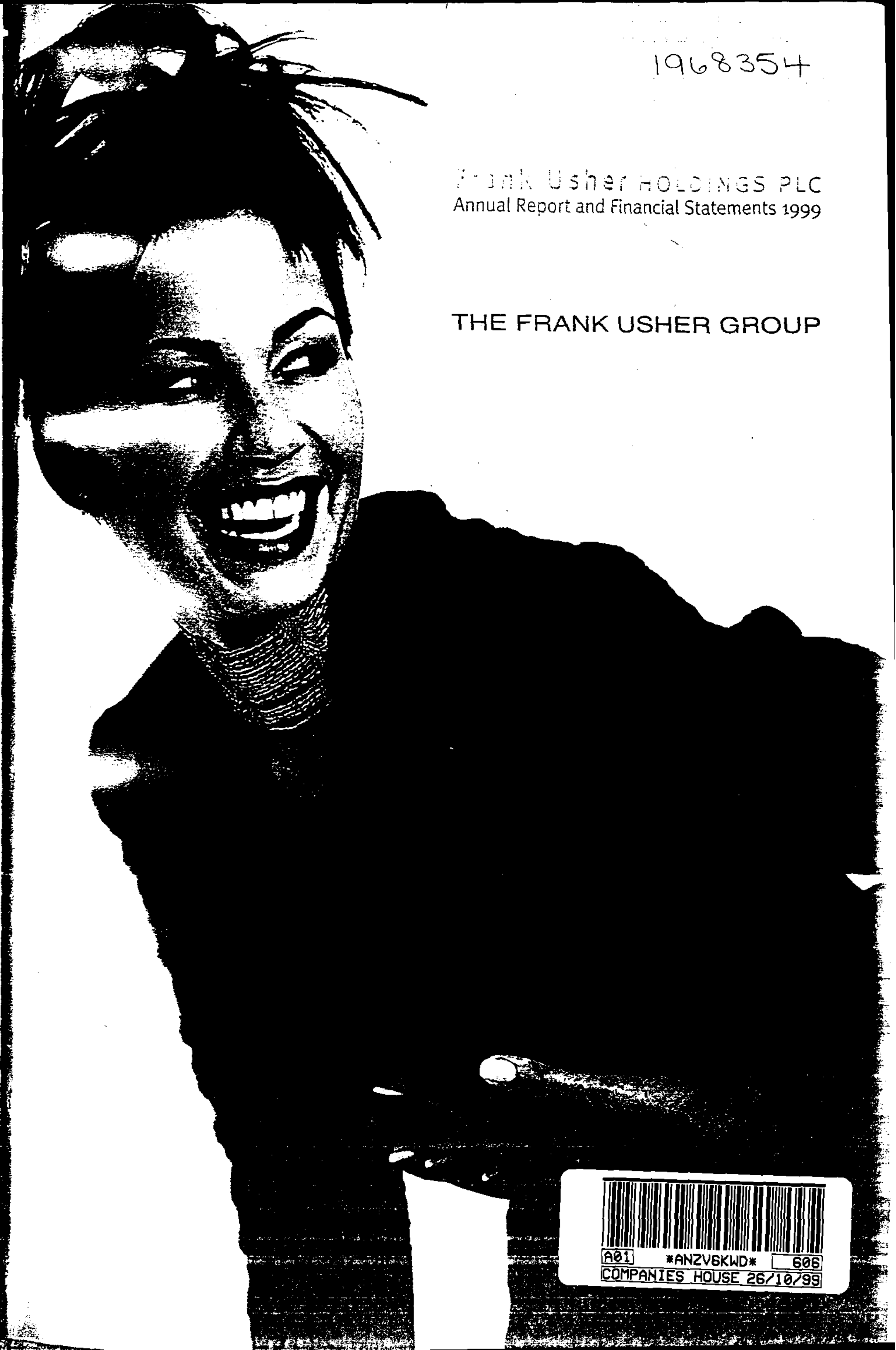
Frank Usher HOLDINGS PLC
Annual Report and Financial Statements 1999

THE FRANK USHER GROUP



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INTO THE future...

The 'Frank Usher' brand is recognised world-wide as being synonymous with style, fashion and elegance.

We are building young teams of designers who will continue to create modern clothes for women to wear for every occasion.

We are broadening our marketing activities in order to take further advantage of the brand as well as capitalise on our other labels.

We will improve our supply chain operations in order to bring costs down and increase efficiency.

THE FRANK USHER GROUP

The comprehensive popular collection offers a complete and versatile wardrobe using easycare fabrics and knitwear for fashion conscious women all over the world.

The 'Dusk' designs are fresh, innovative and young in spirit. Dresses, suits and separates at affordable prices and worn for all occasions.

'Coterie by Tom Bowker', specialising in elegant styles for special occasions, particularly appealing to the mother of the bride and as alternative wedding outfits.

'Oliver James' designs size 16+ separates, dresses, trousers and elegant skirts, casual jackets, coats and suits. The collection is well established within department stores and specialist boutiques and is developing in export markets.

Frank Usher

'Frank Usher', internationally known for the most glamourous clothes for both day and evening wear.

D-U-S-K BELINDA CH'NG

Designed by Belinda Ch'ng the 'Dusk' collection makes a strong fashion statement for the contemporary woman.

coterie by TOM BOWKER

'Coterie by Tom Bowker', a collection of designer suits, separates and hats.

oliverjames

'Oliver James', the ultimate fashion symbol for the attractive woman of size 16+.

THE FRANK USHER LABELS CAN BE FOUND IN THE FOLLOWING CITIES:

AUSTRALIA
Melbourne

AUSTRIA
Salsburg
Vienna

BELGIUM
Antwerp
Brussels

BRAZIL
Curitiba

CANADA
Montreal
Toronto
Vancouver

CHILE
Santiago

COSTA RICA
San Jose

CYPRUS
Nicosia

CZECH REPUBLIC
Prague

DENMARK
Copenhagen
Hellerup

EGYPT
Cairo

EIRE
Cork
Dublin

FINLAND
Helsinki

FRANCE
Marseille
Nice
Paris

GERMANY
Berlin
Cologne
Hamburg
Hanover
Munich

GREECE
Athens

HONG KONG

ISRAEL
Jerusalem
Tel Aviv

ICELAND
Reykjavik

ITALY
Milan
Naples
Palermo
Rome

JAPAN
Osaka

LATVIA
Riga

LUXEMBOURG

LEBANON
Beirut

MALTA
Sliema

NETHERLANDS
Amsterdam
The Hague

NEW ZEALAND
Christchurch
Wellington

NORWAY
Oslo
Stavanger
Trondheim

PHILIPINES
Manila

POLAND
Gdansk
Poznan

PORTUGAL
Faro
Lisbon

RUSSIA
Moscow

SAUDIA ARABIA
Jeddah
Riyadh

SOUTH AFRICA
Cape Town
Johannesburg

SPAIN
Barcelona
Bilbao
Madrid

SWEDEN
Gothenborg
Malmo
Stockholm

SWITZERLAND
Bern
Lucerne
Zurich

TURKEY
Istanbul

USA
New York

FOR FURTHER INFORMATION PLEASE CALL: 0207 287 0800

From left to right: top row: Jeremy Hamer, John Corre, Anne Bruh, Michael Hoch
bottom row: Stephen Bruh, Robert Bruh, Clive Simnock, June Poster

JEREMY JOHN HAMER FCA
Non-executive Chairman

Jeremy Hamer was appointed to the board in October 1998. He is an associate of Elderstreet Investments Ltd, a smaller company venture capitalist and a non-executive director of a number of other companies.

[illegible] HOWARD CORRE FCA
Non-executive Director

John Corre was appointed to the board as a non-executive Director in January 1986. He specialises in corporate finance and holds a number of other directorships.

