HORACE SMALL APPAREL PLC

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ANNUAL REPORT AND ACCOUNTS 1993

CONTENTS

Horace Small Apparel was founded in 1937, and in its first year achieved a turnover of $18,000. Today, this same company has a turnover exceeding $100 million per annum, and has become one of the largest manufacturers and distributors of tailored uniforms, flame-resistant clothing and general work apparel in the United States.

During its 56 years, Horace Small has been widely recognised for the quality of its products, a continuing commitment to innovative design, unsurpassed levels of service and the development of strong and enduring relationships with its customers. These include Federal, State and Local Government agencies, national organisations, public safety institutions, security forces and an increasing number of major commercial and industrial groups.

Horace Small products are supplied through a nationwide network of independent dealers, company stores and a series of sophisticated uniform distribution programmes. The Horace Small brands are well recognised and highly demanded by uniform consumers.

Every day, more than one million people wear Horace Small clothing.

CHAIRMAN'S STATEMENT

J. COLIN KEITH

The company experienced a difficult and disappointing year in 1993. As a result, we have implemented measures to increase sales, reduce costs in all areas of our business and improve margins. Several management changes have been made.

This programme of improvements is reflected in one-time restructuring charges which caused the company to incur a net loss for the year. However, the benefits of the actions we have taken are already starting to be seen.

RESULTS

Sales for the year to 31st December 1993 totalled £71.8 million ($107.8m), an increase of 7 per cent in US dollar terms. Pre-tax profits were halved from £3.7 million ($6.5m) in 1992 to £1.9 million ($2.9m) in 1993 before exceptional restructuring charges of £4.4 million ($6.6m). Inclusive of these charges, the company incurred a net loss for the year of £2.3 million ($3.5m) compared with a profit after tax in 1992 of £3.4 million ($6.0m). The average exchange rate for the year was $1.502 to the pound compared with $1.767 in 1992, a movement of nearly 18 per cent. The basic loss per share was 7.4p (11.2c) compared with earnings per share in 1992 of 10.9p (19.3c). Without the effect of the restructuring charges, the earnings per share in 1993 would have been 5.4p (8.1c) compared with 10.9p (19.3c) last year.

In the light of the restructuring programme and the necessity of restoring an acceptable level of profitability, your board regrets that it is unable to recommend the payment of a final dividend for 1993.

REDUCED MARGINS

We were successful in raising sales by a larger amount than we achieved in 1992, but the reduction in our gross margins, before exceptional charges, from 33.9 per cent to 31.6 per cent and higher than expected operating expenses resulted in an unsatisfactory performance for the year. A wage rise in January, higher manufacturing costs and a flat performance from our retail outlets were the main causes; but we were also subject to cost increases in almost every other area of our operations. The high level of competitive activity severely limited the opportunities for price increases, although we did make some increases in the second half of the year. Other factors included the high start-up costs on new national accounts and the substantial work involved in preparing for the competitive rebidding of Federal Government contracts, which are expected to be awarded in 1994.

RESTRUCTURING CHARGE

Approximately 60 per cent of the total restructuring charge relates to retail store operations which the company is strategically reorganising for improved efficiency and profitability, including provisions for discontinued and obsolete inventory, redirection of marketing strategy, organisational changes and the closing of three unprofitable stores. The remainder of the charges relate to reducing costs in the manufacturing operations. The company is reconfiguring its production and sourcing strategy, relocating some production to lower cost sources and shortening manufacturing cycle and response times.

FINANCING

The company has received full support from its bank lender regarding the restructuring programme. Horace Small has entered into a new bank credit agreement with effect from 31st December, 1993 which formalises that support, increases its line of credit to $25 million and provides adequate working capital and credit facilities to support operations. The company's long term bank borrowings were £12.5 million ($18.5 million) at the end of 1993 compared with £10.2 million ($15.4 million) at the end of 1992.

THE FUTURE

The difficulties experienced in 1993 in part reflect the intensifying price competitiveness in all areas of the company's business. We believe that these conditions will continue and that we must reduce our costs and improve our operating efficiency in order to maintain our market position. We are all fully aware of the challenge and believe that the measures we are taking will lead to improved profitability and a more competitive company.

J. COLIN KEITH
CHAIRMAN

DOUGLAS A. SMALL

1993 turned out to be a difficult year, but we emerged with a more focused operating plan which emphasises our fundamental strengths.

We thought, at the beginning of the year, that the US economy was poised for expansion but, as the year unfolded, it became clear that, in our industry at least, this was not to be the case. While we could not change the economic situation, there were, of course, other areas more directly under our control. We made considerable efforts to increase our market share, managing to increase sales to a record level, but at the cost of reduced margins. The rise in sales was reassuring but it was clear that other steps would be necessary if we were to improve profitability. Thus, in the second half of the year, we undertook a detailed review of the group's operations.

IN-DEPTH ANALYSIS

Every aspect of our business has been examined, with particular emphasis on customer wants and needs, the status of our markets, the profitability of our product lines and expected standards of performance. We also analysed the quality of our organisation and its people, our systems' strengths and weaknesses, marketing strategies and manufacturing and purchasing costs.

FUNDAMENTALLY STRONG BUSINESS

This very detailed analysis helped underscore the fundamental strengths of our business; a broad-based customer profile encompassing key areas of US Federal Government, public safety organisations and diverse private sector markets; our products, which, from the point of view of design, functionality and wear properties, are superior to almost any other; a strong and supportive independent retail distributor base; and an experienced sales team who have achieved significant successes in 1993.

THE DIFFICULTIES

Our difficulties, it emerged, were concentrated in three major areas. In our retail stores, sales and gross margins did not reach their expected levels; while in manufacturing, our material, wage and fringe benefit costs had risen beyond our ability to pass them on. In the national accounts division, our success in winning major new contracts against intense competition resulted in increased sales but at reduced margins. Furthermore, our 1993 annual results were impacted by higher than anticipated start-up costs on these accounts and additional initial inventory needed to service these customers. In addition, excess capacity amongst our competitors forced down the bid prices on a number of key contracts.

Some price increases were implemented in the second half of the year; however, competitive pressures necessitated that they were selective and moderate. Furthermore, the price increases had only a modest impact in 1993 due to the level of pre-booked orders. While it is our intention to introduce further price increases in 1994, our most important priority is to implement cost reductions on purchased products and, within our operations, to help return margins to a satisfactory level. Every line item on our operating statement has been scrutinised for improvement opportunities; and the people needed to carry through the necessary programme of action have been empowered to discharge that responsibility.

MANAGEMENT CHANGES

The implementation of our plans necessitated key changes in our organisation. The first step in strengthening our management team had already been made at the end of 1992 with the appointment of Frank Armistead as Senior Vice President of Manufacturing. This was followed in July by the appointment of Dennis Johnson as Senior Vice President of our Retail Division, accompanied by a number of significant changes in the store group management. Dennis Johnson has 28 years of broad retail experience, including an outstanding career as Senior Vice President of the May Company, a highly successful department store chain in the United States.

