valuation	**£m**	£m
At cost	**279.7**	291.3
At valuation - 1995	**69.5**	70.2
	349.2	361.5

Freehold and long leasehold land and buildings other than rack rented properties were revalued as at September 1995 on the basis of existing use value, open market value or depreciated replacement cost in accordance with the Royal Institution of Chartered Surveyors' guidance notes. These external valuations were made by Messrs. Hillier Parker, Chartered Surveyors, and Conrad Ritblat, Chartered Surveyors.

If land and buildings had not been revalued, tangible fixed assets would have been included at the following amounts:

	Group		Company	
	2002 £m	2001 £m	**2002 £m**	2001 £m
At cost	**900.4**	967.1	**153.1**	144.3
Aggregate depreciation	**(446.6)**	(454.6)	**(90.7)**	(80.9)
Net book amount based on historical cost	**453.8**	512.5	**62.4**	63.4

13 Fixed asset investments

	Group		Company	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Own shares	**20.7**	21.3	**20.7**	21.3
Interest in joint venture	-	0.1	-	-
Interest in associate	**0.4**	-	-	-
Group undertakings	-	-	**2,696.8**	1,968.2
	21.1	21.4	**2,717.5**	1,989.5

a. Own shares

Group and company	£m
Cost	
At 26 August 2001	42.8
Additions	1.3
Issue of shares to trust beneficiaries	(3.7)
At 31 August 2002	**40.4**
Aggregate amortisation	
At 26 August 2001	21.5
Released during the year	(0.1)
Utilised	(1.7)
At 31 August 2002	**19.7**
Net book amount at 31 August 2002	**20.7**
Net book amount at 25 August 2001	21.3

The Group has six ESOP trusts. The purpose of these trusts is to hold shares in the Company for subsequent transfer to employees under various incentive schemes operated by the Group, including share option schemes.

At 31 August 2002 the ESOP trusts held 14.7 million Arcadia Group shares (2001: 15.4 million) with a nominal value of £11.8 million (2001: £12.3 million), all of which have been allocated to the share schemes.

The market value of the shares at 31 August 2002 was £54.3 million (2001: £37.3 million). Dividends have been waived by the ESOP trusts on 7.4 million shares (2001: 8.0 million).

Notes to the financial statements for the year ended 31 August 2002 (continued)

13 Fixed asset investments (continued)

b. Interest in joint venture	Group	
	2002	2001
	£m	£m
At 26 August	**0.1**	1.2
Additions	-	0.2
Exchange adjustments	-	(0.8)
Share of retained loss	**(0.1)**	(0.5)
At 31 August	-	0.1

At 31 August 2002, the Group's only joint venture interest was Zoom.co.uk Limited. As Zoom has net liabilities the Group has provided for its share of this deficiency within provisions for liabilities and charges (note 19).

Zoom's ordinary share capital is held equally by the Group and Mail Newspapers Limited, an Associated Newspapers Limited group company. Both parties have equal voting rights and equal entitlement to board representation. Zoom is registered in England and operates in the United Kingdom.

During the year the Group sold its shareholding in GIYSA, a company incorporated in Turkey and operating stores throughout Turkey and Eastern Europe, for book value. Prior to its disposal the Group owned 25% of the ordinary share capital of GIYSA, with the remainder held by H.O. Sabanci Holding A. Although the Group was only entitled to a 25% board representation, the board required a unanimous vote on the major operating and financial policies and procedures of the company. Accordingly, GIYSA was accounted for as a joint venture.

	Group
c. Interest in associate	**£m**
Cost and net book value	
At 26 August 2001	-
Additions	0.4
At 31 August 2002	**0.4**

During the year, the Company acquired 45.5% of the issued share capital of Rubicon Retail Limited ('Rubicon').