ANNE BRUH
Lifetime President

Anne Bruh joined the group in 1948 and was subsequently appointed Managing Director and in that capacity has guided the company through [illegible] years of sustained growth and success. In February 1999 she became lifetime president.

MICHAEL (MORDECHAI) HOCH BSc MBA
Managing Director

Michael Hoch, who is 51, joined the group in May 1998 and was appointed to the board in August 1998 and as Managing Director in February 1999.

STEPHEN MICHAEL BRUH AASC
Sales and Marketing Director

Stephen Bruh, who is 53, joined the group originally in 1970 and was appointed to the board in January 1986. He is responsible for customer care as well as the group's marketing function.

ROBERT JOHN BRUH
Production and Creative Director

Robert Bruh, who is 50, joined the group's design team in 1975 and was appointed to the board in January 1986. He has recently assumed responsibility for the 'Frank Usher' design function in addition to his responsibility for the 'Dusk' range and for production.

CLIVE SIMNOCK BA (HONS) ACA
Finance Director and Company Secretary

Clive Simnock, who is 41, joined the group in March 1988 and was appointed to the board in April 1989. He is responsible for the group's financial accounting, finance and administration.

JUNE MARSHA POSTER
UK Sales Director

June Poster, who is 50, joined the group in September 1976, became Sales Director of Frank Usher Limited in January 1982 and joined the main board in October 1998. She is responsible for the development of UK sales and also in the development of sales in certain export markets.

I am conscious of the need to make the most of our internationally recognised brand name and capitalise on the many opportunities that are being created.

Following my appointment as Chairman in October 1998 and against a difficult market background, a strategic and operational review of the business was instigated. Although the business has been very successful since its incorporation in 1944, I am conscious of the need to make the most of our internationally recognised brand name and capitalise on the many opportunities that are being created.

These reviews have now been completed and the conclusions leave us with a number of significant opportunities for the future. The process of implementation has begun although the financial impact of the changes will not show through for a while.

Through our declared strategy we are developing a modernised and more focused design function to broaden the appeal of all our labels. Our newly appointed international marketing consultants will help us to reposition our brands for the new millennium. In an increasingly competitive environment it is imperative that we promote and emphasise clearly the message behind our brands in everything that we do. Our marketing is set to ensure that the image of all of our brands will appeal to a wider range of women.

The Frank Usher brand name is already synonymous with style, fashion and elegance; our strategy will ensure that we further develop this brand whilst creating opportunities for our other fashion labels to mirror its development with their own carefully targeted customers in their chosen markets.

The **FRANK USHER** brand name is already synonymous with **STYLE, FASHION** and **ELEGANCE**

Through our declared strategy we are developing a **MODERNISED** and more **FOCUSED DESIGN** function to **BROADEN THE APPEAL** of all our labels.

RESULTS IN BRIEF

The growth in turnover enjoyed at home and overseas last year has been reversed in the current year with strong sterling combining with difficult market conditions throughout Europe. Profit on ordinary activities before tax was £1.33 million (1998: £2.17 million). Earnings per share were 12.7p (1998: 20.1p).

DIVIDEND

Our intentions remain to give shareholders a strong yield. However, your board feels that it is appropriate given both the results for the year and the share buy-back activity to preserve cash by reducing the proposed final dividend to 4.0p (1998: 7.0p) giving a total dividend for 1999 of 8.0p (1998: 11.0p).

REVIEW OF THE YEAR

The turnover for the year was £20.5 million (1998: £23.6 million) reflecting two difficult seasons. Gross margins were slightly reduced but our overhead cost base was also reduced, in part due to lower volumes, to £6.6 million (1998: £7.2 million).

In November we closed our manufacturing operation in Glasgow at a one-off cost of £54,000. We still use a number of UK subcontract factories but are increasing our manufacturing overseas.

SHARE BUYBACKS

During the year under review, purchases of 800,000 shares were made at an average price of £1.08. With interest rates considerably lower than dividend yields this remains a sensible strategy for the company.


MODERN GLAMOUR takes a SHINE TO SPARKLE.
ALLURING clothes for the INTELLIGENT WOMEN OF TODAY.

In **ROMANTIC MOODS** and **RICH AUTUMNAL SHADES, USEFUL** dresses and separates within everyone's price range.

Artist's impression of the new Frank Usher department at Selfridges, regarded as one of the premier showcases for our brands.

THE BOARD

In February Michael Hoch took over as Group Managing Director, charged with orchestrating the programme resulting from our operational review. At the same time Anne Bruh became our Lifetime President, a position only previously held by her late husband, Max Bruh, with whom she founded the company 55 years ago. Her contribution to the business over the years has been fundamental to the company's success and we will continue to benefit from her knowledge and experience in her new role.

Robert Bruh has taken control of the design function from the Spring 2000 collection. June Poster joined the main board in October 1998 after 22 years with the company and is responsible for the development of UK sales.

Recently we announced the resignation of Clive Simnock after 11 years with the group as Finance Director. He has contributed much in these years and we wish him every success in the future in his new employment. Paul Berendt will be promoted as Company Secretary from 1 September 1999 and will also be responsible for the finances of the group.

the full benefits from our **NEW DESIGN** team, our **NEW MARKETING** programme and our **COST REDUCTION** programmes will not show through fully until next year

STAFF

In any change process, pressure increases on the staff within the organisation. Ours is no exception and I would like to take this opportunity to thank our staff for their loyalty and commitment throughout the year.

Finally, I must mention Grace Mcleod, the 'Frank Usher' Design Director who, after 38 years of service is stepping down this autumn to make way for younger talent. Her contribution to the business has been outstanding and we wish her a long and healthy retirement.

CURRENT TRADING AND OUTLOOK

In June we gave a profits warning regarding the first half of the next financial year, because forward orders have been disappointing reflecting the high stock position of many customers from last autumn/winter and the continuing strength of sterling.

On the positive side operational cost savings are being implemented at this time which will gradually show through in our results. Purchases of garments for millennium parties should help both our mid season sales and repeat business. We are receiving encouraging reports of sales in the shops for the early winter deliveries. Furthermore, our millennium collection, which is currently being shown, has been extremely well received, particularly at our first ever group stand at the Düsseldorf International CPD exhibition, which created a great deal of interest.

However, the full benefits from our new design team, our new marketing programme and our cost reduction programmes will not show through fully until after the financial year ending 31 May 2000.

JEREMY HAMER
Chairman
11 August 1999

We have made considerable progress in the past year as we begin to build a firm foundation on which we can further develop.

Our **STRATEGY** is to renew and **BROADEN THE APPEAL** of the Frank Usher group labels, to **ATTRACT A WIDER AGE GROUP** of women, whilst retaining the **LOYALTY** of existing customers

Against the backdrop of difficult market conditions, I believe that we have made considerable progress in the past year as we begin to build a firm foundation on which we can further develop.

As a result of our strategic review instigated late last year, it became evident that the group was facing considerable challenges, fuelled by lifestyle changes and changing customer shopping habits throughout our traditional markets. Women today, as an extension of their changing and developing lifestyles, are demanding more multi-functional clothes and less formal wear for grand occasions. We therefore concluded that our emphasis *should be on development from a strong* base into a business that is in better shape to withstand the challenges it faces and to profit from the many opportunities that change can bring.

Design development

Our strategy is to renew and broaden the appeal of the Frank Usher group labels, to attract a wider age group of women, whilst retaining the loyalty of existing customers. Robert Bruh was appointed as Design Director and will head our revitalised design *team co-ordinating the Frank Usher 'look'* throughout all of our collections.

These developments will be the vital stepping stone on the road to co-ordination, development and expansion of our product, offering affordable clothes of a high standard, quality and fit.