"EVERY ASPECT OF OUR BUSINESS HAS BEEN EXAMINED"

We have also taken steps to safeguard the long-term future of our company by ensuring a steady supply of people with strong management potential. Helping in this process is Jeff Dentz, who joined us in November as Senior Vice President of Human Resources to recruit, select and train our management and other staff in a more cost-efficient manner, with an emphasis on internal development to fill our needs. Jeff Dentz brings to Horace Small 23 years experience in human resource management.

Other management changes directed at improving our organisation were made in the manufacturing area to support Frank Armistead and in the national account area as we move towards greater centralisation of responsibilities.

BUSINESS STRATEGIES

Several other initiatives were triggered by our business review. We are improving our manufacturing process to reduce costs; adopting a more centralised approach to purchasing, streamlining our supplier list to obtain better value; focusing our marketing and merchandising programs on particular sectors and products; scrutinising more closely the profitability of individual products, customers and distribution programs; improving inventory management and enhancing our procedures and systems.

We have already achieved some success in reducing our total inventory by £3.1m ($4.6m) before the effect of $1.6 million of inventory purchased in conjunction with the start-up of new national accounts. A further £2.0m ($3.0m) of discontinued and obsolete product lines have been written off within the restructuring charge.

CHALLENGES AND RELATIONSHIPS

Our employees have responded exceptionally well to the challenges of 1993, recognising that we continue to operate in a tough business environment, and displaying the decisive attitudes, resourcefulness and imagination that are needed to drive our business expansion.

Our success over the years has hinged upon our ability to build strong relationships with our customers, giving them the quality products they need and backing this up with service which is second to none. We believe our customers deserve this, and our reputation demands it.

THE FUTURE

The evaluation of our resources has confirmed that, in many essential areas, the company has a number of important strengths, providing a solid foundation on which to build for the future. The strong management team that we now have in place has developed a strategy for retail distribution that should bring improvements in 1994. Other aspects of the restructuring process, involving cost-cutting in manufacturing, are also enhancing our productivity.

"THE COMPANY HAS A NUMBER OF IMPORTANT STRENGTHS, PROVIDING A SOLID FOUNDATION ON WHICH TO BUILD FOR THE FUTURE"

The six federal government agency contracts we currently hold are all in the process of being re-bid during 1994. It is clearly important for the company to retain these contracts, and we have made what we believe to be very competitive proposals to have them re-awarded to us. We are also aggressively seeking new business in the national account area.

There are new proposals at both Federal and Local Government levels for increasing the number of police officers, which would benefit the company's business if they are implemented.

We believe 1993 was a year of transition and introspection. After evaluating the fundamental aspects of operating our business, we made the hard decisions necessary to improve for the future. We expect to see some immediate benefits in the current year, with a more significant improvement in 1995 once the changes now being implemented reach maturity.

Douglas Small

DOUGLAS A. SMALL
CHIEF EXECUTIVE

The manufacturing division will continue to require a concentrated effort to meet customer needs in the areas of cost and lead time. We are reconfiguring our manufacturing facilities and sourcing strategy as well as shortening manufacturing cycle times, thereby reducing overall costs.

INVENTORY REDUCTION

A major emphasis on manufacturing inventory was successful in 1993, reducing the value from its peak by approximately £0.8 million ($1.2m). To help accomplish this objective, it was necessary to close all factories for an extra week in July; although this had the effect of temporarily reducing plant efficiencies.

COST-CUTTING

It is essential that we continue with our cost-cutting exercises if we are to restore our margins. We have already consolidated two cutting rooms into one, and are midway into the implementation of a new fabric control system to ensure the most economic use of material during the marking, spreading and cutting process. Expansion of production at Bassfield has already begun with a view to doubling output and so reducing unit costs. We are analysing our purchasing in order to achieve further cost reductions.

NEW PRODUCTS

In February 1993, we introduced a new and improved "New Generation" washable wool material in partnership with Raeford Uniform Fabrics. Our 3-D poplin, "New Dimension", an exciting new premium public safety shirting, engineered with stretch for comfort and introduced at the beginning of the year, proved an instant success. We have also developed a highly specialised trouser for emergency medical technicians which provides them with strategically positioned pockets to accommodate essential medical equipment and remain readily accessible in typical field conditions.

In late January 1994, we unveiled our Quantum Outerwear System. Developed as the initial offering under our exclusive marketing agreement with Columbia Sportswear, the Quantum Outerwear System represents the latest technology in waterproof, breathable outerwear. Initial orders have far surpassed our expectations.

"INITIAL ORDERS HAVE FAR SURPASSED OUR EXPECTATIONS"

Full implementation of the restructuring program will take eighteen to twenty-four months. A continuation of the strong sales to independent retail customers and improved performance within our retail group will be necessary to maximise the benefits from these changes.

The national accounts division continues as one of our success stories.

In spite of the difficulties in the market as a whole, they achieved a sizable increase in sales compared with the previous year. Since we are already suppliers to many of the major federal government agencies, expansion opportunities exist largely in the private industry sector. It was therefore particularly pleasing to win three important new private sector accounts in industries in which we had not previously been represented. We were also very pleased that our largest contract, with Federal Express, was renewed in January 1993 for another five years.

NEW MARKETS

We entered three new markets in 1993 through new contracts with a major airline, one of America's top five auto rental companies and a leading bank group.

These are accounts of national significance and will add considerably to the company's prestige. Inevitably, there were high start-up costs but these are non-recurring. Furthermore, in spite of the need to add inventory to service these new accounts, we were still successful in reducing our overall inventory level within the division by £0.9 million ($1.4 million).

OPERATIONAL IMPROVEMENTS

Another example of the drive for greater efficiency is the establishment of a new and larger distribution centre at Memphis, Tennessee. Developed initially to handle the Federal Express programme, it now serves most of the business associated with the new national accounts. A number of organisational changes were made to provide better customer response and improve internal operating efficiencies. We fully expect that the improved service offered by these enhancements will play a significant part in securing additional new business.

"WE ARE AGGRESSIVELY TARGETING A LARGE NUMBER OF PROSPECTS"

The national accounts division has been subjected to the same close scrutiny as the others. For example, several low volume national accounts were found to be unprofitable and were discontinued. In their place, we are aggressively targeting a large number of prospects in both current and new markets. However, the majority of the new business from these initiatives is not expected to be signed until the second half of 1994.

Retail distribution through our own R&R stores has been the main focus of the restructuring process, improving their efficiency and re-directing their marketing strategy.

The process has also involved the elimination of discontinued and obsolete inventory, organisational changes and the closing of three unprofitable stores. Following these store closings, there will be 17 R&R stores, mostly located in the eastern half of the United States.

NEW MANAGEMENT TEAM

Dennis Johnson, the senior vice president in charge of retail operations, has assembled a dynamic new management team with experience in the retail store business. The team has identified the key actions necessary to improve profits in our stores and increase the level of responsiveness to customers. Already we are seeing the positive effects of these new initiatives and are confident that they will result in a turnaround in the fortunes of the retail sector.

We intend to renew our store acquisition programme, but only when we are satisfied that profit levels and overall retail performance have reached the desired target levels. Although two independent retail outlets were acquired during the year, in order to service the market on a more cost-efficient basis, these stores were immediately closed and their customers transferred to existing R&R stores within the same market area.