Rubicon is registered in England and Wales and is engaged in fashion retailing through stores in the United Kingdom and the Republic of Ireland.

d. Group undertakings	Shares		Loans		
	Cost	Provision	Cost	Provision	Total
Company	£m	£m	£m	£m	£m
Cost					
At 26 August 2001	1,487.1	(315.4)	959.1	(162.6)	1,968.2
Additions	0.4	-	733.8	-	734.2
Disposals	(31.9)	26.4	(6.6)	-	(12.1)
Movement on provision	-	-	-	6.5	6.5
At 31 August 2002	**1,455.6**	**(289.0)**	**1,686.3**	**(156.1)**	**2,696.8**

13 Fixed asset investments (continued)

Advantage has been taken of Section 231(5) of the Companies Act 1985 not to disclose all group undertakings on the basis that such information would be of excessive length. The group undertakings whose results or financial position, in the opinion of the directors, principally affect the consolidated financial statements are detailed below. All subsidiary undertakings are wholly owned and those marked * are indirect subsidiaries of Arcadia Group Limited.

Subsidiary undertaking	Country of operation	Country of incorporation or registration	Main activity
Arcadia Group Brands Ltd *	UK	England	Brand management
Arcadia Group Multiples (Ireland) Ltd *	Ireland	Ireland	Fashion retailing
Burton Retail Ltd*	UK	England	Fashion retailing
Dorothy Perkins Retail Ltd*	UK	England	Fashion retailing
Evans Ltd*	UK	England	Fashion retailing
Miss Selfridge Retail Ltd	UK & Ireland	England	Fashion retailing
Outfit Retail Ltd	UK	England	Fashion retailing
Redcastle Ltd	UK	England	Property investment
Redcastle (214 Oxford Street) Ltd*	UK	England	Property investment
Top Shop/Top Man Ltd*	UK	England	Fashion retailing
Wallis Retail Ltd	UK & Ireland	England	Fashion retailing
Redcastle Properties Ltd	UK	England	Property trading

A full list of subsidiary undertakings will be annexed to the Company's next annual return.

Joint ventures and associate

Details of the Group's interests in joint venture and associate undertakings are provided in notes 13b and 13c, respectively.

Other than GIYSA, which prepared its accounts to 31 December, all group undertakings have an accounting reference date of 31 August.

14 Debtors

	Group		Company	
	2002	2001	**2002**	2001
Amounts falling due within one year	**£m**	£m	**£m**	£m
Trade debtors	**31.4**	37.4	-	-
Amounts due from joint venture	**5.0**	7.3	**6.7**	6.9
Amounts due from associate	**8.9**	-	**8.9**	-
Corporation tax recoverable	-	7.0	**63.3**	86.5
Other debtors	**29.0**	32.9	**8.3**	13.0
Prepayments and accrued income	**16.3**	18.9	**13.8**	13.2
Deferred tax (note 19)	-	-	**4.0**	6.2
	90.6	103.5	**105.0**	125.8

Notes to the financial statements for the year ended 31 August 2002 (continued)

14 Debtors (continued)

	Group		Company	
	2002	2001	**2002**	2001
Amounts falling due after one year	**£m**	£m	**£m**	£m
Amounts due from associate	**21.8**	-	**21.8**	-
Other debtors	**4.6**	5.2	-	-
Prepayments and accrued income	**12.4**	12.4	**12.4**	12.4
Deferred tax (note 19)	**10.7**	-	-	-
	49.5	17.6	**34.2**	12.4

Amounts due from associate falling due within and after one year include the £27.6 million of redeemable loan notes issued by Rubicon Retail Limited (note 26d).

Other debtors falling due after more than one year comprise deferred consideration.

Prepayments recoverable after more than one year represent the pension prepayment arising from the application of SSAP 24.