Retail image development

Following positive results with a retail outlet in Essex, selling only Frank Usher group merchandise, we opened in February 1999 our second franchise retail operation in Mill Hill, North London, with encouraging results. These ventures are not an attempt on our behalf to enter the retail arena, but to support our customer, the retailer, *in forming mutually profitable strategic partnerships, where appropriate*, as well as brand image and presentation. The short-term success of these two franchises is being given careful consideration by the board.

In addition, we are in the process of completely refurbishing our department at Selfridges, regarded as one of the premier showcases for our brands in the UK.

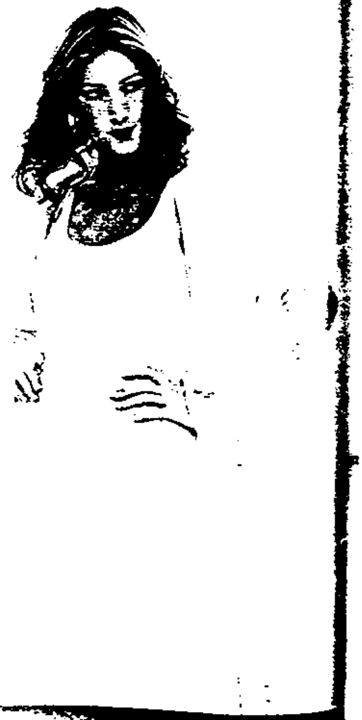
To ensure that Frank Usher is properly represented in the High Street and to underline the importance we attach to this aspect of our business, our newly appointed retail co-ordinator will be responsible for developing and implementing our sales strategy.

Brand development

Following the strategic review, it became clear to the board that the *brand had been under exploited in the past.* A decision was therefore taken to enhance the brand's profile within the fashion industry and thus international marketing consultants were appointed, with the brief to reposition and create a new, fresher, more fashion orientated image for our business. Some key decisions have already been taken, in particular a re-design of our fashion labels and company logos, to more appropriately reflect our international aspirations and an increase in our activity at trade exhibitions for overseas markets. We have always had a considerable international market share, particularly in Germany, but we believe that the increased emphasis we are putting on further international development will enable us to develop this aspect of our business at a faster pace.

SHARP suits, **DAZZLING** evening wear, **CHIC, SOPHISTICATED** styles for **SPECIAL OCCASIONS.**

ESSENTIAL pieces for this season's **NEW LOOK** – infinitely **WEARABLE** in **EXQUISITE** materials.



ENHANCE ... **NEW, FRESHER, MORE FASHION ORIENTATED IMAGE** ...

BUSINESS DEVELOPMENT

We have faced a number of challenges in the past twelve months and had to take many difficult decisions. The closure of our Glasgow factory last November was just such a decision and the loss of jobs was difficult for all concerned. Although we no longer have our own manufacturing facility, we still produce in the UK, but are increasingly taking advantage of efficient production facilities overseas. These arrangements will give greater flexibility and enable us to respond better to market changes, all of which we believe will increase our international appeal.

We have also reviewed our supply chain operations and have instigated improvements in our warehousing, distribution and delivery systems, which will streamline the process considerably, whilst enhancing cash flow.

Our operations in Canada have undergone major reconstruction, simplifying operations and improving the function of service in that market. These improvements should result in cost savings in the next financial year.

Other areas of cost saving have been identified, particularly in some of our working practices, as part of our ongoing review of the business. These will be introduced during the coming year.

STAFF DEVELOPMENT

The past twelve months have seen considerable changes across all of our business areas. Changes are always difficult to manage and we are indebted to the commitment and loyalty of our workforce for their contribution in implementing these changes, which have been necessary to ensure the long-term development of the group. We have invested in staff development this year, in performance appraisals and incentives, in training and where appropriate, in re-training, in order to enable our people to develop their skills to full potential. This process is ongoing.

Since my appointment as Chief Executive I have instigated an open and communicative management style which has helped us in implementing those changes that are fundamental to our new approach. This new focus on improved communication is continuing.

Staff levels have fallen over the year but, where possible, this was through natural wastage and redundancies were kept to a minimum.

OUTLOOK

Whilst the market background remains difficult, the strategic review and operational changes of this year mean that the group is better placed than ever to maximise the opportunities that will be created for its brands. We therefore look forward with confidence.

MICHAEL HOCH
Managing Director

A number of developments in the current year have brought costs down and increased efficiency in key areas of the business.

The group has invested further in the **DEVELOPMENT OF A RETAIL IMAGE** which has demonstrated another year of **SIGNIFICANT AND ONGOING BENEFIT** on sales in these areas.

Results for the year

In the year ended 31 May 1998 the group achieved growth both at home and overseas. As a result of difficult market conditions and the strength of sterling which has affected the whole textile industry, this could not be sustained in the current year. The results this year were therefore creditable even though home sales have fallen by 8% and exports by 9%.

The 'Frank Usher' label remains the major contributor to group turnover. The group's other brands are 'Dusk', 'Coterie by Tom Bowker' and 'Oliver James'.

A number of developments in the current year have brought costs down and increased efficiency in key areas of the business. The current year's results also reflect the £54,000 cost of closure of the group's factory in Glasgow. Despite earlier indications, there has been a slight reduction in margins in the current year.

The strategic plan referred to both in the Chairman's Statement and Review of Operations is expected to produce a business which is more focused and with further reductions to the cost base.

Shareholders' returns and dividends

Dividends for the year are proposed at 8.0p per share (1998 11.0p) and the group's earnings provide 1.59 times cover for dividends (1998: 1.83 times).

Shareholders' funds were £6,043,000 which represents 96p per share in issue at 31 May 1999 (1998: 92p). Retained earnings this year increased shareholders' funds by £373,000 (6%), whilst £868,000 (13%) was used to purchase 800,000 of the company's own shares. The share buybacks have therefore reduced total net assets but have increased net assets per share and are earnings enhancing. This policy has therefore been beneficial to the long term interest of remaining shareholders.

Investment for the future

The group has invested further in the development of a retail image which has demonstrated another year of significant and ongoing benefit on sales in these areas.

The group has continued its policy of continuously investing in computer systems, related facilities and staff training. In particular this year the computer aided design systems were upgraded. A number of other computer installations and developments are currently in hand and will benefit efficiency in the ensuing year.

Year 2000

The group has been proactive in managing the risk posed by the year 2000 date on software programmes. Key software and equipment has been checked and is now compliant. Contact with suppliers has been comprehensive and is ongoing. The programme of work is now substantially complete and the remainder of the programme is on course for completion before the end of this calendar year. The implementation of this program was at minimal cost to the group.

Foreign currency risk

The group uses financial instruments to hedge its foreign currency exposures and to manage its interest costs using foreign currency forward contracts, options and currency swaps.

The group has foreign currency buying and selling requirements, resulting from overseas production and fabric supplies and from export turnover denominated in foreign currencies. Each season the

NET ASSETS PER SHARE
as at 31 May

group covers its exchange exposures well in advance and hence the group is largely protected from the short term effects of exchange rate fluctuations. Proactive management of currency flows also ensures that the group takes advantage of the lowest interest rates available. These operations are supported by currency dealing lines with its bankers and by annually renewable multicurrency group banking facilities.

CASH FLOWS AND TREASURY

The group has continued to generate funds in line with its profits but reduced its cash position in the short term following the substantial buyback of its shares referred to above.

The funding of the group is by equity supported by banking facilities to fund seasonal requirements. These facilities remain more than sufficient to meet all working capital requirements for operations, corporation tax and dividends.

Interest rates have been falling during this year and have resulted in a similar level of interest costs despite the cash outflow to cover the share buyback programme. The net interest charge for the year ended 31 May 1999 was covered 21 times (1998: 29 times).

Another year of good debt collection experience reflects upon the continuing strength of the group's products and profile of its customers, as well as extreme vigilance and control over collection of debts. Prevailing market conditions do however demand even closer control in the ensuing year.