RETAIL COMPUTER SYSTEM

A sophisticated retail store management information system, announced last year, has now been running for several months in five of our stores. The project is right on schedule and budget. Implementation throughout all stores is expected to be completed by early 1995.

The system is designed to cover store operations from receipt of product through to final sale, streamlining various aspects of store management such as stock control, product distribution and general reporting. It will provide the systems support to help us reduce inventory levels, improve margins, facilitate centralised purchasing and provide better service for our customers.

"WE ARE SEEING THE POSITIVE EFFECTS OF THESE NEW INITIATIVES"

The overall focus of our restructuring programme is to develop and implement stronger and more centralised controls in purchasing, inventory management, and sales and marketing direction. The stores which we have acquired in recent years from individual owners have lacked a coherent strategy. The restructuring programme should ensure that they become a more efficient and tightly controlled business unit.

The directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December, 1993.

Activities

The company's principal operating subsidiary undertaking, Horace Small Manufacturing Company ("Horace Small"), and its subsidiary undertakings together are integrated manufacturers and distributors of fitted uniforms and corporate clothing as well as being distributors of accessories and equipment. Horace Small serves US Federal (non-military), State and Local Government agencies, a number of safety and security work forces and a range of large and small corporations.

A detailed review of the business and future prospects is contained in the Chairman's Statement, the Chief Executive's Review and the divisional reviews on pages 2 to 9.

Results

The results for the year are set out in the profit and loss account. After exceptional restructuring charges totalling £4,379,000 (1992 - £nil) the loss after taxation amounted to £2,318,000 (1992 - profit £3,404,000).

Dividends and transfers to reserves

An interim dividend of 1.0p per share (net) (1992 - 1.0p) was paid on 24th November, 1993. The directors are not recommending the payment of a final dividend (1992 - 2.0p).

The loss for the year of £2,630,000 (1992 - retained profit £2,469,000) has been transferred to reserves.

Fixed assets

Changes in the fixed assets of the group are shown in note 9 to the accounts.

Substantial interests

At the date of this report the company has been notified of the following substantial interests in the shares of the company:

	No. of shares	%
Second Consolidated Trust PLC	4,083,110	13.1
Seaway Ltd*	3,501,000	11.2
North Atlantic Smaller Companies Investment Trust PLC*	3,500,000	11.2
Provident Mutual Managed Pension Fund Limited	2,440,000	7.8
Douglas Small	2,243,612	7.2

*The beneficial owner is a client of a subsidiary of JO Hambro & Company Limited, such subsidiary acting in its capacity as discretionary fund manager.

The company has been informed that, in total, JO Hambro & Company Limited, through certain subsidiaries acting in their capacity as discretionary fund managers, have an interest in 7,005,000 shares representing 22.5% of the issued share capital.

In addition, the company has been informed that the Bank of New York, in its capacity as Depositary Agent for the company's American Depositary Receipt programme, holds a total of 9,673,559 shares representing 31.0% of the issued share capital.

DIRECTORS' REPORT

Directors and directors' interests

The directors who held office during the year, together with their beneficial interests in the share capital of the company, are set out below:

	Ordinary Shares of 5p each	
	At 31st December 1993	At 31st December 1992 or at date of appointment, if later
Colin Keith (Chairman)	–	–
Douglas Small	2,243,612	2,243,612
Richard Vacek	27,435	27,439
Robert Gates	156,789	156,789
The Hon. William Eberle	–	–
Christopher Mills	35,000	35,000
James Morton	10,000	10,000
Irvin Small	75,000	75,000

Since the year end, the Company has been informed that Christopher Mills has purchased 65,000 shares and James Morton has purchased 135,000 shares. There have been no other changes in the holdings shown above.

Colin Keith was appointed a director on 23rd April, 1993 and became chairman on 25th June, 1993.

Mark Vaughan-Lee resigned as a director on 25th June, 1993.

Details of options granted to the directors under the company's share option schemes are set out in note 16. At the date of this report there have been no changes in the number of options held by the directors or their exercise prices.

In accordance with the Articles of Association, Robert Gates and James Morton retire by rotation and, being eligible, offer themselves for re-election. Robert Gates has a contract of service with Horace Small which is terminable on the giving of not more than one year's notice. James Morton does not have a contract of service with any company in the group.

Other than as disclosed in note 21 to the accounts, no director is or was materially interested in any contract subsisting during or at the end of the year that was significant to the group's business.

Annual General Meeting

The directors will propose three resolutions at the forthcoming Annual General Meeting which would, if passed, grant them the authority to allot shares and authorise the company to purchase its own shares.

Resolution 5 on the agenda of the Annual General Meeting is an ordinary resolution to give the Board authority to allot relevant securities up to an aggregate nominal amount of £675,242.

Resolution 6 is a special resolution which would give the directors power to disapply the statutory pre-emption rights under section 95 of the Companies Act 1985 thus overcoming certain technical difficulties that may arise in connection with a rights issue or grant of options. It also permits issues of the company's share capital for cash, other than pro-rata to shareholders, of up to an aggregate nominal value of £77,913. This represents approximately 5% of the ordinary share capital currently in issue.

Resolution 7 is a special resolution to authorise the company to buy back its own shares. No purchases will be made unless the effect is expected to increase earnings per share and the directors consider the purchases to be in the interests of shareholders generally. The proposed authority will be limited by the terms of the resolution to purchases of up to 3,116,502 ordinary shares (representing approximately 10% of the issued share capital of the company) made through The Stock Exchange at prices not exceeding 105% of the average of the middle market quotations derived from The Stock Exchange Daily Official Listing for the ten business days before each purchase.

Charitable donations

Charitable donations made by the group during the year amounted to £21,000 (1992 - £18,000).

Insurance of directors and officers

As permitted by the Companies Act 1985, the company has taken out indemnity insurance in respect of its directors and officers.

Close company status

So far as is known the company is not, and has not been, a close company as defined by the Income and Corporation Taxes Act 1988.

Auditors

A resolution concerning the reappointment of Arthur Andersen as auditors will be proposed at the forthcoming Annual General Meeting.

Masters House
107 Hammersmith Road
London W14 0QH
17th March, 1994

Paul G Dumond

By order of the Board
Paul G. Dumond
Secretary

Directors' Statement

Following the publication in December 1992 of the Code of Best Practice by the Committee on the Financial Aspects of Corporate Governance, the Board has reviewed the company's compliance during the year ended 31st December 1993. The Code covers four broad areas, namely the composition and procedures of the Board of Directors, the appointment and role of non-executive directors, the service contracts and pay of executive directors and the directors' responsibilities with respect to financial reporting and controls. The Code contains nineteen specific provisions in respect of these four areas.

The company has complied with those paragraphs of the Code which came into effect on 1st July 1993 with the following exceptions:

1. Non-executive directors are not appointed for specific terms. However, the board periodically reviews their performance and effectiveness.
2. The board has, for a number of years, reserved certain matters to it for decision but these were not set out on a formal schedule as required by the Code. Such a schedule has now been adopted by Board Resolution.
3. Similarly, procedures for directors to take independent advice and for the selection of new directors via a formal process have been in existence over an extended time period but were not formally documented as required under the Code. These have also now been formalised by Board Resolution.

