

Company Registration No. 1310079 (England and Wales)

OAKLEY (UK) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003



OAKLEY (UK) LIMITED

COMPANY INFORMATION

Directors

C. Ward
D. Gordon
L. Newcomb
G. Lee
P. Ansell
J. Tennyson
J. Pollard

Secretary

P. Ansell

Company number

1310079

Registered office

Icknield Way
Letchworth
Herts
SG6 1GD

Business address

Icknield Way
Letchworth
Herts
SG6 1GD

Auditors

Audit Assure
Chartered Accountants and Registered Auditors
Torrington House
47 Holywell Hill
St. Albans
Herts
AL1 1HD

OAKLEY (UK) LIMITED

CONTENTS

	Page
Directors' report	1 - 2
Independent auditors' report	3
Profit and loss account	4
Balance sheet	5
Cash flow statement	6
Notes to the cash flow statement	7
Notes to the financial statements	8 - 17

OAKLEY (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2003

The directors present their report and financial statements for the year ended 31 December 2003.

Principal activities and review of the business

The principal activity of the company continued to be that of wholesalers of optical, sports and leisure goods.

The results for the year and the financial position at the year end were considered satisfactory by the directors who expect continued growth in the foreseeable future.

Results and dividends

The results for the year are set out on page 4.

An interim ordinary dividend was paid amounting to £1,305,057. The directors do not recommend payment of a final dividend.

Future developments

The company intends to continue its present management policies for the foreseeable future.

Directors

The following directors have held office since 1 January 2003:

C. Ward
D. Gordon
L. Newcomb
G. Lee
P. Ansell
J. Tennyson
J. Pollard

Directors' interests

None of the directors have a beneficial interest in the shares of the company.

The directors' beneficial interests in the shares of the holding company are as stated below:

	Common stock of \$0.01 each	
	31 December 2003	1 January 2003
C. Ward	1,000	-
L. Newcomb	27,845	22,845
D. Gordon	-	-
G. Lee	-	-
P. Ansell	-	-
J. Tennyson	-	-
J. Pollard	-	-

The directors have been granted options in the holding company, during the year, as stated below:

	31 December 2003	31 December 2002
C. Ward	-	-
L. Newcomb	35,000	25,000
D. Gordon	20,000	16,000
G. Lee	500	-

OAKLEY (UK) LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

P. Ansell	500	-
J. Tennyson	500	-
J. Pollard	500	-

The directors have exercised options, during the year, as stated below:

	31 December 2003	31 December 2002
C. Ward	-	2,500
L. Newcomb	5,000	10,000
D. Gordon	-	-
G. Lee	-	-
P. Ansell	-	-
J. Tennyson	-	-
J. Pollard	-	-

Charitable contributions

During the year the company made charitable donations of £1,899 (2002 : £1,398).

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Audit Assure be reappointed as auditors of the company will be put to the Annual General Meeting.


Directors' responsibilities

Company law requires the directors to prepare financial statements 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 financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board



P. Ansell

Director

3 February 2004

OAKLEY (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF OAKLEY (UK) LIMITED

We have audited the financial statements of Oakley (UK) Limited on pages 4 to 17 for the year ended 31 December 2003. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

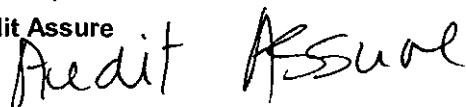
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Audit Assure



Chartered Accountants

Registered Auditors

3 February 2004

Chartered Accountants and Registered
Auditors

Torrington House
47 Holywell Hill
St. Albans

Herts

AL1 1HD

OAKLEY (UK) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £	2002 £
Turnover	2	24,250,811	21,004,472
Cost of sales		(15,050,200)	(13,796,564)
Gross profit		<u>9,200,611</u>	<u>7,207,908</u>
Administrative expenses		(6,727,956)	(6,070,130)
Operating profit	3	<u>2,472,655</u>	<u>1,137,778</u>
Other interest receivable and similar income		<u>38,128</u>	<u>5,251</u>
Profit on ordinary activities before taxation		<u>2,510,783</u>	<u>1,143,029</u>
Tax on profit on ordinary activities	4	(776,797)	(370,506)
Profit on ordinary activities after taxation		<u>1,733,986</u>	<u>772,523</u>
Dividends	5	(1,305,057)	-
Retained profit for the year	13	<u><u>428,929</u></u>	<u><u>772,523</u></u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