...hence the group is **LARGELY PROTECTED** from the short term effects of exchange rate fluctuations.

TAXATION

This year's tax charge has benefited slightly from the reduction from April 1999 in the corporation tax rate by 1%. The tax charge has increased however as a result of certain trading expenses not qualifying for tax relief in the current year. These items are not ongoing and the tax charge is expected next year to return to lower levels as a result of this and the full year effect of the current reduction in the corporation tax rate.

BALANCE SHEET VALUES

In June 1988 the directors protected the long-term interests of the group by the purchase of its freehold headquarters for £3.25 million. Whilst the directors are advised that the value of this property is below the historic cost at which it is stated in the financial statements, they consider that the book value fairly reflects its economic value to the business.

The group's balance sheet does not reflect the substantial value of the goodwill of the brand names, in particular the 'Frank Usher' name.

CLIVE SIMNOCK
Finance Director
11 August 1999

The directors present their annual report and the audited financial statements of the group for the year ended 31 May 1999.

Principal activities and business review

The group's principal activities are the design, manufacture and marketing of ladies evening and special occasion wear. Further information on the group's activities is contained in the Chairman's Statement, Review of Operations and Financial Review on pages 4 to 13.

Results and dividends

The group's profit before taxation for the year is £1,334,000 (1998: £2,165,000). An interim dividend of 4.0p per share was paid on 1 April 1999. A final dividend of 4.0p per share amounting to £253,000 is proposed and, if approved, will be paid on 4 November 1999 to shareholders on the register on 1 October 1999. The total dividend on ordinary shares amounts to £506,000 (1998: £783,000). The remaining profit of £373,000 will be transferred to reserves.

Future developments

The group intends to continue developing its business in existing territories and in other parts of the world. Further information is contained in the Review of Operations and Financial Review on pages 8 to 13.

Purchase of company's own shares

During the year the company purchased 800,000 ordinary shares of 5p each, representing 11.9% of the shares previously in issue, for a total consideration of £868,000. These purchases were made against the annual authorities given by the shareholders at the 1997 AGM (400,000 shares) and 1998 AGM (400,000 shares). The authority being sought at the next AGM is to buy up to 632,253 shares.

Fixed assets

The movements in tangible fixed assets are shown in note 11 to the financial statements. The directors have been advised that the market value of the company's freehold property is significantly less than the historic cost at which it is stated in these financial statements but are of the opinion that the book value reflects fairly its economic value to the business.

Charitable and political donations

Donations made by the group for charitable purposes in the United Kingdom amounted to £475 (1998: £4,212). There were no political contributions made during the year (1998: £nil).

Supplier payment policy

For all trade creditors, it is the policy of the group and the company, wherever practical, to:

- agree the terms of payment at the start of business with a supplier.
- ensure that suppliers are aware of the terms of payment.
- pay in accordance with its contractual and other legal obligations.

At the year end there were no trade creditors in Frank Usher Holdings plc (1998: £nil). The average number of creditor days in the UK subsidiaries as at 31 May 1999 was 33 (1998: 36).

Share options

There were 300,000 options granted to directors to subscribe for ordinary shares during the year. Details of share options in issue as at 31 May 1999 are shown in note 21 to the financial statements and details of the share option scheme are shown in the Report of the Directors on Remuneration on page 18.

Substantial shareholdings

As at 3 August 1999, the following had notified the company that they held or were beneficially interested in 3% or more of the company's issued ordinary share capital.

	Number of shares	Percentage of issued share capital owned
Nigel Wray (including 120,000 non beneficial)	751,500	11.88%
Funds managed by Singer & Friedlander Investment Management Limited	361,000	5.70%
Framlington 1000 Smallest Companies Trust	450,000	7.11%

Directors and their interests

The directors of the company who served during the year are set out below together with their interests and those of their spouses and children in the share capital of the company.

Directors and their interests continued

	Number of ordinary shares of 5p each	
	31 May 1999	31 May 1998
A Bruh	24,906	24,906
RJ Bruh	453,330	453,330
SM Bruh	491,461	491,461
JH Corre	35,410	35,410
JJ Hamer (appointed 28.10.98)	—	—
M Hoch (appointed 14.08.98)	—	—
C Simnock	—	—
JM Poster (appointed 28.10.98)	—	—

There have been no changes in the directors' shareholdings between 31 May 1999 and 3 August 1999. All the above shareholdings are beneficially owned.

R Bruh and S Bruh are both potential beneficiaries of settlements excluded from the above analysis which own shares as follows:

	Number of shares	Percentage of issued share capital
Max Bruh No. 1 Discretionary Settlement	343,631	5.43%
Max Bruh No. 2 Discretionary Settlement	343,631	5.43%
Max Bruh Children's Settlement	17,593	0.27%

There were no contracts of significance subsisting during or at the end of the financial year in which a director of the company was materially interested. In accordance with the Articles of Association J Hamer and J Poster having been appointed during the year retire and, being eligible, offer themselves for re-election. A Bruh retires at the annual general meeting and, being eligible, offers herself for re-election. J Poster and A Bruh each have a service agreement with the company which provides for 12 months notice by either side. J Hamer does not have a service agreement with the company or any of its subsidiaries. The names of the present directors together with their biographical details are set out on page 3.

Annual general meeting

At the Annual General Meeting, an ordinary resolution will be proposed to renew the directors' authority to allot relevant securities up to an aggregate nominal amount of £105,375, representing approximately one third of the issued ordinary share capital of the company. The directors have no current intention of exercising this authority. A special resolution will also be proposed to disapply the pre-emption provisions of Section 89 of the Companies Act 1985 in respect of any rights issues or other pro rata offer of equity securities to shareholders and for other cash issues up to an aggregate nominal amount of £15,806 being 5% of the issued share capital. Each of these authorities will expire at the conclusion of the next Annual General Meeting, or 15 months from the date of the passing of the relevant resolution, whichever is the earlier.

A further special resolution will be proposed to renew until the next Annual General Meeting the company's authority to purchase up to 632,253 shares representing approximately 10% of the issued ordinary share capital of the company. It is the intention of the directors to keep under review the company's current share price and dividend policy and to exercise this authority when they consider that this would be of benefit to shareholders generally. Details of the maximum and minimum prices at which the shares may be bought are set out in the resolution.

Directors' responsibilities

The directors are required by the Companies Act 1985 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 group as at the end of the financial year and of the group's profit for the financial year.

The directors consider that in preparing the financial statements on pages 20 to 31, the company and the group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed.

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 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.

Auditors

The 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

C SIMNOCK
Company Secretary
11 August 1999

Frank Usher Holdings plc Registered Company Number: 1968354

Statement of compliance with the principles in the Combined Code

This statement sets out the manner in which the company has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998.

Directors

The board of Frank Usher Holdings plc comprises six executive directors and two non-executive directors. Although the Code requires three non-executive directors, the board believe that two non-executive directors is a sufficient number for the nature and size of the business. This is also consistent with the CISCO guidance for smaller companies which indicates that two non-executive directors are sufficient. The board is chaired by J Hamer, an independent non-executive director, who has primary responsibility for running the board. J Hamer was appointed Chairman on 28 October 1998. The position had been vacant until then, due to the death of C Norland on 9 May 1998. The Chief Executive, M Hoch, has executive responsibilities for the operations, results and strategic development of the group. Clear divisions of accountability and responsibility exist between the roles of Chief Executive and Chairman. J Corre is the senior independent non-executive director. The board structure ensures that no individual or group dominates the decision making process.

The non-executive directors are considered to be independent of management and from any business relationship which could materially interfere with their independent judgement. While three of the executive directors are related parties and major shareholders, the board operates in a democratic manner with all directors acting independently.

