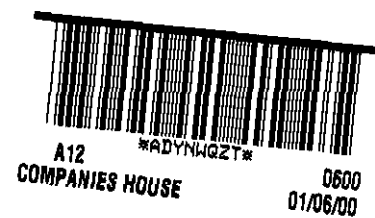


LYNCREST (1998) LIMITED
(FORMERLY MORGAN & OATES LIMITED)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 1999

Registered Number 2016061



LYNCREST (1998) LIMITED

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company's main activity was the design and manufacture of woven textiles, principally woven throws, shawls and serapes. The company does not intend to trade in the forthcoming year.

RESULTS AND DIVIDENDS

The results for the year and the proposed transfer from reserves are set out on page 4 of the financial statements. The directors do not recommend the payment of a dividend (1998 - £Nil).

DIRECTORS AND THEIR INTERESTS

The following directors held office during the year:

AJ de Keyser (Chairman)
AS Rubin

No director had any interest in the shares of the company in the year. AJ de Keyser is a director of Pentland Group plc and, except as disclosed in the financial statements of that company, he has no interest in the shares of any other group undertaking. Mrs AS Rubin is a director of Robert Stephen Holdings Ltd, the ultimate parent undertaking, and her interests in the shares and loan notes of that and other group undertakings are disclosed in the financial statements of that company.

YEAR 2000 COMPLIANCE

During 1998 and 1999 a Group-wide review was implemented to ensure that all of the Group's key systems and suppliers were Year 2000 compliant. Following this extensive review no Year 2000 problems have occurred within the Group or amongst their key suppliers to date.

The costs of this project are mainly being borne by a fellow subsidiary undertaking.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for the period to that date. In preparing those financial statements the directors are required:

to select suitable accounting policies and then apply them consistently;

to make judgements and estimates that are reasonable and prudent;

to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements of the company comply with the Companies Act 1985. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

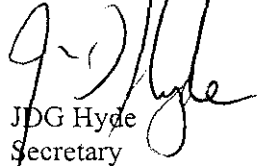
LYNCREST (1998) LIMITED

DIRECTORS' REPORT (CONTINUED)

AUDITORS

PricewaterhouseCoopers have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board



J.D.G. Hyde
Secretary

10 March 2000

AUDITORS' REPORT TO THE MEMBERS OF LYNCREST (1998) LIMITED

We have audited the financial statements on pages 4 to 9 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 1, the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

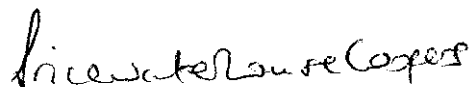
Basis of audit opinion

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 the company's affairs at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
10 March 2000

LYNCREST (1998) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

	<u>Notes</u>	<u>1999</u> £	<u>1998</u> £
Turnover	3	-	280,583
Operating loss before exceptional items	4	<u>(74,572)</u>	<u>(253,809)</u>
Exceptional items	5	-	20,151
Operating loss		<u>(74,572)</u>	<u>(233,658)</u>
Interest (net)	6	-	(60,213)
Loss on ordinary activities before taxation		<u>(74,572)</u>	<u>(293,871)</u>
Taxation	7	-	2,221
Loss on ordinary activities after taxation		<u>(74,572)</u>	<u>(291,650)</u>
Accumulated losses brought forward		(1,756,455)	(1,464,805)
Accumulated losses carried forward		<u>(1,831,027)</u>	<u>(1,756,455)</u>

The company ceased trading as Morgan & Oates on 31 May 1998.

The notes on pages 6 to 9 form part of these financial statements.

All recognised gains and losses are included in the profit and loss account. A separate movement of shareholders' funds statement is not provided as there are no changes for the current or previous year other than the accumulated loss in the profit and loss account.

LYNCREST (1998) LIMITED

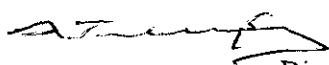
BALANCE SHEET AS AT 31 DECEMBER 1999

	<u>Notes</u>	<u>1999</u> £	<u>1998</u> £
Current assets			
Debtors	9	27,950	176,998
		<u>27,950</u>	<u>176,998</u>
Current liabilities			
Creditors - amounts falling due within one year	10	1,858,877	1,933,353
Net current liabilities		<u>(1,830,927)</u>	<u>(1,756,355)</u>
Total assets less current liabilities		<u>(1,830,927)</u>	<u>(1,756,355)</u>
Capital and reserves			
Called up share capital	11	100	100
Profit and loss account		(1,831,027)	(1,756,455)
Total shareholders' funds (all attributable to equity interests)		<u>(1,830,927)</u>	<u>(1,756,355)</u>

Approved by the Board on 10 March 2000

On behalf of the Board

AJ de Keyser


Director

The notes on pages 6 to 9 form part of these financial statements.

LYNCREST (1998) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1999

1 ACCOUNTING POLICIES

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

Going concern basis The financial statements have been prepared on a going concern basis as the ultimate parent undertaking has indicated its intention to provide continuing financial support to the company.

Turnover Turnover comprises invoiced sales net of value added tax.