15 Creditors – amounts falling due within one year

	Group		Company	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Bank overdrafts	**154.7**	0.1	**216.2**	41.3
Bank loans	-	24.9	-	24.9
Trade creditors	**90.6**	97.8	-	-
Finance leases (note 17)	**1.1**	1.1	**1.1**	1.1
Corporation tax payable	**30.5**	-	-	-
Other taxation and social security	**33.6**	26.9	**5.5**	5.8
Other creditors	**95.2**	97.7	**18.4**	46.5
Accruals and deferred income	**113.3**	86.6	**40.0**	33.4
Proposed dividend	**5.5**	3.5	**5.5**	3.5
	524.5	338.6	**286.7**	156.5

16 Creditors – amounts falling due after one year

	Group		Company	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Bank loans repayable after more than five years	**108.4**	125.5	-	-
Finance leases (note 17)	**0.4**	0.8	**0.4**	0.8
Property lease obligations (note 17)	**10.5**	10.3	-	-
Amounts owed to subsidiary undertakings	-	-	**2,173.0**	1,306.2
	119.3	136.6	**2,173.4**	1,307.0

The bank loan repayable in more than five years is secured on the Group's long leasehold interest in 214 Oxford Street, London.

17 Lease obligations

The Group has previously sold a number of properties to certain banks on 125 year leases at peppercorn rentals and entered into full tenant and repairing sub-leases for 125 years. The rentals payable are structured so as to give the lessors a financing return linked to LIBOR. In the early years, the amounts payable are below LIBOR and in the later years are in excess of LIBOR. The financing costs are, however, allocated so as to achieve an annual funding cost, which is consistent with LIBOR. The Group's rental commitment in this respect, together with certain finance lease obligations relating to fixtures and fittings, are as follows:

	Group		Company	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Property lease obligations falling due:				
After five years	**10.5**	10.3	-	-
Finance lease obligations falling due:				
Within one year	**1.1**	1.1	**1.1**	1.1
Between one and two years	**0.3**	0.7	**0.3**	0.7
Between two and five years	**0.1**	0.1	**0.1**	0.1
	1.5	1.9	**1.5**	1.9

18 Financial instruments

a. Treasury policy

The board has an established overall treasury policy and has approved procedures and authority levels within which the treasury department must operate. The Group does not enter into speculative arrangements in that transactions in financial products are matched to an underlying business requirement such as planned purchases or forecast debt.

The board has appointed a treasury committee, which meets every three months to monitor and control treasury activities. This committee is chaired by the Finance Director and comprises the Company Secretary, the Group Financial Controller, the Group Treasurer and senior management representatives from the business. The board receives regular reports which cover treasury activities and the treasury department is subject to an annual internal audit.

18 Financial instruments (continued)

A number of the Group's costs are exposed to movements in financial markets that are outside the Group's control. In particular, interest rates can move, affecting the cost of borrowing, and foreign exchange rate movements can impact the cost of goods sourced from abroad. In order to reduce this exposure and to bring both stability and certainty to these costs, the Group's treasury department uses different financial instruments sourced from the Group's key banks, to cover its position going forward.

The disclosures set out below exclude short term debtors, creditors and provisions as permitted by FRS 13 "Derivatives and other financial instruments: disclosures".

b. Currency risk

The impact of currency movements is managed by using a combination of forward contracts and currency options in a manner which substantially reduces the uncertainty of the price paid for imported goods.

Imports are paid for principally in US$. Currency hedging is undertaken up to 24 months forward based on expected orders and is designed to place a ceiling over the cost of a significant proportion of purchases whilst allowing the Group to benefit from lower costs that might arise from a strengthening pound. At the year end the Group had forward contracts and options amounting to £117.2 million (2001: £138.4 million) covering the next 12 months and £39.6 million (2001: £46.1 million) covering the period between 12 and 24 months.

Except for the cash balances noted below and after taking into account the effect of forward exchange contracts, the Group has no significant financial assets or liabilities denominated in a currency other than sterling.

c. Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility, through the use of borrowings with a range of maturity. Long term funding is provided via a 20 year facility (expires 2020) secured on 214 Oxford Street. Shorter term funding needs are met through committed 3-year revolving credit facilities. The directors aim to maintain significant headroom between the Group's forecast borrowing requirements and the committed facilities available.

d. Interest risk

The impact of movements in interest rates is managed by the use of interest rate swaps, forward rate agreements and interest rate caps.