The board meets regularly with not less than ten such meetings held in each calendar year. There is a formal schedule of matters specifically reserved to the board for its decision to enable it to manage overall control of the group's affairs. All directors have access to the services of the Company Secretary and may take independent professional advice at the company's expense in the furtherance of their duties. Management has an obligation to provide the board with appropriate and timely information to enable it to discharge its duties. The Chairman ensures that all directors are properly briefed on issues arising at board meetings.

The Nominations Committee is responsible for monitoring and reviewing the membership and composition of the board.

The company's Articles of Association ensure that on a rotational basis one third of the directors resign every year and may, if eligible, offer themselves for re-election

The Chairman chairs each of the Audit, Nominations and Remuneration Committees. The other non-executive director is a member of each of these committees. The Lifetime President is a member of the Nominations and Remuneration Committees. The Finance Director attends Audit Committee meetings.

Directors' remuneration

The responsibilities of the Remuneration Committee, together with an explanation of how it applies the directors' remuneration principles of the Combined Code, are set out in the Report of the Directors on Remuneration on page 18.

Relations with shareholders

The board attaches a high importance to maintaining good relationships with shareholders, whether institutional or private ones.

The board regards the Annual General Meeting as an opportunity to communicate directly with private investors and actively encourages participative dialogue.

The company counts all proxy votes and except where a poll is called, it indicates the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands.

A separate resolution on each substantially separate issue is proposed at the Annual General Meeting.

The Chairman of the board, who is also the Chairman of the Audit, Remuneration and Nomination Committees, is available to answer questions at the Annual General Meeting. All directors are expected to attend the Annual General Meetings.

Each year, every shareholder receives a full Annual Report and Financial Statements. At the half year, all shareholders receive an Interim Report. Notice of the Annual General Meeting is sent to shareholders at least 20 working days before the meeting.

Accountability and audit

The respective responsibilities of directors and auditors are set out on page 15.

The board has established an Audit Committee. The Audit Committee's primary responsibilities include monitoring internal control, approving accounting policies and reviewing the interim and financial statements before submission to the board.

Internal financial control

The board has decided that, as permitted by the London Stock Exchange, the company has complied with Code provision D.2.1 on internal control by reporting upon internal financial control in accordance with the guidance issued by Rutteman Working Group in December 1994.

The directors acknowledge that they are responsible for ensuring that the group has in place a system of internal financial controls which is both effective and appropriate to the nature and size of the business.

The board, through the Audit Committee, has reviewed the effectiveness of the systems of internal financial control for the accounting year and the period to the date of approval of the financial statements although it should be understood that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss.

The group's system of financial controls include:

- A comprehensive budgeting system with annual budgets approved by the directors.
- Monthly monitoring of actual results against budget and regular review of variances.
- Close involvement of directors who approve all significant transactions.
- Identification and appraisal by the board of the major financial risks affecting the business and the financial controls.

Going concern

After making enquiries, the directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Statement of compliance with the Code Provisions in the Combined Code

Throughout the year ended 31 May 1999 the company has acted substantially in accordance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance by formalising its procedures in respect of matters reserved for the board, the appointment of a senior non-executive director and for allowing its directors to take independent professional advice.

With regard to the Code's provision in respect of the number of non-executive directors, the company has only appointed two such directors. Therefore with regard to Code provision D.3.1 the Audit Committee comprises only the two non-executive directors.

With regard to Code provision A.1.6 directors are not formally offered training upon their appointment to the board as the board does not consider that this requirement is necessary for a company of its size.

With regard to Code provision A.6.1 by mutual agreement the non-executive directors are not appointed for a fixed term period.

Directors' remuneration policy

The remuneration packages, including contract periods of executive directors, are determined by the Remuneration Committee. It ensures that the remuneration packages are appropriate for their responsibilities, taking into consideration the overall financial and business position of the group.

Compliance

The Remuneration Committee is both constituted and operated throughout the period in accordance with the principles outlined in the Stock Exchange Listing Rules derived from Schedule A of the Combined Code with the exception that (a) following the death of its former chairman, it was without the services of a non-executive chairman for the period from 9 May 1998 to 28 October 1998; (b) A Bruh is a member of the Remuneration Committee which determines the remuneration of the other executive directors. The non-executive directors believe that her guidance is essential to the assessment of the performance of the executive directors and therefore for the proper determination of their remuneration.

In framing the remuneration policy, full consideration has been given to the best practice provisions set out in Schedule B annexed to the listing rules. The Auditors' Report set out on page 19 covers the disclosures referred to in this report which The London Stock Exchange specifies for audit.

Details of directors' remuneration and share options are set out in notes 5 and 21 to the financial statements respectively. Details of directors' interests in shares are set out in the Directors' Report.

Base salary and benefits

The Committee sets the salary of each executive director by reference to the responsibility of the position held and external market data. Salaries are reviewed annually.

Annual performance related bonus

The company operates a bonus scheme for its directors which enables it to attract and retain high calibre senior management personnel who make a major contribution to the financial performance of the company. Bonuses paid under the scheme (as set out in note 5 to these financial statements) are directly linked to the growth in the group's earnings per share.

Share options

The Committee is responsible for approving grants to the executive directors and other executives under the group Executive Share Option Scheme. Under the 1996 scheme, options may be exercised between three and ten years from the date the option is granted but only if certain performance criteria are satisfied. The performance criteria require that the group's earnings per share over a period of three consecutive financial years after the option is granted exceeds inflation by an average of at least 7.5% and also that the growth of the market price of the shares over that three year period exceeds the growth of the Financial Times Stock Exchange Smaller Companies Index. It is the view of the Remuneration Committee that these performance criteria are challenging such that they demonstrate sustained financial growth. Details of options issued during the year and in issue are in note 21 to these financial statements.

Service agreements

All executive directors' service agreements are one year rolling contracts.

Pensions

S Bruh and R Bruh are members of the Frank Usher Holdings Plc Discretionary Pension Scheme. C Simnock, M Hoch and J Poster are members of the Frank Usher Grouped Personal Pension Scheme. Both of these schemes are money purchase schemes and company contributions are made based upon pay excluding bonus payments.

Non-executive directors

Non-executive directors' remuneration is reviewed by all members of the board other than the non-executive director under review.

To the members of Frank Usher Holdings plc

We have audited the financial statements on pages 20 to 31 which have been prepared under the historical cost convention and the accounting policies set out on page 24.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 16, the financial statements. Our responsibilities, as independent auditors, are established by statute, The Auditing Practices Board, The Listing Rules of the London Stock Exchange 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 1985. We also report to you if, in our opinion, the Director's 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 or the Listing Rules 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.

We review whether the statement on page 16 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange and we report if it does not. We are not required to form an opinion on the effectiveness of the group's corporate governance procedures or its internal controls.

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 affairs of the company and the group at 31 May 1999 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

St Albans

11 August 1999

CONSOLIDATED profit and loss account

for the year ended 31 May 1999

	Notes	1999 £'000	1998 £'000
TURNOVER	2	20,482	23,610
Cost of sales		(12,446)	(14,128)
GROSS PROFIT		8,036	9,482
Distribution costs		(700)	(867)
Administrative expenses		(5,936)	(6,372)
OPERATING PROFIT		1,400	2,243
Interest receivable		15	29
Interest payable	4	(81)	(107)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	1,334	2,165
Tax on profit on ordinary activities	7	(481)	(693)
PROFIT FOR THE FINANCIAL YEAR		853	1,472
Dividends	9	(480)	(783)
RETAINED PROFIT TRANSFERRED TO RESERVES	19	373	689
EARNINGS PER ORDINARY SHARE – BASIC	10	12.7p	20.1p
EARNINGS PER ORDINARY SHARE – DILUTED	10	12.7p	20.1p

There are no recognised gains and losses other than those disclosed in the profit and loss account and all activities are continuing. The reconciliation of movements in shareholders' funds is disclosed in note 20 to these financial statements.