OAKLEY (UK) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2003

	Notes	2003 £	£	2002 £	£
Fixed assets					
Tangible assets	6		1,398,780		1,395,174
Current assets					
Stocks	7	2,426,327		3,375,590	
Debtors	8	2,772,666		2,189,766	
Cash at bank and in hand		944,161		537,641	
		<u>6,143,155</u>		<u>6,102,997</u>	
Creditors: amounts falling due within one year	9	<u>(2,558,116)</u>		<u>(2,939,097)</u>	
Net current assets			3,585,038		3,163,900
Total assets less current liabilities			4,983,818		4,559,074
Provisions for liabilities and charges	10		-		(4,185)
			<u>4,983,818</u>		<u>4,554,889</u>
Capital and reserves					
Called up share capital	12		1,000		1,000
Profit and loss account	13		4,982,818		4,553,889
Shareholders' funds - equity interests	14		<u>4,983,818</u>		<u>4,554,889</u>

The financial statements were approved by the Board on 3 February 2004



P. Ansell
Director

OAKLEY (UK) LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	2003	2002
	£	£
Net cash inflow from operating activities	2,458,182	1,757,346
Returns on investments and servicing of finance		
Interest received	38,128	5,251
Net cash inflow for returns on investments and servicing of finance	38,128	5,251
Taxation	(269,641)	(938,524)
Capital expenditure		
Payments to acquire tangible assets	(566,669)	(581,942)
Receipts from sales of tangible assets	51,577	42,500
Net cash outflow for capital expenditure	(515,092)	(539,442)
Equity dividends paid	(1,305,057)	-
Net cash inflow before management of liquid resources and financing	406,520	284,631
Increase in cash in the year	406,520	284,631

OAKLEY (UK) LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

1	Reconciliation of operating profit to net cash inflow from operating activities	2003		2002	
		£		£	
	Operating profit	2,472,655		1,137,778	
	Depreciation of tangible assets	495,174		455,126	
	Loss/(profit) on disposal of tangible assets	16,312		(11,203)	
	Decrease/(increase) in stocks	949,263		(1,012,829)	
	(Increase)/decrease in debtors	(570,734)		54,913	
	(Decrease)/Increase in creditors within one year	(904,488)		1,133,561	
	Net cash inflow from operating activities	2,458,182		1,757,346	
2	Analysis of net funds	1 January 2003	Cash flow	Other non-cash changes	31 December 2003
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	537,641	406,520	-	944,161
	Net funds	537,641	406,520	-	944,161
3	Reconciliation of net cash flow to movement in net funds	2003		2002	
		£		£	
	Increase in cash in the year	406,520		284,631	
	Movement in net funds in the year	406,520		284,631	
	Opening net funds	537,641		253,010	
	Closing net funds	944,161		537,641	
5	Liquid resources				
	Liquid resources consist of cash at bank and cash in hand.				

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

1.3 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold improvement	Over the term of the lease (if the assets are integral to the premises) otherwise over 5 years
Display stands	Over 4 years
Fixtures and fittings	Over 7 years (Included in fixtures and fittings is computer equipment which is being depreciated over 5 years)
Motor vehicles	Over 5 years

1.5 Leasing

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

1.6 Stock

Stock is valued at the lower of cost and net realisable value.

1.7 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS 17.

1.8 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.9 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. However, in accordance with SSAP 20, where there are *related forward contracts in respect of trading balances*, the rate specified in those contracts have been used. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

1.10 Liquid resources

Liquid resources represent cash held at the bank and in hand.

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

2 Turnover

All the turnover is derived from the principal activities of the company.

Geographical market

	Turnover 2003 £	2002 £
United Kingdom	21,366,055	18,217,022
Rest of EU	2,884,756	2,787,450
	<u>24,250,811</u>	<u>21,004,472</u>

3 Operating profit

	2003 £	2002 £
Operating profit is stated after charging:		
Depreciation of tangible assets	495,174	455,126
Loss on disposal of tangible assets	16,312	-
Loss on foreign exchange transactions	535,880	328,557
Operating lease rentals	281,390	268,669
Auditors' remuneration	8,000	9,000
and after crediting:		
Profit on disposal of tangible assets	-	(11,203)
	<u>-</u>	<u>(11,203)</u>