Financial liabilities – Other than £2.9 million (2001: £nil) denominated in US$, £0.5 million (2001: £nil) denominated in EU currencies (other than sterling) and £0.5 million (2001: £nil) in Hong Kong $, the Group's borrowings are in sterling. After taking into account the various interest rate swaps and forward rate agreements entered into by the Group, the interest rates and maturity profile of the Group's borrowings are as follows:

		2002			2001	
	Fixed	**Floating**	**Total**	Fixed	Floating	Total
	£m	**£m**	**£m**	£m	£m	£m
Due within one year	**1.1**	**154.7**	**155.8**	26.0	0.1	26.1
Due between one and two years	**0.3**	**-**	**0.3**	0.7	-	0.7
Due between two and five years	**0.1**	**-**	**0.1**	0.1	-	0.1
Due after five years	**108.4**	**10.5**	**118.9**	125.5	10.3	135.8
	109.9	**165.2**	**275.1**	152.3	10.4	162.7

Arcadia Group Limited

Notes to the financial statements for the year ended 31 August 2002 (continued)

18 Financial instruments (continued)

The year end weighted average interest rate attributable to fixed rate borrowings was 7.6% (2001: 7.6%) and the weighted average time for which fixed rate borrowings are fixed is 18 years (2001: 19 years). Floating rate borrowings are linked to LIBOR and are fixed in advance for periods of up to 12 months.

The Group had £82.7 million (2001: £165 million) of undrawn committed borrowing facilities at the year end, of which £60 million expires between two and five years and £22.7 million within the next twelve months.

Financial assets – Cash balances comprise £165.5 million (2001: £22.2 million) of amounts repayable on demand on which no interest is received and £136.9 million (2001: £nil) which earn interest linked to LIBOR. £nil million (2001: £1.6 million) is denominated in US$, £3.6 million (2001: £7.6 million) is denominated in EU currencies (other than sterling) and £0.1 million (2001: £0.1 million) is denominated in Hong Kong $. At the year end the Group held redeemable loan notes of £27.6 million (note 26d) on which interest accrues at the greater of 8.5% or LIBOR plus 2% per annum. The Group also had £6.2 million (2001: £8.8 million) of financial assets on which no interest is earned, comprising deferred consideration receivable.

e. Fair values of financial instruments

Set out below is an analysis of the fair values and book values of the Group's financial instruments by category. Where available, market values have been used to determine fair values. Where market values are not available, fair values for forward currency options have been calculated by using an option-pricing model, and for other financial instruments by discounting cash flows at market rates.

	2002		2001	
	Book value	**Fair value**	Book value	Fair value
	£m	**£m**	£m	£m
Derivatives				
Interest rate swaps	**-**	**(21.3)**	-	(14.8)
Forward currency contracts	**-**	**(2.8)**	-	5.1
Forward currency options	**3.7**	**1.0**	4.3	6.9
Assets				
Cash and cash equivalents	**302.4**	**302.4**	22.2	22.2
Loan notes	**27.6**	**27.6**	-	-
Deferred consideration	**6.2**	**6.2**	8.8	8.8
Liabilities				
Short-term debt	**(155.8)**	**(155.8)**	(26.1)	(26.1)
Long-term debt	**(119.3)**	**(119.3)**	(136.6)	(136.6)

f. Hedges of future contracts

At 31 August 2002 there were £5.5 million of net losses (2001: £7.7 million of net gains) on forward currency transactions. None of these were recognised at the balance sheet date. £6.9 million (2001: £8.4 million gain) of the outstanding net losses are expected to be dealt with in the profit and loss account next year with a gain of £1.4 million (2001: £0.7 million loss) arising in subsequent years.

19 Provisions for liabilities and charges

	Rubicon	BrandMAX	Joint venture	NIC	Deferred tax	Total
	£m	£m	£m	£m	£m	£m
Group						
At 26 August 2001	-	16.4	3.6	0.6	12.4	33.0
Charged/(credited) to profit and loss account	3.5	-	-	6.9	(25.3)	(14.9)
Utilised during the year	(0.5)	(13.7)	-	-	-	(14.2)
On disposal of Rubicon brands	-	-	-	-	2.2	2.2
Transferred to debtors/(creditors)	-	(2.7)	-	(7.5)	10.7	0.5
At 31 August 2002	**3.0**	-	**3.6**	-	-	**6.6**
Company						
At 26 August 2001	-	-	-	0.6	-	0.6
Charged to profit and loss account	3.5	-	-	6.9	-	10.4
Utilised during the year	(0.5)	-	-	-	-	(0.5)
Transferred to creditors	-	-	-	(7.5)	-	(7.5)
At 31 August 2002	**3.0**	-	-	-	-	**3.0**

The Rubicon provision represents the Group's commitment to incur certain costs separating the Rubicon brands. This expenditure will be incurred during the next financial year.

