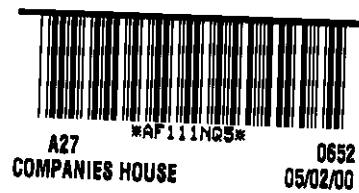


Company Registration No. 1310079 (England and Wales)

OAKLEY (UK) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1999



OAKLEY (UK) LIMITED

COMPANY INFORMATION

Directors

C. Ward
M. Parnell
L. Newcomb
D. Gordon

Secretary

P. Ansell

Company number

1310079

Registered office

Iceni Court
Letchworth
Herts
SG6 1TN

Auditors

Morton Thornton
Torrington House
47 Holywell Hill
St. Albans
Herts
AL1 1HD

Business address

Iceni Court
Letchworth
Herts
SG6 1TN

OAKLEY (UK) LIMITED

CONTENTS

	Page
Directors' report	1 - 2
Auditors' report	3
Profit and loss account	4
Balance sheet	5
Cash flow statement	6
Notes to the cash flow statement	7
<i>Notes to the financial statements</i>	8 - 15

OAKLEY (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1999

The directors present their report and financial statements for the year ended 31 December 1999.

Principal activities and review of the business

The principal activity of the company continued to be that of wholesalers of optical and 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 £1,000,000. 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 1999:

C. Ward	
R. Tilbrook	(Resigned 17 January 2000)
M. Parnell	
L. Newcomb	
D. Gordon	

Directors' interests

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

	31st December 1999		1st January 1999	
	Ordinary shares		Ordinary shares	
	Holding Company	Company	Holding Company	Company
C. Ward	-	-	-	-
R. Tilbrook	2,268	-	2,268	-
M. Parnell	3,840,000	-	3,840,000	-
L. Newcomb	8,308	-	8,308	-
D. Gordon	1,522	-	1,522	-

Year 2000

We have identified the key risks to the business and have developed a plan to minimise their impact. We have considered not only our own systems but also those of our major suppliers and customers. Although no organisation can guarantee that no year 2000 problems will arise, we believe that, having identified and removed the major risks to the business in accordance with the plan we have developed, it will be possible to quickly resolve any such problems as may arise without significant additional costs.

There were no problems encountered at the year end but the directors are continuing to monitor the situation.

OAKLEY (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1999

Auditors

The company has by elective resolution dispensed with the obligation to appoint auditors annually in accordance with section 386(1) of the Companies Act 1985. Therefore, the auditors, Morton Thornton, will be deemed to be reappointed for each succeeding financial year.


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.

By order of the board


.....

OAKLEY (UK) LIMITED

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

We have audited the financial statements on pages 4 to 15 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

28th January 2000

Morton Thornton.

MORTON THORNTON
CHARTERED ACCOUNTANTS
& 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 1999

	Notes	1999 £	1998 £
Turnover	2	10,101,853	7,362,585
Cost of sales		(6,331,713)	(4,582,954)
Gross profit		3,770,140	2,779,631
Administrative expenses		(2,260,055)	(1,685,733)
Other operating income		159,701	152,270
Operating profit	3	1,669,786	1,246,168
Other interest receivable and similar income	4	35,752	35,990
Interest payable and similar charges	5	(1,029)	(2,890)
Profit on ordinary activities before taxation		1,704,509	1,279,268
Tax on profit on ordinary activities	6	(533,855)	(406,891)
Profit on ordinary activities after taxation		1,170,654	872,377
Dividends	7	(1,000,000)	(608,505)
Retained profit for the year	15	170,654	263,872

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

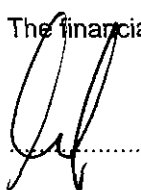
There are no recognised gains and losses other than those passing through the profit and loss account.

OAKLEY (UK) LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1999

	Notes	1999 £	£	1998 £	£
Fixed assets					
Tangible assets	8		653,179		597,670
Current assets					
Stocks	9	1,129,043		925,683	
Debtors	10	1,164,083		650,564	
Cash at bank and in hand		106,406		164,548	
		2,399,532		1,740,795	
Creditors: amounts falling due within one year	11	(1,217,567)		(673,975)	
Net current assets			1,181,965		1,066,820
Total assets less current liabilities			1,835,144		1,664,490
Provisions for liabilities and charges	12		(10,806)		(10,806)
			1,824,338		1,653,684
Capital and reserves					
Called up share capital	14		1,000		1,000
Profit and loss account	15		1,823,338		1,652,684
Shareholders' funds - equity interests	16		1,824,338		1,653,684

