

Dunlop Slazenger Holdings Limited

Accounts for the year ended 31 December 1998
together with directors' and auditors' reports

Registered number: 3139917



Directors' report

For the year ended 31 December 1998

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1998.

Principal activity

The principal activity of the company is as a holding company.

Results and dividends

The audited accounts for the year ended 31 December 1998 are set out on pages 4 to 11. The company's profit for the year after taxation was £2,941,000 (1997 – loss of £15,626,000).

The directors do not recommend the payment of a dividend (1997 - £nil).

Directors

The directors who served during the year were as follows:

P.J. Parnell	(appointed 5 March 1998)
A.C. Lovell	
D.M. Jacobs	(resigned 5 March 1998)

No director had any interest in the shares of the company. During the year P.J. Parnell and A.C. Lovell were also directors of Dunlop Slazenger Group Limited, the ultimate parent undertaking, and their interests in the shares of that company are disclosed in its accounts.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

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

Directors' report (continued)

Directors' responsibilities (continued)

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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Year 2000

A full year 2000 programme was initiated by the Group in March 1998. The scope of the programme covered software, hardware, embedded systems and suppliers compliance. The programme has been successfully completed in respect of the company.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Maxfli Court
Riverside Way
Camberley
Surrey
GU15 3YL

By order of the Board,



Alistair J. Ritchie
Secretary

31 January 2000

Auditors' report

To the Shareholders of Dunlop Slazenger Holdings Limited:

We have audited the accounts on pages 4 to 11 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on pages 1 and 2, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the outcome of the negotiations of the terms of the borrowing facilities of the parent undertaking Dunlop Slazenger Group Limited and the proposed restructuring of its balance sheet. The financial statements have been prepared on the going concern basis, the validity of which depends upon continued funding being available to the company from the parent undertaking. The financial statements do not include any adjustments that would result from the parent undertaking's inability to provide such continued funding. Details of this fundamental uncertainty are described in note 1(a). Our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1998 and its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

31 January 2000

Profit and loss account

For the year ended 31 December 1998

	Notes	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Administrative expenses		-	(18,206)
Operating loss		-	(18,206)
Investment income	2	1,897	1,884
Interest payable and similar charges	3	(60)	-
Dividends receivable	4	1,107	729
Profit/(loss) on ordinary activities before taxation	5	2,944	(15,593)
Tax on profit/(loss) on ordinary activities	6	(3)	(33)
Profit/(loss) for the financial year	12	2,941	(15,626)
Retained (loss)/profit at beginning of year		(13,359)	2,267
Retained loss at end of year		(10,418)	(13,359)

The profit/(loss) for the year was derived from continuing operations.

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

Statement of total recognised gains and losses

For the year ended 31 December 1998

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Profit/(loss) for the financial year	2,941	(15,626)
Exchange differences	(262)	537
Total recognised gains (losses) relating to the year	2,679	(15,089)

The accompanying notes are an integral part of this statement of total recognised gains and losses.

There is no material difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

Balance sheet
31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Investments	8	41,993	42,526
Current assets			
Debtors	9	817	476
Creditors: Amounts falling due within one year	10	(55,804)	(58,675)
Net current liabilities		(54,987)	(58,199)
Total assets less current liabilities		(12,994)	(15,673)
Net liabilities		(12,994)	(15,673)
Capital and reserves			
Called-up equity share capital (£2)	11	-	-
Profit and loss account	12	(10,418)	(13,359)
Foreign currency translation reserve	12	(2,576)	(2,314)
Equity shareholders' deficit		(12,994)	(15,673)

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

The accounts on pages 4 to 11 were approved by the board of directors on 31 January 2000 and signed on its behalf by:

Alan C Lovell

A.C. Lovell

Director

Notes to accounts

31 December 1998

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below:

a) Basis of accounting

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

The company is funded by a loan from its parent undertaking, Dunlop Slazenger Group Limited and the assets of the company are the subject of a series of fixed and floating charges share pledges and guarantees which have been issued largely as security for loans and overdrafts provided to the Dunlop Slazenger Group by its bankers.