As mentioned in note 13, the Group has provided for its share of Zoom.co.uk Limited's net liabilities.

National Insurance contributions accrue on the unapproved share options issued by the Group. Following the acceptance of Taveta Investments Limited's offer for the Company, this obligation has been classified as a creditor as the amount and timing of the NIC liability are now known.

The provision brought forward in respect of BrandMAX related to property disposal costs and has been partially utilised during the year. The unutilised element has been transferred to creditors as the timing and quantification of the Group's remaining obligations can now be readily ascertained.

None of the above provisions have been discounted.

Deferred taxation

	Amount provided		Amount unprovided	
Group	**2002**	2001	**2002**	2001
	£m	£m	**£m**	£m
Accelerated capital allowances	**(5.8)**	(2.7)	**(0.9)**	(4.5)
Other timing differences	**(4.9)**	15.1	**(5.0)**	(5.0)
	(10.7)	12.4	**(5.9)**	(9.5)

19 Provisions for liabilities and charges (continued)

	Amount provided		Amount unprovided	
Company	**2002**	2001	**2002**	2001
	£m	£m	**£m**	£m
Accelerated capital allowances	**(3.3)**	(5.5)	-	-
Other timing differences	**(0.7)**	(0.7)	-	-
	(4.0)	(6.2)	-	-

The Group and Company's deferred tax assets are classified within debtors.

Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods when timing differences reverse, based on tax rates at the balance sheet date.

During the year, the Group has released a deferred tax provision of £9.0 million. Given the circumstances and the amount involved, the directors regard the release of this provision as exceptional.

A previously unrecognised deferred tax asset of £3.6 million has been recognised during the current year as additional evidence has been identified to support the availability of the capital allowances concerned.

A potential deferred tax asset of £5.9 million (2001: £9.5 million) has not been recognised as there is insufficient evidence that the subsidiaries concerned will generate enough taxable profits to utilise the available losses.

20 Called up share capital

	2002		2001	
	£m	**No. (m)**	£m	No. (m)
Authorised				
Ordinary shares of 80p each	**200.0**	**250.0**	200.0	250.0
Deferred shares of 40p each	**320.0**	**800.0**	320.0	800.0
	520.0	**1050.0**	520.0	1050.0
Called up and fully paid				
Ordinary shares of 80p each	**151.9**	**189.9**	151.6	189.4

a. At 31 August 2002, the aggregate number of ordinary shares subject to options granted under the Arcadia Group Sharesave Scheme was 6.9 million, the total consideration being £12.9 million. These options were due to be exercised on the maturity of the relevant savings contracts between 2002 and 2009 at prices ranging between 103p and 344p, but following the acceptance of Taveta's offer for the Company, they were exercised after the year end.

b. At 31 August 2002, the aggregate number of ordinary shares subject to executive share options was 28.9 million, the total consideration being £34.0 million. Again these options were due to be exercised between 2002 and 2012 at prices ranging between 45p and 483p but became exercisable upon the sale of the Company to Taveta. Details of the options held by the Company's directors are provided in the Directors' Report on page 2.

c. During the year, the Company issued 0.5 million ordinary shares, with an aggregate nominal value of £0.3 million, for £0.8 million.