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

Foreign currency translation Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date, or at contracted rates where appropriate. Transactions in foreign currencies during the year are translated at the rates of exchange ruling at the dates of the transactions, or at contracted rates where applicable. All exchange differences are dealt with in the profit and loss account, in the same period as the underlying transactions to which they relate.

Pensions The company's employees are members of the Pentland Group plc pension scheme which is a defined benefit scheme. The level of pension contributions is based upon the advice of qualified actuaries and a charge is made to the company in respect of its employee members. Details of the actuarial valuation of the pension scheme are disclosed in the financial statements of Robert Stephen Holdings plc, the company's intermediate parent undertaking.

2 STATEMENT OF CASH FLOWS

Robert Stephen Holdings plc, of which the company is a wholly owned subsidiary, has presented in its consolidated accounts a group cash flow statement drawn up under the provisions of Financial Reporting Standard 1: Cash Flow Statements (Revised 1996) (FRS 1). Accordingly the company has taken advantage of the exemption available under FRS 1 to dispense with presenting its own cash flow statement.

3 TURNOVER

Turnover by geographical destination was as follows:

	<u>1999</u>	<u>1998</u>
	£	£
United Kingdom	-	280,583
	<hr/>	<hr/>

LYNCREST (1998) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1999

4 OPERATING LOSS BEFORE EXCEPTIONAL ITEMS

	<u>1999</u> £	<u>1998</u> £
Turnover	-	280,583
(Decrease) in stock of finished goods	-	(349,280)
Other income	31,379	319,972
	<u>31,379</u>	<u>251,275</u>
Purchases and direct charges	-	169,154
Staff costs:		
Wages and salaries	-	79,083
Social security costs	-	6,212
Other pension costs	-	8,371
Auditors' remuneration	-	4,125
Charges payable to group undertakings	-	94,030
Other operating charges	105,951	144,109
	<u>105,951</u>	<u>505,084</u>
Operating loss before exceptional items	<u>(74,572)</u>	<u>(253,809)</u>

Auditors' remuneration has been borne by a fellow subsidiary undertaking.

5 EXCEPTIONAL ITEMS

	<u>1999</u> £	<u>1998</u> £
Profit on sale of Morgan & Oates	-	20,151
	<u>-</u>	<u>20,151</u>

6 INTEREST (NET)

	<u>1999</u> £	<u>1998</u> £
Interest payable - bank	-	(687)
- group undertakings	-	(59,526)
	<u>-</u>	<u>(60,213)</u>

7 TAXATION

	<u>1999</u> £	<u>1998</u> £
Over provision in previous years	-	(2,221)
	<u>-</u>	<u>(2,221)</u>

LYNCREST (1998) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1999

8 DIRECTORS AND EMPLOYEES

The average number of persons, including directors, employed by the company during the year was :

	<u>1999</u>	<u>1998</u>
Management and administration	-	3
	<hr/>	<hr/>
Directors remuneration		
Aggregate emoluments	-	27,234
Pension contributions	-	3,354
	<hr/>	<hr/>
	-	30,588
	<hr/>	<hr/>

The number of directors to whom retirement benefits were accruing during the year was 0 (1998 - 0).

9 DEBTORS

	<u>1999</u> £	<u>1998</u> £
Amount due from fellow subsidiary undertakings	27,950	2,425
Other debtors	-	174,573
	<hr/>	<hr/>
	27,950	176,998
	<hr/>	<hr/>

10 CREDITORS - amounts falling due within one year

	<u>1999</u> £	<u>1998</u> £
Trade creditors	-	52,718
Amounts due to fellow subsidiary undertakings	1,858,877	1,880,635
	<hr/>	<hr/>
	1,858,877	1,933,353
	<hr/>	<hr/>

LYNCREST (1998) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1999

11 CALLED UP SHARE CAPITAL

	<u>1999</u>	<u>1998</u>
	£	£
Authorised 100,000 ordinary shares of 10p each	10,000	10,000
Allotted and fully paid 1,000 ordinary shares of 10p each	100	100

12 COMMITMENTS AND CONTINGENCIES

The company is party to a guarantee in favour of Pentland Group's bankers regarding the aggregate set-off of the sterling current account balances, of Pentland Group plc and its subsidiaries.

The company's liability under this guarantee is limited to the lower of the aggregate account indebtedness of the relevant group companies and its own sterling current account credit balance with the bank.

13 PARENT UNDERTAKINGS

The intermediate parent undertaking, Pentland Group plc, a company registered in Scotland, has produced accounts for the year ended 31 December 1999 which will be available from Albany House, 58 Albany Street, Edinburgh, EH1 3QR. The ultimate parent undertaking is Robert Stephen Holdings plc, a company registered in England. Consolidated accounts will be prepared by Robert Stephen Holdings plc for the year ended 31 December 1999 and these can be obtained from the company's registered office at 8 Manchester Square, London W1M 5AB.

14 RELATED PARTIES

Robert Stephen Holdings plc, of which the company is a wholly owned subsidiary has presented in its consolidated accounts, which are publicly available, a related parties disclosure note under the provisions of Financial Reporting Standard 8 : Related Party Disclosures (FRS 8). Accordingly the company has taken advantage of the exemption available under FRS 8 to dispense with disclosing related party transactions with entities within the Group, or investees of the Group qualifying as related parties.