Until guidance for directors is finalised on statements relating to the effectiveness of internal control and the company's status as a going concern, the directors will not report in relation to paragraphs 4.5 and 4.6 of the Code.

Review Report by the Auditors

In addition to our audit of the accounts we have reviewed the above directors' statement concerning the company's compliance with the Code of Best Practice, insofar as it relates to the paragraphs of the Code, which the London Stock Exchange has specified for our review. We carried out our review having regard to the Bulletin "Disclosures relating to corporate governance" issued by the Auditing Practices Board.

The purpose of the directors' statement is to give readers information which assists them in forming their own views regarding the governance of the company. In respect of the paragraphs of the Code specified for our consideration we are required to draw attention to any aspects of the company's non-compliance with the Code which the directors have not properly disclosed. We are not required to review, and have not reviewed, the effectiveness of the company's governance procedures.

Through enquiry of directors and officers of the company, and examination of relevant documents, we have satisfied ourselves that the directors' statement appropriately reflects the company's compliance with the specified paragraphs of the Code.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
London

17th March, 1994

DIRECTORS' RESPONSIBILITY STATEMENT AND AUDITORS' REPORT

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

The directors are required to present for each accounting period financial statements which comply with the provisions of the Companies Act 1985 and give a true and fair view of the state of affairs of the group and the company as at the end of the accounting period and of the profit or loss for that period. In preparing the financial statements, suitable accounting policies, framed by reference to reasonable and prudent judgements and estimates, have to be used and applied consistently. Applicable accounting standards also have to be followed, subject to any material departures being disclosed and explained in the notes to the accounts. The directors are required 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 are also responsible for maintaining adequate accounting records so as to enable them to ensure the safeguarding of the assets of the group, and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT

To the members of Horace Small Apparel PLC

We have audited the financial statements on pages 15 to 31 which have been prepared under the historical cost convention and the accounting policies set out on pages 19 and 20.

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

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

We planned and perfo ed our audit so as to obtain all the information and explanations which we considered necessar n 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 group as at 31st December, 1993 and of the group's loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
London

17th March, 1994

GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1993

	Notes	1993 £000	1992 £000
Turnover	1	71,774	57,053
Cost of sales:			
Normal		(49,093)	(37,698)
Restructuring charge	2	(3,605)	–
Gross profit		19,076	19,355
Distribution costs:			
Normal		(10,493)	(8,338)
Restructuring charge	2	(774)	–
Administrative expenses		(9,491)	(7,023)
Other operating income		95	75
Operating (loss)/profit	3	(1,587)	4,069
Interest receivable and similar income		74	241
Interest payable and similar charges	5	(923)	(659)
(Loss)/Profit on ordinary activities before taxation		(2,436)	3,651
Taxation on (loss)/profit on ordinary activities	6	118	(247)
(Loss)/Profit on ordinary activities after taxation		(2,318)	3,404
Dividends paid	7	(312)	(935)
Retained (loss)/profit for the year		(2,630)	2,469
(Loss)/Earnings per share:			
Basic (loss)/earnings per share	8	(7.4)p	10.9p
Adjustment for restructuring charges		12.8p	–
Adjusted earnings per share	8	5.4p	10.9p
Average exchange rate applied	£1=	$1.502	$1.767

Movements on reserves are set out in note 17.

The accompanying notes are an integral part of these accounts.

GROUP BALANCE SHEET
AT 31ST DECEMBER, 1993

	Notes	1993 £000	1992 £000
Fixed assets			
Tangible assets	9	9,971	8,987
Current assets			
Stocks	11	20,993	24,462
Debtors	12	12,567	12,174
Cash at bank and in hand		1,517	2,462
		35,077	39,098
Creditors: amounts falling due within one year	13	(14,250)	(15,867)
Net current assets		20,827	23,231
Total assets less current liabilities		30,798	32,218
Creditors: amounts falling due after more than one year	14	(13,759)	(12,554)
Provisions for liabilities and charges	15	—	(361)
Net assets		17,039	19,303
Capital and reserves			
Called up share capital	16	1,558	1,558
Share premium account	17	18,438	18,438
Other reserves	17	(1,964)	(2,349)
Profit and loss account	17	(993)	1,656
Total capital employed		17,039	19,303
Year end exchange rate applied	£1=	$1.480	$1.514

As approved by a meeting of the Board on 17th March, 1994.

J. Colin Keith } Directors
Douglas A. Small }

J C Keith
Douglas Small

The accompanying notes are an integral part of these accounts.

COMPANY BALANCE SHEET
AT 31ST DECEMBER, 1993

	Notes	1993 £000	1992 £000
Fixed assets			
Investments	10	43,953	43,810
Current assets			
Debtors	12	23	223
Cash at bank and in hand		54	203
		77	426
Creditors: amounts falling due within one year	13	(328)	(1,224)
Net current liabilities		(251)	(798)
Net assets		43,702	43,012
Capital and reserves			
Called up share capital	16	1,558	1,558
Share premium account	17	18,438	18,438
Other reserves	17	17,296	17,296
Profit and loss account	17	6,410	5,720
Total capital employed		43,702	43,012

As approved by a meeting of the Board on 17th March, 1994.

J. Colin Keith } Directors
Douglas A. Small }

J C Keith
Douglas Small

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31ST DECEMBER, 1993

	1993 £000	1992 £000
(Loss)/profit on ordinary activities after taxation	(2,318)	3,404
Currency translation differences on foreign currency net investments	385	3,331
Total gains and losses recognised since last annual report	(1,933)	6,735

The accompanying notes are an integral part of these accounts.

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 1993

	Notes	1993 £000	1992 £000
Net cash inflow from operating activities	23	3,988	1,019
Returns on investments and servicing of finance			
Interest received		75	240
Interest paid		(1,155)	(856)
Dividends paid		(935)	(935)
Net cash outflow from returns on investments and servicing of finance		(2,015)	(1,551)
Taxation			
UK corporation tax paid (including ACT)		(447)	(533)
Overseas tax paid		–	(7)
Total tax paid		(447)	(540)
Investing activities			
Purchase of tangible fixed assets		(1,439)	(647)
Consideration arising on acquisitions during the year and in earlier periods	23	(1,156)	(1,954)
Sale of tangible fixed assets		43	1
Net cash outflow from investing activities		(2,552)	(2,600)
Net cash outflow before financing		(1,026)	(3,672)
Financing			
Proceeds of borrowings		7,924	4,623
Repayments of borrowings		(7,820)	(2,153)
Capital element of finance lease rental payments		(39)	(32)
Net cash inflow from financing	23	65	2,438
Decrease in cash and cash equivalents	23	(961)	(1,234)

The accompanying notes are an integral part of these accounts.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention and in accordance with applicable Accounting and Financial Reporting Standards. The following paragraphs describe the principal policies, all of which have been applied consistently throughout the current and preceding years.

The accounting policies of some overseas subsidiary undertakings do not conform with UK Accounting Standards and, where appropriate, adjustments are made on consolidation in order to present the group accounts on a consistent basis.