The notes on pages 24 to 31 form part of these financial statements.

as at 31 May 1999

	Notes	1999 £'000	1999 £'000	1998 £'000	1998 £'000
FIXED ASSETS					
Tangible assets	11		3,786		3,823
CURRENT ASSETS					
Stocks	13	2,418		2,658	
Debtors	14	2,914		3,282	
Cash at bank and in hand		244		73	
		5,576		6,013	
CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)	15	(3,240)		(3,253)	
NET CURRENT ASSETS			2,336		2,760
TOTAL ASSETS LESS CURRENT LIABILITIES			6,122		6,583
DEFERRED TAXATION	17		(79)		(68)
NET ASSETS			6,043		6,515
CAPITAL AND RESERVES					
Called up share capital	18		316		355
Share premium account	19		3,247		3,225
Capital redemption reserve	19		813		773
Other reserves	19		180		180
Profit and loss account	19		1,487		1,982
TOTAL SHAREHOLDERS' FUNDS	20		6,043		6,515

The notes on pages 24 to 31 form part of these financial statements.

CONSOLIDATED cash flow statement

for the year ended 31 May 1999

	Notes	1999 £'000	1998 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	24(a)	2,150	2,316
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		15	29
Interest paid		(81)	(107)
		(66)	(78)
TAXATION			
UK corporation tax paid		(676)	(755)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(226)	(230)
EQUITY DIVIDENDS PAID		(726)	(804)
CASH INFLOW BEFORE FINANCING		456	449
FINANCING			
Issue of ordinary share capital		23	–
Purchase of own share capital		(868)	(466)
Capital element of finance lease payments		–	(4)
		(845)	(470)
DECREASE IN CASH	24(b)	(389)	(21)

The notes on pages 24 to 31 form part of these financial statements.

as at 31 May 1999

	Notes	1999 £'000	1999 £'000	1998 £'000	1998 £'000
FIXED ASSETS					
Tangible assets	11		3,143		3,159
Investments	12		3,522		3,522
			6,665		6,681
CURRENT ASSETS					
Debtors	14	1		125	
Cash at bank and in hand		—		2	
		1		127	
CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)	15	(1,011)		(977)	
NET CURRENT LIABILITIES			(1,010)		(850)
TOTAL ASSETS LESS CURRENT LIABILITIES			5,655		5,831
DEFERRED TAXATION	17		(138)		(130)
NET ASSETS			5,517		5,701
CAPITAL AND RESERVES					
Called up share capital	18		316		355
Share premium account	19		3,247		3,225
Capital redemption reserve	19		813		773
Other reserves	19		180		180
Profit and loss account	19		961		1,168
TOTAL SHAREHOLDERS' FUNDS	20		5,517		5,701

M HOCH
Director

Approved by the board of directors on 11 August 1999.

The notes on pages 24 to 31 form part of these financial statements.

1. Accounting policies

(1) Accounting convention
These financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and in accordance with the Companies Act 1985

(2) Basis of consolidation
The consolidated profit and loss account and balance sheet consist of the financial statements of the parent company and its subsidiaries, all of which are prepared up to 31 May 1999.

(3) Goodwill
The group has adopted FRS 10 'Goodwill and Intangible Assets' in its financial statements this year,. The standard does not require restatement for goodwill arising and taken to reserves in previous years although goodwill arising on future acquisitions will now be capitalised and amortised over its useful economic life.

(4) Turnover
Turnover represents amounts invoiced for goods supplied net of returns and value added tax.

(5) Fixed assets and depreciation
Depreciation is based on the cost of the relevant assets (except that depreciation is not provided on freehold land) at the following rates:

Freehold building	– 1 per cent straight line
Leasehold properties	– evenly over the period of the lease
Plant and machinery	– 25 per cent reducing balance and 10 per cent straight line
Fixtures, fittings and tools	– 25 per cent reducing balance
Motor vehicles	– 25 per cent reducing balance
Computer	– 33.3 per cent straight line

(6) Stocks
Stocks have been valued at the lower of cost and net realisable value. Cost includes materials, direct labour and related production overheads.

(7) Deferred taxation
Deferred taxation in respect of timing differences between profits as computed for taxation purposes and profits as stated in the financial statements is provided only to the extent that there is a reasonable probability that such deferred taxation will be payable in the foreseeable future. Timing differences are due primarily to the excess of the capital allowances on fixed assets over the corresponding depreciation charged in the financial statements.

(8) Leases
Assets acquired under finance leases and hire purchase agreements are capitalised in the balance sheet and depreciated over their useful lives. The cost of interest under the terms of the finance lease is charged to the profit and loss account over the period of the lease. Rentals paid under operating leases are charged to the profit and loss account as incurred.

(9) Translation of foreign currencies
Assets and liabilities, which are hedged by financial instruments outstanding at the balance sheet date, are converted at the rates contracted by these instruments. The financial statements of the overseas subsidiary are translated into sterling at the year end rate of exchange and differences arising are written off to the profit and loss account. Other assets and liabilities denominated in foreign currencies are translated into sterling at the appropriate year end rates and differences arising are dealt with in the profit and loss account. Exchange differences arising from trading operations are included in operating profit.

(10) Financial Instruments
Derivative instruments utilised by the group are forward exchange contracts and currency options.

(11) Pensions
The group makes contributions to defined contribution schemes. The cost of providing pension benefits is charged to the profit and loss account as incurred.

2. Turnover

The geographical analysis of the group's turnover is as follows:

	1999 £'000	1998 £'000
United Kingdom	10,811	11,736
Continental Europe	8,662	10,652
Canada	622	647
Rest of the World	387	575
	20,482	23,610

Profits arising from the group's activities are earned in the UK. All revenue is derived from the sale of ladies evening and special occasion wear to customers.

3. Profit on ordinary activities before taxation

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

	1999 £'000	1998 £'000
Depreciation	263	346
Auditors' remuneration	30	30
Other fees to auditors	37	5
Factory closure costs	54	–

Auditors' remuneration includes £7,000 (1998: £7,000) in respect of Frank Usher Holdings plc.

(b) Reclassification of prior year figures. Expenses classified as distribution costs in the year ended 31 May 1998 of £40,000 are now classified as cost of sales.

4. Interest payable

	1999 £'000	1998 £'000
Interest on bank loans and overdrafts wholly repayable within five years	81	107

5. Directors' emoluments

Details of the remuneration of all directors are as follows:

	Salary and fees £'000	Benefits £'000	Bonus £'000	Total 1999 £'000	Total 1998 £'000
Non-executive					
J Hamer	19	–	–	19	–
JH Corre	15	–	–	15	13
CC Norland	–	–	–	–	20
Executive					
A Bruh	147	14	–	161	165
M Hoch	57	7	–	64	–
SM Bruh	78	9	–	87	89
RJ Bruh	82	11	–	93	95
C Simnock	53	7	–	60	62
JM Poster	51	4	–	55	–
MB Abrahams	–	–	–	–	71
	502	52	–	554	515
Pension fund contributions	37	–	–	37	38
Total emoluments	539	52	–	591	553

There were no pension contributions in respect of the Chairman (1998: £nil) or in respect of A Bruh (1998: £nil). Pension contributions above are in respect of 5 directors (1998: 4 directors).

6. Employee information

Profit on ordinary activities before taxation is stated after charging:

	1999 £'000	1998 £'000
Wages and salaries	3,442	3,902
Social security costs	334	363
Other pension costs	114	128
	3,890	4,393

The group operates the Frank Usher Holdings Plc Discretionary Pension Scheme and the Frank Usher Grouped Personal Pension Scheme, both defined contribution schemes. The assets of these schemes are held separately from those of the group, being invested in independently administered funds. The pension costs set out above represent contributions payable by the group to these funds and there were no material amounts outstanding to these funds at the year end.