Notes to the financial statements for the year ended 31 August 2002 (continued)

21 Reserves

Group	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 26 August 2001	328.1	223.4	44.8	(362.6)	233.7
Retained profit for the year	-	-	-	60.7	60.7
Premium on issue of shares	0.5	-	-	-	0.5
At 31 August 2002	**328.6**	**223.4**	**44.8**	**(301.9)**	**294.9**

Company	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 26 August 2001	328.1	223.4	-	28.7	580.2
Retained profit for the year	-	-	-	18.0	18.0
Premium on issue of shares	0.5	-	-	-	0.5
At 31 August 2002	**328.6**	**223.4**	-	**46.7**	**598.7**

The consolidated profit and loss account includes a £0.1 million charge (2001: £1.0 million) in respect of joint ventures. The aggregate amount of goodwill written off to reserves on acquisition of subsidiary undertakings is £79.9 million (2001: £79.9 million).

22 Reconciliation of movements in shareholders' funds

	Group		Company	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Profit/(loss) for the financial year	**72.4**	(66.5)	**29.7**	8.6
Dividends	**(11.7)**	(3.5)	**(11.7)**	(3.5)
	60.7	(70.0)	**18.0**	5.1
Shares issued net of costs	**0.8**	0.7	**0.8**	0.7
Exchange adjustments	-	(0.8)	-	-
Re-instatement of goodwill previously written off	-	55.0	-	-
Net change in shareholders' funds	**61.5**	(15.1)	**18.8**	5.8
Opening shareholders' funds	**385.3**	400.4	**731.8**	726.0
Closing shareholders' funds	**446.8**	385.3	**750.6**	731.8

23 Financial commitments

At 31 August 2002 the Group had capital commitments approved but not provided for amounting to £14.2 million (2001: £5.5 million). The Company's capital commitments amounted to £10.9 million (2001: £nil). In addition, the Group and Company lease a number of properties under non-cancellable operating leases that are subject to renegotiation at various dates. The minimum annual rentals under the foregoing are:

	Group		Company	
	2002	2001	**2002**	2001
	£m	£m	**£m**	£m
Operating leases which expire:				
- within one year	**7.5**	4.5	-	-
- between two and five years inclusive	**33.3**	18.8	-	-
- after five years	**150.6**	178.3	**1.6**	1.5
	191.4	201.6	**1.6**	1.5

The Group and Company also lease certain items of plant and machinery along with vehicles whose minimum annual rentals are as follows:

	Group		Company	
	2002	2001	**2002**	2001
Other assets	**£m**	£m	**£m**	£m
Operating leases which expire:				
- within one year	**0.4**	0.1	**0.4**	0.1
- between two and five years inclusive	**1.6**	1.0	**1.6**	1.0
- after five years	**3.3**	5.0	**3.3**	5.0
	5.3	6.1	**5.3**	6.1

24 Contingent liabilities

The Company has guaranteed the rents payable by certain subsidiary undertakings which amounted to £93.1 million during the year.

The Company has also provided guarantees in respect of bank overdraft facilities of certain overseas franchises, which at the year end amounted to £0.5 million (2001: £0.5 million).

25 Pension schemes

The Group operates two funded defined benefit schemes in the UK, the assets of which are held in separate trustee administered funds. The most recent actuarial valuations of Arcadia Group's two schemes were carried out as at 31 March 2001, using the projected unit method. The assumptions which had the most significant effect on the pension cost are set out below:

	% per annum
Investment return on investments in respect of:	
- non-active members	5.0
- active members	6.0
Rate of increase in salaries	4.5
Rate of increase in pensions	2.5
Rate of price inflation	2.5

At the date of the valuations the total market value of the assets of the schemes was £570 million and the actuarial value of the assets was sufficient overall to cover 130% of the benefits that had accrued to members at that date, after allowing for assumed future increases in earnings.

Statement of Standard Accounting Practice Number 24 'Accounting for Pension Costs' requires the costs of providing pensions to be recognised over the period benefiting from the employees' services, with any difference between the charge to the profit and loss account and the contributions paid to the scheme being shown as an asset or liability in the balance sheet. The pension cost has been assessed in accordance with the advice of qualified independent actuaries using the projected unit method. Variations in cost have been spread over the estimated average remaining working lifetime of the members of each scheme. The total pension cost in respect of these schemes was £nil (2001: £nil) and the Group continued to suspend its contributions to the schemes throughout 2001/2002. There is a pension prepayment due in over one year in the balance sheet of £12.4 million (2001: £12.4 million) arising from the application of SSAP 24.