Basis of consolidation

The group accounts include the accounts of the company and all of its subsidiary undertakings at any time during the financial year. All group undertakings make up their accounts to 31st December annually. The results of subsidiary undertakings and businesses acquired during the year are included from the date of acquisition. The results of subsidiary undertakings and businesses disposed of during the year are included to the date of their disposal. Goodwill arising on consolidation is written off to reserves on acquisition.

By virtue of Section 230(4) of the Companies Act 1985, the company is exempt from presenting a profit and loss account.

Turnover

Turnover comprises invoiced sales of fitted uniforms, corporate clothing, accessories and equipment, excluding US sales taxes. Advances on contract sales are recorded as deferred income and released to turnover only when the goods are dispatched.

The directors are of the opinion that the group operates in one unified segment, the manufacture of uniforms and the distribution of uniforms and accessories. All turnover arose in the United States of America. Turnover by destination is not materially different from that by origin.

Tangible fixed assets

Property and equipment are stated at cost.

Depreciation and amortisation is provided in order to write off assets on a straight line basis over their estimated useful lives as follows:

Buildings and leasehold improvements	25 years
Plant, machinery and vehicles	4 to 10 years
Furniture, fixtures and fittings	5 to 10 years
Freehold land is not depreciated	

Leases

Assets held under finance lease are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate.

Annual rentals payable in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Investments

Fixed asset investments are shown at cost less amounts written off. No provision is made for temporary fluctuations in value. Income is included in the accounts for the year in which it is receivable.

Stocks

Stocks are valued at the lower of first-in first-out cost and net realisable value. The valuation of work-in-progress and finished goods includes the cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

Deferred taxation

Provision is made, at rates expected to be in force at the time of reversal, for taxation deferred in respect of all material timing differences to the extent that, in the opinion of the directors, there is a reasonable probability that the liability will arise in the foreseeable future (the liability method).

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are converted at the rate of exchange ruling at the date of the transaction or translated at the year end rate in the case of transactions not then finalised. Assets and liabilities denominated in foreign currencies at the year end are expressed in sterling at the rate of exchange ruling at that date. The results of United States subsidiary undertakings have been translated into sterling at the average rate of exchange for the year.

Currency adjustments are included in trading profits except that the difference arising on the retranslation of the group's share of the net assets of overseas subsidiary undertakings at the beginning of the year, or on acquisition if later, is treated as a movement on reserves.

Pensions

Entry to the pension scheme was closed during the year and there is no longer a regular pension cost charged to the profit and loss account. Independent actuarial valuations on a going concern basis are carried out annually and the resultant actuarial surplus or deficit is spread in the profit and loss account over the average remaining service lives of employees, currently estimated at 11.46 years.

2. RESTRUCTURING CHARGES

The group has embarked upon a programme to restructure its operations, the expected total cost of which has been provided for in these accounts as exceptional items.

Of the total restructuring charge of £4,379,000 ($6,577,000), £3,605,000 ($5,415,000) has been included in cost of sales and £774,000 ($1,163,000) has been incorporated within operating expenses. Approximately 60% of the total relates to retail store operations which the group is strategically restructuring for improved efficiency and profitability. This restructuring of store operations necessitated provisions for discontinued and obsolete inventory, redirection of marketing strategy, organisational changes, and closings of unprofitable stores.

The remainder of the charges relate to manufacturing operations in which the group will reconfigure its production and sourcing strategy by relocating some production to lower cost sources and by improving manufacturing cycle and response time, thereby reducing overall costs. The group believes that these steps will enhance Horace Small's prospects for a return to improved levels of profitability.

3. OPERATING (LOSS)/PROFIT

	1993 £000	1992 £000
This is stated after charging:		
Auditors' remuneration	74	66
Other fees paid in the UK to the auditors	6	8
Depreciation of tangible fixed assets:		
Owned	469	324
Held under finance leases	161	133
Loss on disposal of tangible fixed assets	1	6
Hire of plant and machinery and motor vehicles under operating leases	230	175
Payments under operating leases – premises	991	774

In conjunction with the increased focus on divisional and unit profitability, certain overheads are now being allocated more rigorously across the various operations. The analysis of corresponding figures for distribution costs and administrative expenses in the prior year has been revised accordingly for consistency.

4. EMPLOYEES

	1993	1992
The weekly average number of employees was made up as follows:	Number	Number
Production	720	696
Warehousing and distribution	454	442
Sales	154	151
Administration	37	30
	1,365	1,319

All employees, including executive directors, are employed in the United States.

Staff costs during the year comprised:	£000	£000
Salaries and wages	17,921	14,380
Social security costs	1,940	1,390
Other pension (credits)/costs	(53)	76
	19,808	15,846

Staff costs include directors' emoluments as follows:	£000	£000
Fees	32	30
Other emoluments (including pension contributions)	627	496
Executive directors' prior year performance related bonuses (see below)	38	20
Remuneration waived by three directors	–	(32)
	697	514

The emoluments of the chairman, Colin Keith, totalled £21,831 (1992 – nil) including £2,372 prior to his appointment as chairman. The emoluments of the former chairman, Mark Vaughan-Lee, totalled £14,583 (1992 – £30,000). The emoluments of the highest paid director in the year totalled £298,825 (1992 – £221,583).

The emoluments of all directors, excluding pension contributions and any waived emoluments, fell within the following ranges:

	1993 Number	1992 Number
£5,001 - £10,000	3	3
£10,001 - £15,000	1	–
£20,001 - £25,000	1	–
£25,001 - £30,000	1	2
£90,001 - £95,000	–	1
£95,001 - £100,000	–	1
£135,001 - £140,000	1	–
£145,001 - £150,000	1	–
£220,001 - £225,000	–	1
£295,001 - £300,000	1	–

Executives' performance related bonuses

The executive directors, excluding Douglas Small, are entitled to participate in the management bonus pool which is available to all of the group's senior management. The level of each director's bonus is directly related to the profitability of the group, after adjustment for certain specified items, and to his

4. EMPLOYEES (continued)

performance compared with individual achievement goals. The level of participation in the bonus pool is at the discretion of the remuneration committee and is determined in the year following the year to which the bonus relates.

All of the executive directors are also entitled to participate in any bonus which may become payable under the arrangements detailed in note 21, the level of participation being determined by the board of the principal operating subsidiary, Horace Small Manufacturing Company, at their discretion.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1993 £000	1992 £000
Interest on loans repayable within five years, by instalments	900	636
Interest on finance leases	23	12
Other interest	–	11
	923	659

6. TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	1993 £000	1992 £000
UK Corporation tax at 33%	246	497
US taxation:		
State taxes	–	7
Deferred taxation	(364)	(257)
Total US tax credit	(364)	(250)
Total tax (credit)/charge	(118)	247

At 31st December, 1993 the group had tax losses of approximately $19.7 million (1992 - $15.3 million) available for offset against future profits subject to United States Federal taxation. The losses begin to expire in 2005.

The group's tax returns for prior years are presently under review by the Internal Revenue Service ('IRS'). The group has been informed by the IRS of its decision to deny certain deductions claimed by the group. In the event the IRS position is fully sustained the effect to the group would be to reduce the tax loss carry forwards at 31st December 1993 from $19.7 million to $10.4 million. There would be no impact to the group's present cash position or previously reported earnings.