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

	1999 Number	1998 Number
Selling and distribution	45	51
Production and design	95	128
Administration	28	30
	168	209

7. Tax on profit on ordinary activities

	1999 £'000	1998 £'000
Taxation on the profit for the year:		
UK corporation tax at 30.83% (1988:31%)	470	684
Deferred taxation charge (note 17)	11	9
	481	693

8. Company profit and loss account

Frank Usher Holdings plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The amount of the profit for the year ended 31 May 1999 dealt with in the financial statements of the company is £661,000 (1998: £104,000).

9. Dividends

	1999 £'000	1998 £'000
Interim paid of 4.0 p net per share (1998: 4.0p)	253	284
Final proposed of 4.0p net per share (1998: 7.0p)	253	499
	506	783
Over provision for previous year final dividend	(26)	–
	480	783

10. Earnings per ordinary share

Earnings per share and diluted earning per share have been calculated in accordance with FRS14 which requires that earnings should be based on the net profit attributable to ordinary shareholders. The calculation of earnings per ordinary share on the net basis is based on profit for the year of £853,000 (1998: £1,472,000) and on 6,712,312 (1998: 7,311,572) ordinary shares, being the weighted average number of ordinary shares in issue during the year.
The calculation of diluted earnings per ordinary share resulting from outstanding share options are based on 6,713,718 (1998: 7,317,670) ordinary shares being the diluted weighted average number of shares in issue during the year.

11. Tangible fixed assets

Group	Freehold land and buildings £'000	Short leasehold land and buildings £'000	Plant and machinery £'000	Fixtures fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 June 1998	3,319	4	129	2,193	329	5,974
Additions	–	–	2	227	–	229
Disposals	–	–	–	(234)	(16)	(250)
At 31 May 1999	3,319	4	131	2,186	313	5,953
Accumulated depreciation						
At 1 June 1998	160	3	112	1,657	219	2,151
Charge for the year	16	–	5	215	27	263
Disposals	–	–	–	(234)	(13)	(247)
At 31 May 1999	176	3	117	1,638	233	2,167
Net book amount						
At 31 May 1999	3,143	1	14	548	80	3,786
At 31 May 1998	3,159	1	17	536	110	3,823

There have been no items which are acquired under hire purchase or finance leases.

Company	Freehold land and buildings £'000
Cost	
At 1 June 1998	3,319
At 31 May 1999	3,319
Accumulated depreciation	
At 1 June 1998	160
Charge for the year	16
At 31 May 1999	176
Net book amount	
At 31 May 1999	3,143
At 31 May 1998	3,159

12. Investments

	1999 £'000	1998 £'000
Shares in subsidiary undertakings		
Company	3,522	3,522

The company owns all the issued share capital of the following subsidiary undertakings which are consolidated in the group's financial statements and where trading, are involved in the design, manufacture and marketing of ladies evening and special occasion wear.

	Country of incorporation and operation
Frank Usher Limited	England
Frank Usher (Canada) Limited	Canada
GMB Contracts Limited (Dormant)	England

13. Stocks

Group	1999 £'000	1998 £'000
Raw materials and consumables	848	996
Work in progress	518	633
Finished goods	1,052	1,029
	2,418	2,658

14. Debtors

	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Falling due within one year				
Trade debtors	2,803	3,091	–	–
Other debtors	13	12	–	–
Prepayments and accrued income	98	54	1	–
	2,914	3,157	1	–
Falling due after more than one year				
ACT recoverable	–	125	–	125
	2,914	3,282	1	125

15. Creditors (amounts falling due within one year)

	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Bank loans and overdrafts	544	–	–	–
Trade creditors	1,014	1,178	–	–
Bills of exchange payable	87	145	–	–
Amounts due to group undertakings	–	–	677	266
Other creditors	26	19	–	–
Taxation and social security	170	126	–	–
Corporation tax	286	484	–	–
ACT payable	63	196	63	196
Proposed dividend	253	499	253	499
Accruals and deferred income	797	606	18	16
	3,240	3,253	1,011	977

Accruals and deferred income totalling £127,000 at 31 May 1998 have been reclassified as trade creditors. Bank borrowings attract a floating rate of interest at the base rate applicable to the currency plus one to two percent.
Bank borrowings are secured by a floating charge over the assets of the business. There are no other secured creditors.

16. Operating leases

Annual commitments payable under plant and machinery and other operating lease contracts are as follows:

Group	1999 £'000	1998 £'000
Contracts expiring:		
Less than one year	–	14
Between one and two years	12	–
Between two and three years	–	12
Between three and five years	261	247
	273	273

17. Deferred taxation

The full and potential liability for deferred taxation has been provided at 30% (1998: 31%) in the financial statements as follows:

	Group accelerated capital allowances £'000	Company accelerated capital allowances £'000
At 1 June 1998	68	130
Movement	11	8
At 31 May 1999	79	138

18. Called up share capital

	1999 Number	1998 Number	1999 £'000	1998 £'000
Authorised ordinary shares of 5p each	10,000,000	10,000,000	500	500
Allotted, issued and fully paid ordinary shares of 5p each	6,322,531	7,102,531	316	355

The reduction in shares in issue results from 800,000 shares purchased by the company during the year for a consideration of £868,000. In June 1998 20,000 shares were issued following the exercise of share options (see note 21).

19. Reserves

Group	Share premium account £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000
At 1 June 1998	3,225	773	180	1,982
Purchase of own shares (see note 18)				
– nominal value	–	40	–	–
– total consideration paid	–	–	–	(868)
Movement/retained profit for the financial year	22	–	–	373
At 31 May 1999	3,247	813	180	1,487
Company				
At 1 June 1998	3,225	773	180	1,168
Purchase of own shares (see note 18)				
– nominal value	–	40	–	–
– total consideration paid	–	–	–	(868)
Movement/retained profit for the financial year	22	–	–	661
At 31 May 1999	3,247	813	180	961

20. Reconciliation of movements in shareholders' funds

	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Profit for the financial year	853	1,472	1,141	887
Dividends	(480)	(783)	(480)	(783)
Net addition to shareholders' funds	373	689	661	104
Impact of purchase and issue of share capital	(845)	(466)	(845)	(466)
Net change in shareholders' funds	(472)	223	(184)	(362)
Shareholders' funds at 1 June	6,515	6,292	5,701	6,063
Shareholders' funds at 31 May	6,043	6,515	5,517	5,701

21. Share options

Under the terms of the company's Executive Share Option Scheme, options are granted to selected employees to subscribe for ordinary shares at a subscription price determined by the board. These options are exercisable three years from the date of grant and expire ten years from that date. On 16 June 1998 options were exercised by C Simnock, a director of the company over 20,000 shares under the group's former Share Option Scheme which has now been terminated. The market price at that time was 136.5p. The following options were outstanding under the current share option scheme at 31 May 1999.

Date of grant	Number of employees	Shares under option as at 31 May 1999	Subscription price pence
02.12.98	6	375,000	107.0
26.02.99	1	75,000	95.5

Options shown above include those issued to directors which were 75,000 each to M Hoch, C Simnock and J Poster on 2 December 1998 and 75,000 to M Hoch on 26 February 1999. The market price of the shares as at 31 May 1999 was 107.0p. The highest and lowest price during the year ended 31 May 1999 was 136.5p and 93.5p respectively.

22. Contingent liabilities

The holding company has guaranteed the borrowings of its subsidiary undertakings totalling £319,000 (1998: £180,000).