The disclosures required under the transitional arrangements within FRS17 'Retirement Benefits' have been calculated by qualified independent actuaries based on the most recent full actuarial valuation at 31 March 2001, updated to 31 August 2002. The main financial assumptions used by the actuaries at 31 August 2002 and 25 August 2001 were:

	% per annum	
	2002	2001
Rate of increase in salaries	**4.5**	4.5
Rate of increase in pensions in payment	**2.5**	2.5
Discount rate	**5.6**	5.8
Inflation	**2.5**	2.5

The assets in the schemes and the expected rates of return were:

	Expected rate of return	**2002**	Expected rate of return	2001
	%	**£m**	%	£m
Equities	**8.5**	**298.8**	8.0	384.6
Bonds	**4.8**	**168.3**	5.2	169.8
Other	**4.0**	**14.7**	4.8	10.2
		481.8		564.6

Notes to the financial statements for the year ended 31 August 2002 (continued)

25 Pension schemes (continued)

The following amounts were measured in accordance with the requirements of FRS 17:

	2002	2001
	£m	£m
Total market value of assets	**481.8**	564.6
Present value of the schemes' liabilities	**(466.0)**	(414.3)
Surplus in the schemes	**15.8**	150.3
Related deferred tax liability	**(4.7)**	(45.1)
Net pension asset	**11.1**	105.2

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss account reserve would have been as follows:

	2002	2001
	£m	£m
Net assets	**446.8**	385.3
Pension prepayment	**(12.4)**	(12.4)
Pension asset	**11.1**	105.2
Net assets including pension asset	**445.5**	478.1
Profit and loss account reserve	**(301.9)**	(362.6)
Pension prepayment	**(12.4)**	(12.4)
Pension reserve	**11.1**	105.2
Profit and loss account reserve	**(303.2)**	(269.8)

The following amounts would have been recognised in the performance statements for the year ended 31 August 2002 under the requirements of FRS17:

Profit and loss account	**£m**
Operating profit	
Current service cost	**16.1**
Past service cost	**0.1**
Total operating charge	**16.2**
Other finance income	
Expected return on the schemes' assets	**(39.5)**
Interest on pension scheme liabilities	**23.5**
Net return	**(16.0)**
Net pension cost	**0.2**

Notes to the financial statements for the year ended 31 August 2002 (continued)

25 Pension schemes (continued)

Statement of total recognised gains and losses	£m
Actual return less expected return on the schemes' assets	(109.2)
Experience gains and losses arising on the schemes' liabilities	(6.1)
Changes in assumptions underlying the present value of the schemes' liabilities	(19.1)
Actuarial loss recognised in the statement of total recognised gains and losses	(134.4)

Movement in surplus during the year	£m
Surplus in schemes at 26 August 2001	150.3
Movement in the year:	
Employer contributions	0.1
Current service cost	(16.1)
Past service costs	(0.1)
Other finance income	16.0
Actuarial loss	(134.4)
Surplus in schemes at 31 August 2002	15.8

Details of experience gains and losses for the year ended 31 August 2002	£m	%
Difference between the expected and actual return on the schemes' assets:		
Amount	(109.2)	
Percentage of the schemes' assets		(22.7)
Experience gains and losses on the schemes' liabilities:		
Amount	(6.1)	
Percentage of the present value of the schemes' liabilities		(1.3)
Total amount recognised in statement of total recognised gains and losses:		
Amount	(134.4)	
Percentage of the present value of the schemes' liabilities		(28.8)

26 Notes to the consolidated cash flow statement

	2002 £m	2001 £m
a. Reconciliation to net cash/(debt)		
At 26 August 2001	(140.5)	(256.9)
Increase / (decrease) in cash	125.6	(14.5)
Cashflow from movement in debt and lease financing	43.6	131.7
Non-cash movements in net cash/(debt)	(1.4)	(0.8)
At 31 August 2002	27.3	(140.5)