The IRS' decisions have been appealed by the group. Based on settlement negotiations currently underway, the group believes that the matter will be ultimately settled at an amount lower than the deductions denied by the IRS.

7. DIVIDENDS PAID

	1993 £000	1992 £000
Interim dividend of 1.0p per share (net) (1992 – 1.0p)	312	312
1992 Final dividend of 2p per share (net)	–	623
	312	935

8. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on losses after tax of £2,318,000 (1992 – profit £3,404,000) and on the average number of ordinary shares in issue during the year of 31,165,025 (1992 – 31,165,025).

The adjusted earnings per share is based on adjusted profits after tax of £1,697,000 after excluding exceptional, non-recurring restructuring charges totalling £4,379,000, net of a related taxation credit of £364,000.

9. TANGIBLE ASSETS

The Group

	Freehold property £000	Long leasehold property £000	Plant machinery & vehicles £000	Furniture fixtures & fittings £000	Total £000
Cost					
At 1st January, 1993	1,389	5,472	2,313	979	10,153
Additions	1	259	928	251	1,439
Disposals	–	–	(29)	(23)	(52)
Exchange movement	32	130	67	26	255
At 31st December, 1993	1,422	5,861	3,279	1,233	11,795
Depreciation					
At 1st January, 1993	28	320	609	209	1,166
Charge for the year	10	134	371	115	630
Disposals	–	–	(3)	(5)	(8)
Exchange movement	1	9	20	6	36
At 31st December, 1993	39	463	997	325	1,824
Net book value					
At 31st December, 1993	1,383	5,398	2,282	908	9,971
At 31st December, 1992	1,361	5,152	1,704	770	8,987
Leased assets included in the above:					
Net book value					
At 31st December, 1993	–	5,398	58	–	5,456
At 31st December, 1992	–	5,152	84	–	5,236

Freehold property includes freehold land with a book value of £1,095,000 (1992 – £1,070,000) which is not being depreciated. Long leasehold property includes land, with a book value of £1,914,000 (1992 – £1,871,000), which is not being depreciated as the group has an option to acquire the freehold of the property for a nominal sum at any time prior to the year 2008.

10. FIXED ASSET INVESTMENTS

	The Company 1993 £000	The Company 1992 £000
Investment in subsidiary undertakings at cost	21,600	21,600
Long term loans to subsidiary undertakings	22,353	22,210
	43,953	43,810
Movements in the year comprise:		
(Decrease)/Increase in loans to subsidiary undertakings	(364)	74
Increase in provision against carrying values	–	(156)
Exchange movement on long term loans	507	4,216
	143	4,134

The company's principal subsidiary undertakings are set out below:

Company	Proportion and class of shares held	Country of incorporation and operation	Principal activity during the year
Horace Small Holdings Corporation*	100% common stock	USA	Holding company
Horace Small Manufacturing Company**	100% common stock	USA	Manufacture and distribution of fitted uniforms and corporate clothing
Greenbrier Garment Company***	100% common stock	USA	Manufacture of fitted uniforms and corporate clothing
R&R Uniforms, Inc. ***	100% common stock	USA	Distribution of uniforms
R&R Uniforms of Florida, Inc.****	100% common stock	USA	Distribution of uniforms

* Held by Horace Small Apparel PLC.
** Held by Horace Small Holdings Corporation.
*** Held by Horace Small Manufacturing Company.
**** Held by R&R Uniforms, Inc.

11. STOCKS

	The Group	
	1993 £000	1992 £000
Raw materials	1,904	2,362
Work-in-progress	1,112	1,339
Finished goods	17,977	20,761
	20,993	24,462

These comprise stocks of uniforms, clothing and accessories held for resale. The replacement cost of stock is not considered to be materially different from the balance sheet value.

12. DEBTORS

	The Group		The Company	
	1993 £000	1992 £000	1993 £000	1992 £000
Amounts falling due within one year:				
Trade debtors	11,839	11,383	–	–
Amounts owed by subsidiary undertakings	–	–	8	5
Other debtors	78	154	–	1
Value added tax recoverable	4	7	4	7
Prepayments and accrued income	385	400	11	2
	12,306	11,944	23	15
Amounts falling due after more than one year:				
Advance corporation tax recoverable	–	208	–	208
Other debtors	21	22	–	–
Prepayments and accrued income	240	–	–	–
	261	230	–	208
	12,567	12,174	23	223

13. CREDITORS: amounts falling due within one year

	The Group		The Company	
	1993 £000	1992 £000	1993 £000	1992 £000
Obligations under finance leases	51	43	–	–
Bank loans	–	1,978	–	–
Payments received on account	728	1,394	–	–
Trade creditors	5,622	5,700	–	–
Amounts owed to subsidiary undertakings	–	–	137	39
Other creditors – secured (note 14)	851	975	–	–
– unsecured	615	508	–	–
UK corporation tax	2	185	2	185
Advance corporation tax	84	311	84	311
Overseas tax	367	359	–	–
Proposed dividend	–	623	–	623
Accruals	5,930	3,791	105	66
	14,250	15,867	328	1,224

14. CREDITORS: amounts falling due after more than one year

	The Group	
	1993 £000	1992 £000
Obligations under finance leases:		
Payable over one to two years	23	46
Payable over two to five years	29	37
Payable over five years	123	134
Bank loans:		
Payable over two to five years	12,519	10,156
Other creditors:		
Payable over one to two years	869	1,009
Payable over two to five years	–	849
Payable over five years	196	196
Accruals	–	127
	13,759	12,554

The bank loans comprise a revolving credit facility from the Third National Bank in Nashville, Tennessee. The facility is unsecured and bears interest at the group's option, at either the bank's base rate plus 0.25% or US dollar LIBOR plus 2.75%. The loan matures on 1st January, 1996.

Other creditors includes an amount of £1,014,000 (1992 – £1,823,000), which is secured on property leased by Horace Small and on an associated title insurance policy. In addition to this amount the secured element of "Other creditors falling due within one year" is secured by the same assets.

15. PROVISIONS FOR LIABILITIES AND CHARGES

	The Group
	£000
Deferred US taxation:	
At 1st January, 1993	361
Exchange movement	3
Transfer to the profit and loss account	(364)
At 31st December, 1993	–

No deferred taxation has been provided due to the availability of tax losses to offset reversals of other short term timing differences and the excess of the book value of tangible assets over their tax value.

There is no potential liability for deferred taxation due to the availability of tax losses.