23. Capital Commitments

	1999 £'000	1998 £'000
Contracts placed for future capital expenditure not provided in the accounts	—	21

24. Statement of consolidated cash flow

(a) **Reconciliation of operating profit to net cash inflow from operating activities**

	1999 £'000	1998 £'000
Operating profit	1,400	2,243
Depreciation charges	263	346
Effect of foreign exchange rate changes	(37)	(68)
Decrease in stocks	240	158
Decrease in debtors	279	100
Increase/(decrease) in creditors	5	(463)
Net cash inflow from continuing operations	2,150	2,316

(b) **Reconciliation of net cash outflow to movement in net funds**

	1999 £'000	1998 £'000
Decrease in cash in the period	(389)	(21)
Decrease in debt and lease financing	—	4
Change in net funds from cash flows	(389)	(17)
Effect of foreign exchange rate changes	16	36
Movements in net funds in period	(373)	19
Net funds at 1 June	73	54
Net (debt)/funds at 31 May	(300)	73

(c) **Analysis of net funds**

	1 June 1998 £'000	Cash flow £'000	Exchange movements £'000	31 May 1999 £'000
Cash at bank and in hand	73	163	8	244
Bank overdrafts and loans	—	(552)	8	(544)
Net (debt)/funds	73	(389)	16	300

25. FINANCIAL INSTRUMENTS

(a) Interest rate risk profile and maturity of financial liabilities

The currency profile of the group's net bank borrowings (financial liabilities) at 31 May 1999, which are all due for repayment within one year, is set out below:

	£'000
Sterling	(464)
Italian Lire	415
US Dollars	(241)
Other currencies	(10)
Total	(300)

These bank borrowings bear floating interest charges as set out in note 15.

(b) Fair value of financial assets and financial liabilities

There is no difference between the carrying amounts and the fair values of the group's financial assets and liabilities set out in (a) above as at 31 May 1999.

(c) Currency translation

As explained in the financial review set out on pages 12 and 13, the group's policy is to hedge its exposure in respect of foreign currency receivables and payables using financial instruments. Under the group's accounting policy, current assets and liabilities are translated at the rates inherent in those contracts. The valuation of foreign currency debtors and creditors thus effectively includes the gains or losses on the hedging instruments held in relation to trading up to the balance sheet date. This policy means that debtors have been valued at £51,000 in excess of any valuation using exchange rates ruling at the balance sheet date and creditors have been valued at exchange rates ruling at the balance sheet date. No value has been ascribed to hedging instruments in respect of future trading since there is no material difference between the rates inherent in there forward contracts relating to such trading and market rates at 31 May 1999.

(d) Financial instruments

The group only trades in financial instruments for the purpose of hedging its foreign currency exposures.

26. RELATED PARTY TRANSACTIONS

There were no related party transactions in the year ended 31 May 1999.

Notice is hereby given that the Annual General Meeting of Frank Usher Holdings Plc will be held at First Floor, Waverley House, 7–12 Noel Street, London W1V 4PQ on 28 October 1999 at 12.00 noon for the following purposes:

1. To receive and adopt the Reports of the Directors and the auditors and the financial statements for the year ended 31 May 1999.
2. To declare a final dividend of 4.0p net per ordinary share.
3. To re-elect J Hamer as a director.
4. To re-elect J Poster as a director.
5. To re-elect A Bruh as a director.
6. To re-appoint PricewaterhouseCoopers as auditors of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and that their remuneration be fixed by the directors.

To transact any other ordinary business of an Annual General Meeting and as special business to consider the following Resolutions, Resolution 7 being proposed as an Ordinary Resolution and Resolutions 8 and 9 as Special Resolutions:

7. That the directors be generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities as defined in Section 80 of the Companies Act 1985 ('the Act') up to an aggregate nominal amount of £105,375 provided that this authority shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the company or the date falling 15 months from the date of the passing of this Resolution, except that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred by this Resolution had not expired, and that this authority shall be in substitution for all previous authorities conferred upon the directors pursuant to Section 80 of the Act.
8. That the directors be empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred upon them by Resolution 7 as if Section 89(1) of the Act did not apply to any such allotment provided that such power shall be limited:
   (a) to the allotment of equity securities in connection with a rights issue or other offer in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all the ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them subject only to such exclusions or other arrangements as the directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws of any territory or the requirements of a regulatory body: and
   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal amount of £15,806

   and shall expire on whichever is the earlier of the conclusion of the next Annual General Meeting of the company or the date falling 15 months from the date of the passing of this Resolution, except that the company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this Resolution had not expired.
9. That the company be generally and unconditionally authorised, in accordance with Article 9 of its Articles of Association and Section 166 of the Act to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 5p each of the company on such terms and in such manner as the directors may from time to time determine provided that:
   (a) the maximum number of ordinary shares authorised to be purchased is 632,253;
   (b) the minimum price which may be paid for an ordinary share is 5p (exclusive of expenses and advance corporation tax, if any, payable by the company);
   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share of the company derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased (exclusive of expenses and advance corporation tax, if any, payable by the company); and
   (d) the authority conferred shall expire at the conclusion of the next Annual General Meeting of the company except that the company may, prior to such expiry, make a contract to purchase its own shares which will or may be completed or executed wholly or partly after such expiry.

BY ORDER OF THE BOARD
C SIMNOCK
Company Secretary
11 August 1999

Registered Office
100 The Broadway
West Hendon
London NW9 7AQ

NOTES

1. A member entitled to attend and vote at the meeting may appoint a proxy to attend and, on a poll, to vote instead of him. A proxy need not be a member.
2. A Form of Proxy is provided. To be valid, completed proxy forms must be received at the office of the company's Registrars, IRG plc, Balfour House, 390–398 High Road, Ilford, Essex IG1 1NQ, not less than forty eight hours before the time fixed for the meeting.
3. Completion of the Form of Proxy will not prevent a member from attending the meeting and voting in person.
4. There will be available for inspection at the registered office during normal business hours from the date of this Notice to the date of the Annual General Meeting, and at the place of the meeting for 15 minutes prior to and during the meeting, the following:
   (a) the Register of directors' interests in shares of the company: and
   (b) copies of directors' service contracts (other than contracts expiring or determinable by the company in less than one year).
5. The company specifies, pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, that only those shareholders registered in the register of members of the company as at 12.00 noon on 26 October 1999 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their respective names at that time. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Turnover	20.48	23.61	21.85	21.63	22.32
Operating profit	1.40	2.24	2.22	2.12	2.27
Profit before taxation	1.33	2.17	2.15	2.02	2.05
Profit after taxation (earnings)	0.85	1.47	1.44	1.28	1.36
Dividends	0.48	0.78	0.81	0.80	0.69
Retained earnings	0.37	0.69	0.62	0.49	0.67
Net cash	0.24	0.07	0.06	0.16	0.51
Bank borrowings	0.54	–	–	–	1.12
Shareholders' funds	6.04	6.52	6.29	5.51	4.59
Earnings per share (p)	12.7	20.1	19.7	18.1	19.7
Dividends per share (p)	8.0	11.0	11.0	11.0	10.0
Net assets per share (p)*	95.6	89.1	86.4	78.0	66.3
Average number of employees	168	209	202	210	198

* Net assets per share are based upon the net assets at the year end and the weighted average number of shares in issue during the year.

company advisers AND registered office

STOCKBROKERS
Collins Stewart & Co
21 New Street
Bishopsgate
London EC2M 4HR

SOLICITORS
Nabarro Nathanson
50 Stratton Street
London W1X 5FL

AUDITORS
PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
10 Bricket Road
St Albans
Herts AL1 3JX

BANKERS
HSBC Trade Services
HSBC Group
PO BOX 648
Poultry & Princes Street
London EC2P 2BX

National Westminster Bank plc
Mayfair Corporate Business Centre
PO BOX 2354
65 Piccadilly
London W1A 2PP

REGISTRARS AND TRANSFER OFFICE
IRG Plc
Balfour House
390–398 High Road
Ilford
Essex IG1 1NQ

COMPANY SECRETARY
Clive Simnock BA (HONS) ACA

REGISTERED OFFICE
100 The Broadway
West Hendon
London NW9 7AQ