The financial statements were approved by the Board on 28th January 2000



OAKLEY (UK) LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1999

	1999 £	1998 £
Net cash inflow from operating activities	1,693,747	1,541,424
Returns on investments and servicing of finance		
Interest received	35,752	35,990
Interest paid	(1,029)	(2,890)
Net cash inflow for returns on investments and servicing of finance	34,723	33,100
Taxation	(520,388)	(496,173)
Capital expenditure		
Payments to acquire tangible assets	(291,024)	(367,530)
Receipts from sales of tangible assets	24,800	1,550
Net cash outflow for capital expenditure	(266,224)	(365,980)
Equity dividends paid	(1,000,000)	(608,505)
Net cash (outflow)/inflow before management of liquid resources and financing	(58,142)	103,866
Capital element of finance lease contracts	-	(16,516)
Decrease in debt	-	(16,516)
Net cash outflow from financing	-	(16,516)
(Decrease)/increase in cash in the year	(58,142)	87,350

OAKLEY (UK) LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 1999

1	Reconciliation of operating profit to net cash inflow from operating activities	1999	1998
		£	£
	Operating profit	1,669,786	1,246,168
	Depreciation of tangible assets	205,256	170,710
	Loss on disposal of tangible assets	5,459	492
	Increase in stocks	(203,360)	(207,855)
	(Increase)/decrease in debtors	(513,519)	219,252
	Increase in creditors within one year	530,125	112,657
	Net cash inflow from operating activities	1,693,747	1,541,424

2	Analysis of net funds	1 January 1999	Cash flow	Other non-cash changes	31 December 1999
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	164,548	(58,142)		106,406
	Debt:				
	Net funds	164,548	(58,142)	-	106,406

3	Reconciliation of net cash flow to movement in net funds	1999	1998
		£	£
	(Decrease)/increase in cash in the year	(58,142)	87,350
	Cash (inflow)/outflow from (increase)/decrease in debt	-	16,516
	Movement in net funds in the year	(58,142)	103,866
	Opening net funds	164,548	60,682
	Closing net funds	106,406	164,548

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

The accounts have been 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 land and buildings	Over term of the leases
Display stands	Over 4 years
Plant and machinery	Over 5 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 and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

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 SSAP 24.

1.8 Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

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. 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.

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

2 Turnover

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

Geographical market

	Turnover	
	1999	1998
	£	£
United Kingdom	9,915,417	7,244,202
Eire	186,436	118,383
	<u>10,101,853</u>	<u>7,362,585</u>

3 Operating profit

Operating profit is stated after charging:

	1999	1998
	£	£
Depreciation of tangible assets	205,256	170,710
Operating lease rentals	50,535	48,750
Auditors' remuneration	9,800	11,570
	<u>265,591</u>	<u>331,030</u>

4 Other interest receivable and similar income

	1999	1998
	£	£
Bank interest	35,752	35,990
	<u>35,752</u>	<u>35,990</u>

5 Interest payable

	1999	1998
	£	£
On bank loans and overdrafts	1,029	49
Hire purchase interest	-	2,826
On overdue tax	-	15
	<u>1,029</u>	<u>2,890</u>

6 Taxation

	1999	1998
	£	£
U.K. current year taxation		
U.K. corporation tax at 30% (1998 - 31%)	533,855	406,966
Prior years		
U.K. corporation tax	-	(75)
	<u>533,855</u>	<u>406,891</u>

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

7	Dividends	1999 £	1998 £
	Ordinary interim paid	1,000,000	608,505

Ordinary interim dividend £1,000 per share (1998: £608.51 per share)

8	Tangible fixed assets	Leasehold land and buildings £	Display stands £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Total £
	Cost						
	At 1 January 1999	173,752	191,504	176,529	354,076	176,203	1,072,064
	Additions	3,185	153,140	4,091	53,731	76,875	291,022
	Disposals	-	-	-	-	(61,382)	(61,382)
	At 31 December 1999	176,937	344,644	180,620	407,807	191,696	1,301,704
	Depreciation						
	At 1 January 1999	21,247	70,810	101,638	216,753	63,946	474,394
	On disposals	-	-	-	-	(31,124)	(31,124)
	Charge for year	22,241	69,949	35,802	37,361	39,902	205,255
	At 31 December 1999	43,488	140,759	137,440	254,114	72,724	648,525
	Net book value						
	At 31 December 1999	133,449	203,885	43,180	153,693	118,972	653,179
	At 31 December 1998	152,505	120,694	74,891	137,323	112,257	597,670

9	Stocks	1999 £	1998 £
	Finished goods and goods for resale	1,129,043	925,683

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

10 Debtors	1999 £	1998 £
Trade debtors	1,107,629	618,356
Amounts owed by parent and fellow subsidiary undertakings	5,601	-
Other debtors	38,964	19,048
Prepayments and accrued income	11,889	13,160
	<u>1,164,083</u>	<u>650,564</u>