The group has not complied with certain of the financial covenants which form part of its banking agreements, but has received the support of and obtained temporary waivers from its bankers. As a result of this current and projected non-compliance and the group's projected on-going borrowing requirements, the group is in negotiations with its bankers and other loan and equity providers with the objective of restructuring the group's balance sheet. As part of this negotiation the directors expect to be able to agree new financial covenants with the group's bankers which will be able to be met for the foreseeable future. Consequently the parent undertaking may not be able to provide funding to the company for the foreseeable future, being twelve months from the date of approval of their accounts.

Whilst the outcome of these negotiations is currently uncertain, the directors are confident that the group's bankers will continue to waive any covenant breaches until such time as the proposed restructuring has been successfully completed and thus that the parent undertaking will be able to provide financial support to the company in the future. The directors have accordingly prepared the accounts under the going concern basis.

b) Investments

Fixed asset investments are shown at cost less provisions for permanent diminution in value.

Notes to accounts (continued)

1 Accounting policies (continued)

c) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Exchange differences arising on foreign currency borrowings, to the extent that they hedge the company's investment in overseas operations, are dealt with through reserves.

d) Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard 1 (Revised) to include a cash flow statement as part of its accounts because its parent undertaking, Dunlop Slazenger Group Limited, registered in England and Wales, has prepared consolidated financial statements which include the financial statements of the company for the period and which contain a cash flow statement.

2 Investment income

	1998 £'000	1997 £'000
Interest receivable from group undertakings	1,897	1,874
Exchange gain on foreign currency deposits less borrowings (net)	-	10
	<u>1,897</u>	<u>1,884</u>

3 Interest payable and similar charges

	1998 £'000	1997 £'000
Exchange loss on foreign currency deposits less borrowings (net)	<u>60</u>	<u>-</u>

4 Dividends receivable

	1998 £'000	1997 £'000
Dividend income from group undertakings	<u>1,107</u>	<u>729</u>

Notes to accounts (continued)

5 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging:

	1998 £'000	1997 £'000
Impairment in value of fixed asset investments	-	18,206

The impairment in value of fixed asset investments in 1997 arose from a review performed by the directors in accordance with Financial Reporting Standard Number 11 ("Impairment of Fixed Assets and Goodwill") and related primarily to investments held in the Asia Pacific region which had been affected by the recent economic turmoil and currency weakness in that region.

Auditors' remuneration was wholly borne by a fellow group undertaking in both years.

6 Tax on profit/(loss) on ordinary activities

	1998 £'000	1997 £'000
Withholding tax suffered on foreign source income	3	33

7 Directors' remuneration

None of the directors received any emoluments in respect of their services to the company in either year.

8 Fixed asset investments

The movement in investments during the year was as follows:

	£'000
Cost	
At 31 December 1997	60,732
Exchange adjustment	(535)
Additions	2
At 31 December 1998	60,199
Amounts written off	
At 31 December 1997	(18,206)
At 31 December 1998	(18,206)
Net book value at 31 December 1998	41,993
Net book value at 31 December 1997	42,526

Notes to accounts (continued)

8 Fixed asset investments (continued)

In the opinion of the directors, the value of the company's investments in its subsidiary undertakings is not less than the amount at which they are stated in the balance sheet.

Group accounts have not been prepared because the company is a wholly owned subsidiary of Dunlop Slazenger Group Limited, a company registered in England and Wales.

The additions during the year relate to an increase in the authorised and issued share capital of PT Dunlop Slazenger, with all the additional shares being acquired by the company.