16. CALLED UP SHARE CAPITAL

(a) Share Capital

This comprises ordinary shares of 5 pence each as follows:

	Authorised		Allotted, called up and fully paid	
	No. of shares	£000	No. of shares	£000
At 1st January, 1993 and at 31st December, 1993	45,000,000	2,250	31,165,025	1,558

(b) Options

The following options, granted under the UK Executive Share Option Scheme and the US Stock Option Plan, were outstanding at 31st December:

	Date of Grant	Price per fully paid share	1993 Number of ordinary shares	1992 Number of ordinary shares
Directors:				
Colin Keith	13th July, 1993	70p	400,000	–
Douglas Small	30th May, 1990	125p	550,000	550,000
Richard Vacek	30th May, 1990	125p	100,000	100,000
	24th September, 1992	70p	20,000	20,000
Robert Gates	30th May, 1990	125p	100,000	100,000
	24th September, 1992	70p	20,000	20,000
William Eberle	30th May, 1990	125p	100,000	100,000
Christopher Mills	30th May, 1990*	125p	400,000	400,000
James Morton	30th May, 1990	125p	100,000	100,000
Irvin Small	3rd November, 1992	72p	100,000	100,000
Other personnel:	30th May, 1990*	125p	155,000	955,000
	30th May, 1990	125p	197,500	222,500
	24th October, 1990	105p	–	25,000
	26th June, 1992	86p	113,250	131,750
	30th November, 1992	81p	50,000	50,000
	6th July, 1993	79p	50,000	–
	8th November, 1993	64p	50,000	–
			2,505,750	2,874,250

16. CALLED UP SHARE CAPITAL (continued)
Options granted under the company's US Stock Option Plan may be exercised between the third and tenth anniversaries of the date of grant.

*Options granted under the company's UK Executive Share Option Scheme may be exercised between the third and seventh anniversaries of the date of grant.

No options were exercised during the year. Options held by Mark Vaughan-Lee to acquire up to 400,000 shares lapsed upon his resignation as a director. Options held by other personnel to acquire up to 468,500 shares lapsed during the year.

17. RESERVES

	Share Premium £000	Exchange Translation £000	Profit and Loss Account £000	Total £000
Group				
At 1st January, 1993	18,438	(2,349)	1,656	17,745
Loss for the year	–	–	(2,318)	(2,318)
Dividends	–	–	(312)	(312)
Goodwill arising on acquisitions	–	–	(19)	(19)
Currency translation gain	–	385	–	385
At 31st December, 1993	18,438	(1,964)	(993)	15,481

	Share Premium £000	Special Reserve £000	Profit and Loss Account £000	Total £000
Company				
At 1st January, 1993	18,438	17,296	5,720	41,454
Profit for the year	–	–	1,002	1,002
Dividends	–	–	(312)	(312)
At 31st December, 1993	18,438	17,296	6,410	42,144

At 31st December, 1993 the profit and loss account of the company included £5,825,000 (1992 – £5,318,000) of unrealised exchange gains on the translation of loans denominated in US dollars due from subsidiary undertakings. Accordingly, the distributable reserves of the company at 31st December, 1993 totalled £585,000 (1992 – £402,000).

Of the group loss for the year, a profit of £1,002,000 (1992 – £5,200,000) has been dealt with in the accounts of the company.

At 31st December, 1993 the cumulative amount of goodwill, resulting from acquisitions, which had been written off to reserves, net of goodwill attributable to subsidiary undertakings of businesses disposed of, amounted to £22,289,000 (1992 – £22,270,000).

The goodwill written off during the year arose in connection with the purchase of a business and certain assets from a customer. The consideration amounted to £142,000, including £123,000 in respect of stock.

NOTES TO THE ACCOUNTS

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	The Group	
	1993 £000	1992 £000
(Loss)/Profit on ordinary activities after taxation	(2,318)	3,404
Dividends	(312)	(935)
	(2,630)	2,469
Currency translation differences on foreign currency net investments	385	3,331
Goodwill written off	(19)	(412)
Net movement of shareholders' funds	(2,264)	5,388
Shareholders' funds at the beginning of the year	19,303	13,915
Shareholders' funds at the end of the	17,039	19,303

19. OPERATING LEASE COMMITMENTS

Commitments under leases to pay rentals during the year following the year of these accounts, analysed by year of expiry of each lease, are given in the tables below:

	1993 £000	1992 £000
Operating leases – land and buildings:		
Within one year	43	38
From two to five years	496	501
Over five years	319	269
	858	808
Operating leases – other assets:		
Within one year	43	19
From two to five years	134	126
	177	145

20. CAPITAL COMMITMENTS

Authorised capital commitments at 31st December, 1993 totalled £1,875,000 (1992 – £1,185,000), of which £104,000 (1992 – £nil) had been contracted for but not provided in these accounts.

21. ACQUISITION AGREEMENTS

Under the terms of the bonus pool agreement between Horace Small, Richard Vacek, Douglas Small and Robert Gates, a bonus, payable in 1997 (or earlier following certain specified events), is due to certain Horace Small employees. The bonus is equal to 20 per cent of the excess aggregate profits of that company (as defined in the agreement) over $55 million arising in the period 1st January, 1990 to 31st December, 1996, such bonus not to exceed $12 million. The eligible employees are to be nominated by the board of Horace Small at its discretion and Douglas Small is entitled to receive not more than 60 per cent of the bonus pool. The adjusted cumulative profits on which the bonus may become payable totalled $11,993,000 at 31st December, 1993 (1992 – $16,842,000). No provision for this contingent bonus has been made in these accounts.

The agreement was approved by the shareholders of the company on 3rd May, 1990.

22. PENSION AND SAVINGS PLAN ARRANGEMENTS

(a) Horace Small operates a funded defined benefit pension scheme for certain US employees.

Entry to this scheme was closed on 30th June 1993; however, previous contributions remain in the trust funds to pay vested retirement benefits. The group plans to make no contributions to the pension scheme in the future, unless independent professionally qualified actuaries, in their annual review of the scheme, determine a payment is necessary to fund vested benefits.

The pension cost and related prepayment are assessed in accordance with the advice of the actuaries under the principles of US Accounting Standards. The projected unit credit actuarial cost method is used to determine the normal cost of the pension plan and estimate pension benefit obligations. In the most recent actuarial valuation the main assumptions were that (a) salaries would increase by 6.0% p.a., (b) pensions in payment remain constant, and (c) the return on scheme investments would be 8.0% p.a.

The market value of the assets of the scheme at 31st December 1993 was £3,416,000 (1992 – £3,300,000) and the actuarial value of the assets was sufficient to cover 120% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The pension credit for the year, reflecting the benefit of amortisation of the actuarial surplus, was £53,000 (1992 – charge £76,000). Contributions paid to the scheme during the year amounted to £24,000 (1992 – £210,000). Prepaid contributions of £240,000 (1992 – £159,000) at the year end are shown in the balance sheet under 'Prepayments'. The directors consider that no material adjustment would arise were these amounts revised to reflect UK actuarial practice and Accounting Standards, the expense of which exercise is therefore not justified.

(b) During the year, Horace Small's Employee Savings Plan was amended and now includes a profit sharing component, made at the group's discretion, for all eligible employees. Horace Small also contributes amounts equal to one-half of the employees' contribution up to a maximum [illegible] covered wages. The total charge for the year was £358,000 (1992 - £213,000).

23. NOTES TO THE GROUP CASH FLOW STATEMENT

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

	1993 £000	1992 £000
Operating (loss)/profit	(1,587)	4,069
Depreciation charge	630	457
Loss on sale of fixed assets	1	6
Decrease/(Increase) in stocks	4,093	(3,663)
(Increase) in debtors	(88)	(1,477)
Increase in creditors and provisions	943	1,649
Miscellaneous, principally translation adjustments	(4)	(22)
Net cash inflow from operating activities	3,988	1,019

(b) Analysis of changes in cash and cash equivalents during the year

	1993 £000	1992 £000
At 1st January	2,462	3,630
Net cash outflow	(961)	(1,234)
Effect of foreign exchange rate changes	16	66
At 31st December	1,517	2,462

All cash and cash equivalents comprise cash at bank and in hand.