11 Creditors: amounts falling due within one year	1999 £	1998 £
Trade creditors	649,614	374,575
Amounts owed to parent and fellow subsidiary undertakings	182,171	3,873
Corporation tax	268,306	254,839
Other taxes and social security costs	110,881	38,552
Accruals and deferred income	6,595	2,136
	<u>1,217,567</u>	<u>673,975</u>

12 Provisions for liabilities and charges	Deferred taxation £
Balance at 1 January 1999 and at 31 December 1999	<u>10,806</u>

Deferred tax is provided at 30% (1998 - 31%) analysed over the following timing differences:

	Not provided		Provided	
	1999 £	1998 £	1999 £	1998 £
Accelerated capital allowances	<u>-</u>	<u>5,497</u>	<u>10,806</u>	<u>10,806</u>

13 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £14,329 (1998 - £12,466).

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

14 Share capital	1999	1998
	£	£
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>
15 Statement of movements on profit and loss account		
		Profit and loss account £
Balance at 1 January 1999		1,652,684
Retained profit for the year		170,654
		<u> </u>
Balance at 31 December 1999		1,823,338
		<u> </u>
16 Reconciliation of movements in shareholders' funds	1999	1998
	£	£
Profit for the financial year	1,170,654	872,377
Dividends	(1,000,000)	(608,505)
	<u> </u>	<u> </u>
Net addition to shareholders' funds	170,654	263,872
Opening shareholders' funds	1,653,684	1,389,812
	<u> </u>	<u> </u>
Closing shareholders' funds	1,824,338	1,653,684
	<u> </u>	<u> </u>

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

17 Contingent liabilities

At the year end the company had outstanding forward exchange contracts. The sterling equivalent of these was £6,403,000 (1998 : £2,434,919). Details as follows :

From	Maturing To	US \$	Exchange rate on forward contract	Sterling equivalent
11.01.00	31.03.00	1,000,355	1.6319	613,000
02.04.00	30.06.00	2,165,000	1.6315	1,327,000
03.07.00	02.10.00	4,052,180	1.6300	2,486,000
02.10.00	30.12.00	3,219,347	1.6284	1,977,000
		<u>10,436,882</u>		<u>6,403,000</u>

18 Financial commitments

At 31 December 1999 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	1999	1998
	£	£
Expiry date:		
Between two and five years	6,450	500
In over five years	48,250	48,250
	<u>54,700</u>	<u>48,750</u>

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

19 Directors' emoluments	1999 £	1998 £
Emoluments for qualifying services	388,146	197,635
Company pension contributions to money purchase schemes	9,987	9,987
	<u>398,133</u>	<u>207,622</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (1998 - 2).

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

Emoluments for qualifying services	194,467	98,827
Company pension contributions to money purchase schemes	5,015	5,015
	<u>199,482</u>	<u>103,842</u>

20 Transactions with directors

C. Ward and R. Tilbrook have an interest in Axo Sport (UK) Limited which receives management services from the company at open market value. These amounted to £159,701 (1998 : £152,270). During the year Axo Sport (UK) Limited had received goods of £15,865 (1998 : £4,240) from Oakley (UK) Limited and had sold goods of £1,264 (1998: £4,653) to Oakley (UK) Limited.

At 31st December 1999 Axo Sport (UK) Limited owed Oakley (UK) Limited £37,984 (1998: £19,048).

C. Ward and R. Tilbrook are beneficiaries of the Serval Marketing Limited Retirement Benefits Scheme which holds 652 shares in the ultimate parent company.

OAKLEY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999

21 Employees

Number of employees

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

	1999 Number	1998 Number
Directors	5	5
Administration	38	30
	<u>43</u>	<u>35</u>

Employment costs

	£	£
Wages and salaries	1,046,527	718,579
Social security costs	109,389	61,477
Other pension costs	14,329	12,466
	<u>1,170,245</u>	<u>792,522</u>

22 Control

The directors consider the ultimate parent company to be Oakley Inc, a company incorporated in the United States of America.

23 Related party transactions

Oakley Europe and Oakley (UK) Limited are both subsidiaries of Oakley Inc. At 31st December 1999 Oakley Europe owed Oakley (UK) Limited £5,601 (1998 : £0). During the year Oakley Europe had received goods of £8,881 (1998 : £8,769) from Oakley (UK) Limited and supplied goods of £0 (1998 : £26,091) to Oakley (UK) Limited.

At 31st December 1999 Oakley (UK) Limited owed Oakley Inc £182,171 (1998 : £3,873). Oakley Inc supplied goods amounting to £5,654,304 (1998 : £4,271,550) during the year.