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

4	Taxation	2003 £	2002 £
	Domestic current year tax		
	U.K. corporation tax	793,149	366,585
	Adjustment for prior years	-	426
		<u>793,149</u>	<u>367,011</u>
	Current tax charge	793,149	367,011
	Deferred tax		
	Deferred tax charge/credit current year	(16,352)	3,495
		<u>776,797</u>	<u>370,506</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	2,510,783	1,143,029
		<u>2,510,783</u>	<u>1,143,029</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2002 : 30.00%)	753,235	342,909
		<u>753,235</u>	<u>342,909</u>
	Effects of:		
	Non deductible expenses	16,436	14,308
	Depreciation	153,446	136,538
	Capital allowances	(129,969)	(127,170)
	Adjustments to previous periods	-	426
		<u>39,913</u>	<u>24,102</u>
	Current tax charge	793,148	367,011
		<u>793,148</u>	<u>367,011</u>
5	Dividends	2003 £	2002 £
	Ordinary interim paid	1,305,057	-
		<u>1,305,057</u>	<u>-</u>

Ordinary interim dividends of £1,305.0571 (2002- £nil) per share were paid during the year.

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

6 Tangible fixed assets

	Leasehold improvement	Display stands	Fixtures and fittings	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2003	740,912	804,093	663,412	508,598	2,717,015
Additions	17,968	253,827	34,888	259,986	566,669
Disposals	(12,532)	-	(1,190)	(142,476)	(156,198)
At 31 December 2003	746,348	1,057,920	697,110	626,108	3,127,486
Depreciation					
At 1 January 2003	416,719	461,998	307,541	135,583	1,321,841
On disposals	(8,055)	-	(430)	(79,824)	(88,309)
Charge for the year	91,595	170,432	114,289	118,858	495,174
At 31 December 2003	500,259	632,430	421,400	174,617	1,728,706
Net book value					
At 31 December 2003	246,089	425,490	275,710	451,491	1,398,780
At 31 December 2002	324,193	342,095	355,871	373,015	1,395,174

7 Stocks

	2003 £	2002 £
Finished goods and goods for resale	2,426,327	3,375,590

8 Debtors

	2003 £	2002 £
Trade debtors	2,439,000	1,994,144
Amounts owed by parent and fellow subsidiary undertakings	181,496	56,848
Other debtors	-	591
Prepayments and accrued income	140,004	138,183
Deferred tax asset	12,166	-
	2,772,666	2,189,766

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

9	Creditors: amounts falling due within one year	2003 £	2002 £
	Trade creditors	650,925	529,150
	Amounts owed to parent and fellow subsidiary undertakings	992,615	2,131,194
	Corporation tax	502,093	47,336
	Other taxes and social security costs	363,922	142,475
	Accruals and deferred income	48,561	88,942
		<u>2,558,116</u>	<u>2,939,097</u>

10	Provisions for liabilities and charges	Deferred taxation £
	Balance at 1 January 2003	4,185
	Profit and loss account	(16,352)
	Balance at 31 December 2003	<u>(12,166)</u>

The deferred taxation is a net asset and so accordingly, the above balance is included in debtors (see note 8) in the balance sheet. The actual balance of the provision for liabilities and charges is £ -

Deferred taxation provided in the financial statements is as follows:

	2003 £	2002 £
Accelerated capital allowances	(10,026)	4,185
Other timing differences	(2,140)	-
	<u>(12,166)</u>	<u>4,185</u>

11 Pension costs

Defined contribution

	2003 £	2002 £
Contributions payable by the company for the year	<u>26,614</u>	<u>18,133</u>

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

12 Share capital	2003	2002
	£	£
Authorised		
10,000 Ordinary shares of £ 1 each	10,000	10,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
1,000 Ordinary shares of £ 1 each	1,000	1,000
	<u> </u>	<u> </u>
13 Statement of movements on profit and loss account		Profit and loss account £
Balance at 1 January 2003		4,553,889
Retained profit for the year		428,929
		<u> </u>
Balance at 31 December 2003		4,982,818
		<u> </u>
14 Reconciliation of movements in shareholders' funds	2003	2002
	£	£
Profit for the financial year	1,733,986	772,523
Dividends	(1,305,057)	-
	<u> </u>	<u> </u>
Net addition to shareholders' funds	428,929	772,523
Opening shareholders' funds	4,554,889	3,782,366
	<u> </u>	<u> </u>
Closing shareholders' funds	4,983,818	4,554,889
	<u> </u>	<u> </u>

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

15 Contingent liabilities

At the year end Oakley Inc, the parent company of Oakley (UK) Limited, had outstanding forward exchange contracts in its own name. The gains or losses upon the exercising of these contracts will be borne by Oakley (UK) Limited.

For Maturity Forward Extra Option contracts Oakley Inc have an option not to take the contract unless the exchange rate exceeds the trigger rate at the specified end of the contract.