As at 31 December 1998 the company had investments in the following subsidiary undertakings:

Name of Company	Country of registration or incorporation	Holding	Proportion held
<i>Directly held:</i>			
Sportlines International Ltd	Canada	Ordinary Shares	100%
Dunlop Slazenger Ltd**	Hong Kong	Ordinary Shares	100%
Dunlop Slazenger Holdings Inc*	USA	Ordinary Shares	100%
Dunlop Slazenger Ireland Ltd	Ireland	Ordinary Shares	100%
Dunlop Slazenger International SA	France	Ordinary Shares	100%
Dunlop Slazenger (Far East) Sdn Bhd	Malaysia	Ordinary Shares	100%
Dunlop Slazenger Thailand Ltd	Thailand	Ordinary Shares	100%
Dunlop Slazenger (Malaysia) Sdn Bhd	Malaysia	Ordinary Shares	100%
Dunlop Slazenger (Philippines) Inc	Philippines	Ordinary Shares	64%
Dunlop Slazenger International Inc	Philippines	Ordinary Shares	60%
PT Dunlop Slazenger *	Indonesia	Ordinary Shares	100%
Dunlop Slazenger GmbH**	Germany	Ordinary Shares	100%
PT Dunlopillo Indonesia	Indonesia	Ordinary Shares	55%
<i>Held by Dunlop Slazenger Holdings Inc:</i>			
David Geoffrey and Associates	USA	Ordinary Shares	100%
Dunlop Maxfli Sports Corporation	USA	Ordinary Shares	100%
<i>Held by Dunlop Slazenger Thailand Ltd:</i>			
Dunlop Slazenger Marketing Limited **	Thailand	Ordinary Shares	99%
<i>Held by PT Dunlop Slazenger:</i>			
PT Dunlopillo Indonesia	Indonesia	Ordinary Shares	12.5%
PT Dunlop Slazenger Indonesia	Indonesia	Ordinary Shares	80%

The principal activity of the subsidiary undertakings marked * is that of a holding company. The principal activity of PT Dunlopillo Indonesia is the manufacture of mattresses and related bedding products. Subsidiary undertakings marked ** have not traded during the year. The other subsidiary undertakings are involved in the buying or manufacture and marketing of sports goods.

Notes to accounts (continued)

8 Fixed asset investments (continued)

Subsequent to 31 December 1998 Sportlines International Ltd and PT Dunlop Slazenger changed their names to Dunlop Maxfli Inc. and PT Dunlop Sports respectively.

On 30 April 1999 the company transferred its holding in Dunlop Slazenger Thailand Limited to a fellow group undertaking, Dunlop Slazenger International Limited, for consideration of £2,744,000.

9 Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	<u>817</u>	<u>476</u>

10 Creditors

	1998 £'000	1997 £'000
Amounts falling due within one year:		
Amounts due to parent undertaking	<u>55,804</u>	<u>58,675</u>

The assets of the company are the subject of a series of fixed and floating charges, share pledges and guarantees which have been issued as security largely for loans and overdrafts provided to the Dunlop Slazenger Group by its bankers.

11 Called-up equity share capital

	1998 £	1997 £
<i>Authorised</i>		
1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<i>Allotted, called-up and fully paid</i>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

Notes to accounts (continued)

12 Reserves

	Foreign currency translation reserve £'000	Profit and loss account £'000	Total £'000
At 31 December 1997	(2,314)	(13,359)	(15,673)
Currency fluctuations	(262)	-	(262)
Retained profit for the year	-	2,941	2,941
At 31 December 1998	<u>(2,576)</u>	<u>(10,418)</u>	<u>(12,994)</u>

13 Reconciliation of movements in shareholders' deficit

	1998 £'000
Profit for the financial year	2,941
Other recognised gains and losses relating to the period (net)	<u>(262)</u>
Net decrease in shareholders' deficit	2,679
Shareholders' deficit at 31 December 1997	<u>(15,673)</u>
Shareholders' deficit at 31 December 1998	<u>(12,994)</u>

14 Ultimate parent undertaking

Dunlop Slazenger Group Limited, a company registered in England and Wales, is regarded as the ultimate parent undertaking. Copies of the group accounts of Dunlop Slazenger Group Limited, the parent undertaking of the only group preparing group accounts which included Dunlop Slazenger Holdings Limited, can be obtained from Maxfli Court, Riverside Way, Camberley, Surrey GU15 3YL.