Notes to the financial statements for the year ended 31 August 2002 (continued)

26 Notes to the consolidated cash flow statement (continued)

	2002	2001
	£m	£m
b. Reconciliation of operating profit to net cash inflow from operating activities		
Group operating profit before exceptional items	**124.0**	75.9
Depreciation and amortisation of goodwill	**93.3**	87.6
Amortisation of own shares	-	0.2
Loss on issue of shares to trust beneficiaries	**0.3**	-
Release of provision for own shares	**(0.1)**	-
Decrease in stocks	**17.1**	44.0
(Increase) / decrease in debtors	**(2.6)**	1.5
Increase in creditors and provisions	**47.8**	47.7
Net cash inflow before exceptional items	**279.8**	256.9
Net cash outflow from exceptional items	**(17.7)**	(36.3)
Net cash inflow from operating activities	**262.1**	220.6

Exceptional cash outflows relate to expenditure incurred on BrandMAX and the costs of separating and disposing of the Rubicon brands.

	At 26 August 2001	Cash flow	Non-cash movements	**At 31 August 2002**
	£m	£m	£m	**£m**
c. Reconciliation of movement in net cash/(debt)				
Cash at bank and in hand	22.2	280.2	-	**302.4**
Bank overdrafts	(0.1)	(154.6)	-	**(154.7)**
	22.1	125.6	-	**147.7**
Debt due after one year	(136.6)	17.4	(0.1)	**(119.3)**
Debt due within one year	(26.0)	26.2	(1.3)	**(1.1)**
	(162.6)	43.6	(1.4)	**(120.4)**
	(140.5)	**169.2**	**(1.4)**	**27.3**

Cash flows in respect of debt and lease financing represents the Group's repayment of its borrowings.

Non-cash movements comprise the amortisation of deferred debt issue costs, the inception of finance leases and transfers between categories of finance leases.

Notes to the financial statements for the year ended 31 August 2002 (continued)

26 Notes to the consolidated cash flow statement (continued)

d. Disposals

Details of the Rubicon brands' assets and liabilities at the dates of disposal, together with the loss arising, are provided below:

	£m
Tangible fixed assets	15.4
Stocks	17.4
Debtors	14.1
Cash and bank (refer below)	22.1
	69.0
Corporation tax	(2.8)
Other creditors	(26.8)
Deferred tax	2.2
Net assets disposed of	41.6
Loss on disposal (prior to disposal and separation costs)	(5.6)
Consideration	36.0
Consideration satisfied by:	
Loan notes	27.6
Cash (refer below)	8.4
	36.0

The disposal of the Rubicon brands resulted in a net cash outflow to the Group of £13.7 million.

The above loan notes are secured, interest-bearing and redeemable by instalments prior to 31 August 2006. The first redemption tranche of £2.8 million is due on 1 March 2003.

The Rubicon brands contributed £25.4 million towards the Group's net operating cash flows, paid £1.4 million in respect of taxation and £1.9 million in respect of capital expenditure.

27 Related party transactions

The Group has a 50% interest in Zoom.co.uk Limited, the e-commerce business operated under a joint venture agreement with Associated Newspapers Limited. Under this agreement Zoom hosts and maintains web-sites relating to Arcadia stores and Arcadia brands. During the year Zoom made sales to the Group covering these services of £2.2 million (2001: £1.4 million). The Group provides management, administrative, advertising and operational support, including the secondment of staff to Zoom. During the year, the Group made sales to Zoom covering these goods and services amounting to £1.3 million (2001: £2.8 million). At the year end Zoom owed the Group £5.0 million (2001: £5.3 million).

Details of the arrangements by which the Group sold a number of its brands to Rubicon Retail Limited, a company in which the Group holds a 45.5% shareholding, are provided elsewhere within these financial statements. At 31 August 2002, Rubicon Retail Limited owed the Group £30.7 million.

During the year, the Group made sales amounting to £0.8 million (2001: £1.8 million) to GIYSA, its former joint venture in Turkey.