For Forward Extra Option contracts Oakley Inc have an option not to take the contract unless the exchange rate exceeds the trigger rate at any time during the contract period.

Forward Extra Contracts

	US \$	Exchange rate on forward contract	Sterling equivalent	Trigger rate
February	750,000	1.58	474,684	1.665
March	1,500,000	1.58	949,367	1.665
April	1,500,000	1.58	949,367	1.665
August	2,000,000	1.6	1,250,000	1.695
September	2,000,000	1.6	1,250,000	1.695
October	1,000,000	1.6	625,000	1.695

Maturity Forward Extra Contracts

	US \$	Exchange rate on forward contract	Sterling equivalent	Trigger rate
June	2,000,000	1.61	1,242,236	1.685
September	2,000,000	1.61	1,242,236	1.685
November	2,000,000	1.61	1,242,236	1.708
December	2,000,000	1.61	1,242,236	1.708
December	2,000,000	1.61	1,242,236	1.685

Forward Contracts

May	1,500,000	1.6002	937,383	N/A
June	1,500,000	1.6002	937,383	N/A
July	2,000,000	1.6002	1,249,844	N/A

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

16 Financial commitments

At 31 December 2003 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2003	2002
	£	£
Expiry date:		
Between two and five years	27,545	-
In over five years	275,000	275,000
	<u>302,545</u>	<u>275,000</u>

17 Directors' emoluments

	2003	2002
	£	£
Emoluments for qualifying services	691,196	578,812
Company pension contributions to money purchase schemes	26,614	18,133
	<u>717,810</u>	<u>596,945</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 5 (2002 - 5).

The number of directors who exercised share options during the year was 1 (2002 - 2).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	231,797	227,992
Company pension contributions to money purchase schemes	3,600	4,400
	<u>235,397</u>	<u>232,392</u>

The share options are for shares in the parent company, Oakley Inc, for which details are disclosed in the directors' report.

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

18 Transactions with directors

A director, C. Ward, is a beneficiary of the Serval Marketing Limited Retirement Benefits Scheme which holds 652 shares in the ultimate parent company, Oakley Inc.

During the year the directors purchased goods from the company on normal commercial terms and had outstanding balances with the company as follows:

	Purchases during 2003	Purchases during 2002	Balance at 31.12.2003	Balance at 31.12.2002
P. Ansell	1,006	965	-	179
C. Ward	6,355	3,112	131	82
J. Tennyson	588	757	-	-
J. Pollard	302	877	-	28
G. Lee	792	2,065	-	-

19 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	2003 Number	2002 Number
Directors	7	7
Administration	93	83
	<u>100</u>	<u>90</u>

Employment costs

	£	£
Wages and salaries	2,748,471	2,524,988
Social security costs	292,827	243,567
Other pension costs	26,614	18,133
	<u>3,067,912</u>	<u>2,786,688</u>

20 Control

The directors consider the ultimate parent company to be Oakley Inc, a company incorporated in the United States of America. Oakley Inc owns 100% of the issued share capital of Oakley (UK) Limited.

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2003

21 Related party transactions

Oakley Europe, Oakley (GMBH), Oakley Ireland, Oakley EDC and Oakley (UK) Limited are all subsidiaries of Oakley Inc.

At 31 December 2003 Oakley (UK) Limited was owed £63,580 (2002- £56,373) by Oakley (GMBH) and £117,916 (2002- £475) by Oakley Ireland.

Oakley (UK) Limited owed Oakley Europe £8,207 (2002- £7,164), Oakley (GMBH) £11,700 (2002- £nil), Oakley EDC £74,998 (2002- £nil) and Oakley Ireland £43,350 (2002- £41,495).

During the year:

Oakley Europe received goods and services of £786 (2002- £31,293) from Oakley (UK) Limited and supplied goods of £176,194 (2002- £52,010) to Oakley (UK) Limited;

Oakley (GMBH) received goods and services of £282,015 (2002- £35,894) from Oakley (UK) Limited and supplied goods of £44,349 (2002 - £nil) to Oakley (UK) limited;

Oakley Ireland received goods and services of £310,286 (2002- £474) from Oakley (UK) Limited and supplied goods of £913,325 (2002- £39,845) to Oakley (UK) Limited;

Oakley EDC supplied goods of £1,603,454 (2002 - £nil) to Oakley (UK) Limited.

At 31 December 2003 Oakley (UK) Limited owed Oakley Inc £854,360 (2002- £2,082,535). Oakley Inc supplied goods to the company amounting to £10,266,671 (2002- £13,226,821) during the year.