23. NOTES TO THE GROUP CASH FLOW STATEMENT (continued)

(c) Analysis of changes in financing during the year

	1993 £000	1992 £000
Loans and finance lease obligations:		
At 1st January	12,395	7,728
Cash inflows from financing	65	2,438
Translation adjustments	285	2,229
At 31st December	12,745	12,395

(d) Acquisition of subsidiary undertakings and unincorporated businesses

The subsidiary undertakings acquired in 1992 contributed £2,000 to the group's 1992 net operating cash flows.

An analysis of cash paid is set out below:

	1993 £000	1992 £000
Consideration arising on acquisitions during the year	142	258
Deferred consideration arising on acquisitions in prior years	1,014	1,696
	1,156	1,954

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Horace Small Apparel PLC will be held at the London Olympia Hilton Hotel, 380 Kensington High Street, London W14 8NL on 13th May, 1994 at 11.00 am.

Agenda

1. To receive and adopt the Directors' Report and Accounts for the year ended 31st December, 1993.
2. To re-elect Mr R. Gates as a director.
3. To re-elect Mr J. Morton as a director.
4. To reappoint the auditors and authorise the directors to fix their remuneration.
5. Special Business: To consider and, if thought fit, approve the following Ordinary Resolution: The directors be and they are hereby generally and unconditionally authorised, in place of all existing authorities under Section 80 of the Companies Act 1985, to exercise all powers of the company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £675,242, provided that this authority shall expire on the earlier of the date of the next Annual General Meeting or 13th August, 1995, save 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 board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
6. Special Business: To consider and, if thought fit, approve the following Special Resolution: That subject to the passing of the previous resolution the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the company to allot equity securities (within the meaning of Section 94(2) of the Companies Act 1985), as if Section 89(1) of the Companies Act 1985 did not apply to such allotment, provided that this authority shall:
   (i) expire on the earlier of 13th August, 1995 and the date of the next Annual General Meeting of the company save that the directors may allot equity securities under this authority after the expiry thereof pursuant to any offer or agreement made by the company on or before such expiry date pursuant to this authority as if such authority had not expired;
   (ii) be limited to the allotment of equity securities;
      (a) in connection with a rights issue or any other pre-emptive offer concerning equity securities in the company where it is, in the opinion of the directors, necessary or expedient to allot equity securities otherwise than in accordance with Section 89 of the Companies Act 1985 by reason of the rights attached to any shares or securities of the company or in relation to fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body or stock exchange in any territory;
      (b) pursuant to the terms of any stock option plan or share option scheme or other plan for employees and/or executive or non-executive directors approved by the company in General Meeting, up to an aggregate nominal value of £155,825;
      (c) otherwise than pursuant to sub-paragraph (a) and (b), up to an aggregate nominal value not exceeding £77,913.

7. Special Business: To consider and, if thought fit, approve the following Special Resolution:
That the company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Companies Act 1985) of ordinary shares of 5p each in the capital of the company ("Ordinary Shares") with effect from the conclusion of this meeting provided that:
(a) the maximum aggregate number of Ordinary Shares authorised to be purchased is 3,116,502;
(b) the minimum price which may be paid for each such Ordinary Share is 5p;
(c) the maximum price (inclusive of expenses) which may be paid for each such Ordinary Share is an amount equal to 105 per cent of the average of the middle market quotations as derived from The Stock Exchange Daily Official List for the ten business days immediately preceding the day on which such Ordinary Share is purchased;
(d) the company may make a contract to purchase its Ordinary Shares under this authority prior to the expiry thereof, which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its Ordinary Shares pursuant to any such contract.
The authority will expire at the conclusion of the next Annual General Meeting of the company, (or, if earlier, 13th August, 1995).

By order of the Board
Paul G. Dumond
Secretary

17th March, 1994

Note:
Any member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the company. A form of proxy is enclosed which, to be effective, must be deposited with the company's registrars, Independent Registrars Group, Broseley House, Newlands Drive, Witham, Essex CM8 2BR, not later than 48 hours before the time appointed for the holding of the meeting. The register of directors' interests kept by the company is available for inspection at the place of the Annual General meeting.

J. Colin Keith *(Chairman)(USA)*	Colin Keith, aged 49, was appointed a non-executive Director in April 1993 and Chairman in June 1993. He currently serves as Chairman of Denison International Limited and as a non-executive director of Scholl PLC.
Douglas A. Small *(Chief Executive)(USA)*	Douglas Small, aged 42, is the third generation of the Small family to preside over Horace Small. He joined the company in 1969 as an industrial engineer and held numerous positions throughout the company before being named President in 1987 and Chief Executive in 1989. He is a director of the American Apparel Manufacturers Association and the National Association of Uniform Manufacturers and Distributors.
Robert W. Gates, Jr. *(Executive Director)(USA)*	Robert Gates, aged 47, was one of the founders of R&R Uniforms and has served as its President since its start in 1972. He currently serves as Senior Vice-President and is responsible for National Accounts and Management Information Systems.
Richard B. Vacek, Jr. *(Finance Director)(USA)*	Richard Vacek, aged 45, became a Certified Public Accountant in 1973. Prior to joining Horace Small in July 1989, he spent over 15 years in various financial management positions in the health care industry.
Irvin ('Jimmy') L. Small *(USA)*†	Jimmy Small, aged 65, the son of the founder, Horace Small, joined his father in 1950. He was Chief Executive Officer from 1962 until December 1989 and President from 1962 until 1986. He is a past president of the National Association of Uniform Manufacturers and Distributors and is widely respected within the uniform industry. He retired from Horace Small in January 1992 after 42 years, but remains a non-executive Director of the company.

DIRECTORS

The Hon. William D. Eberle *(USA)**†

The Hon. William Eberle, aged 70, was appointed a non-executive Director in June 1990. He served as a Special Trade Representative during the Nixon and Ford administrations. A director of various U.S. corporations he was a founder of Boise Cascade and served as Chairman and Chief Executive Officer of American Standard. He is currently a director of Proudfoot PLC, Mid-States PLC and Vice Chairman of the US Council of the International Chamber of Commerce.

Christopher H.B. Mills*†

Christopher Mills, aged 41, was appointed a non-executive Director in January 1988. He is managing director of North Atlantic Smaller Companies Investment Trust PLC and a director of Proudfoot PLC, Leverage Opportunity Trust PLC, Mid-States PLC, and Stanelco PLC.

R. James P. Morton *(USA)**

James Morton, aged 41, was appointed non-executive Director in May 1990. He is a director of Chelverton Investments Ltd.

* Member of the Audit Committee

† Member of the Remuneration Committee

CORPORATE INFORMATION

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COMPANY NUMBER:	153088
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AUDITORS	Arthur Andersen 1 Surrey Street, London WC2R 2PS
LEGAL ADVISORS	Boult, Cummings, Connors & Berry 414 Union Street, Suite 1600 Nashville, Tennessee 37219, USA Ashurst Morris Crisp 5 Appold Street, London EC2A 2HA
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