# ANNUAL REPORT AND ACCOUNTS 1994

*...a year of significant advances in national accounts and renewed contracts*

153088



**HORACE SMALL APPAREL PLC**

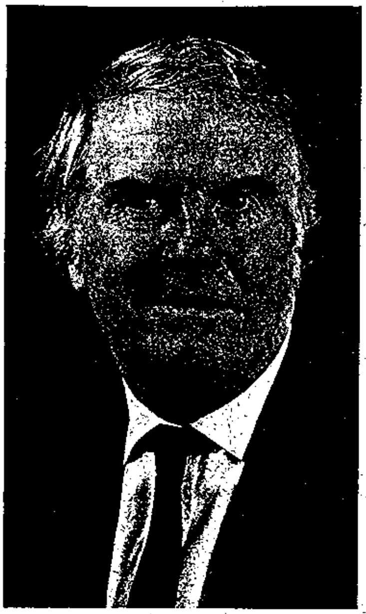
## CONTENTS

*Founded more than 55 years ago, in Nashville, Tennessee, Horace Small Apparel is among the leading manufacturers and distributors of tailored uniforms in the United States.*

Its products are supplied to every part of the USA through a nationwide network of independent dealers, company stores and a unique uniform distribution programme serviced via the company's own large-scale distribution centres.

Horace Small is renowned for the quality of its products, its history of innovation and commitment to customer service.

Customers include federal, state and local government agencies, major commercial and industrial groups, public safety organisations and security forces.



J. COLIN KEITH

*I am pleased to report an improved performance in 1994 in all areas of our business. This resulted from a number of factors, including stronger demand in our US markets which enabled us to increase sales, and a more efficient cost structure in our company which brought better profit margins.*

During the year, we renewed all our federal government contracts on satisfactory terms. We also submitted bids on several new business opportunities in the private sector, and in early 1995 we were awarded significant new contracts from two large North American corporations.

## RESULTS

Turnover for the year to 31st December, 1994 was £74.3 million ($113.9m) which compares with a turnover of £71.8 million ($107.8m) in the previous year. Pre-tax profits before exceptional restructuring charges rose from £1.9 million ($2.9m) to £3.0 million ($4.6m), an increase of 55 per cent. The 1993 profits were reduced to a loss before tax of £2.4 million ($3.7m) following restructuring charges of £4.4 million ($6.6m).

The tax settlement referred to in my Interim Statement contributed to a net tax credit in the profit and loss account totalling £0.6 million ($0.9m) compared with a credit of £0.1 million ($0.2m) for 1993, resulting in profits after tax of £3.6 million ($5.5m) in 1994 compared with a loss of £2.3 million ($3.5m) in 1993. Adjusted earnings per share before exceptional restructuring charges were 11.5p (17.6¢) compared with 5.4p (8.2¢) in 1993. Results for 1994 have been calculated at an average exchange rate of $1.532 to the pound compared with $1.502 in the previous year.

Your Board is not recommending the payment of any dividend since it is considered in the best interests of the company and its shareholders for all available funds to continue to be re-invested in the business.

## RIGHTS OFFERING AND FINANCING

As announced on 8th March, 1995, the company is mounting a 1 for 10 rights issue at 90p per share. The issue, which has been underwritten, is expected to raise proceeds net of expenses of approximately £2.6 million. This equity financing, together with an increased bank credit facility, will provide adequate working capital to finance the new contracts awarded earlier this year and the anticipated growth in the business.

## BENEFITS FROM OUR RESTRUCTURING PROGRAMME

The restructuring measures which I described in the last annual report have already made a significant contribution to our improved trading results. Our actions to reduce costs, particularly in product sourcing and in retail operations, are enabling us to be more aggressive in seeking new business. Because we are able to bid on a basis which gives us more reasonable profit margins, we believe we are justified in stepping up our investment in new business procurement. In turn, an expanding customer base will give us additional opportunities for further cost efficiencies. Our efforts in this area will be an ongoing feature of the business.

## CURRENT OPERATIONS

The improvement in our business during 1994 has continued in the opening months of 1995. We will continue to strive for increased efficiencies in all areas of our business in order to improve further our return on capital employed and to sustain it at a more satisfactory level.

I would like to thank all the company's employees for their hard work and accomplishments during the past year. The achievements of our National Accounts group were particularly noteworthy and their success in retaining important existing customers as well as adding large new accounts is a testimony to their efforts. I would also like to thank shareholders for their continuing support and to assure you that we view the future with confidence.

J. COLIN KEITH
CHAIRMAN

DOUGLAS A. SMALL

*Increased demand from our customers, coupled with a growing US economy, provided us with immediate opportunities for performance improvement. The review of our operations that was already in progress had established the essential elements of the restructuring programme and enabled us to introduce, at an early stage, changes in our business that would bring greater efficiency.*

The resultant capacity increases and cost savings meant that the increased sales brought by the economic upturn were soon being achieved with better margins than had been possible 12 months earlier. Manufacturing and Wholesale orders throughout most of the year were at the highest levels in the company's history.

Our most significant success in 1994 was the renewal of our federal government agency accounts for a further five years. This followed the earlier renewal of our Federal Express account - again for a further five years. In addition, we have long-term contracts with a number of other national organisations in the petro-chemical, auto rental, public utility and airline markets. We have recently entered into agreements with American Airlines and Air Canada to develop and manage the uniform distribution programmes for their employees worldwide. We are delighted to be the vendor of choice for such prestigious new customers.

We have also been awarded a number of new public safety uniform programmes through our retail and wholesale divisions.

## FUNDAMENTAL STRENGTHS

We are fortunate in the fundamental strengths of our business. The long term contracts with the federal government agencies and leading private sector companies, coupled with a substantial share in the programmes of the public safety organisations, provide us with a broad customer base. These and other markets are also served by our R&R retail division and a strong, supportive independent retail sector, both of which also had a successful year. Furthermore, we believe that our commitment to product superiority and our reputation for product, programme and service innovation are the best in the industry.

Within our company we have a solid core of dedicated and experienced employees, including a very successful sales team. These qualities, combined with exceptional product and market knowledge, have enabled them to forge a series of strong partnerships with our customers -

relationships which are built on mutual trust and have stood the test of time. We also offer our major clients the comprehensive services of an innovative and unique uniform distribution programme. These attributes provide us with the foundation on which to expand our customer base and increase our market share.

## ORGANISATIONAL REVIEW

Much has already been said about the restructuring programme; nevertheless, it is important to stress how fundamental this review of our company's operations has been.

People were the first and most crucial element to be studied, with a view to identifying the strengths and weaknesses of our current management and their potential for future growth. Training has concentrated on sales and leadership skills. This employee development process is on-going and in 1995 the emphasis will be on greater autonomy, with more employee involvement in the decision-making process. We know that the empowerment of team members will produce long-term benefits.

Management changes in store operations, inventory control, purchasing and engineering should improve our performance in the areas of inventory turnover, asset management, customer service and response times.

Sourcing arrangements have also come under close scrutiny with changes made where cost-reductions could be achieved. These changes have included the use of non-domestic sources where appropriate. Through concentration on vendor partnerships, we have been able to reduce the cost of purchased products.

Another factor in our plan to improve margins was our greater ability to pass on cost increases in raw materials, wages and benefits through price revisions. This reflected an improved supply and demand balance in the marketplace which we expect will continue during 1995.

## OUR MARKETS

Many changes have been taking place in the uniform manufacturing and distribution industry which has been going through a period of consolidation and reorganisation, involving bankruptcies, management changes and the closing of some facilities. This has provided opportunities for us to win significant new customers, and, we believe, will give scope for us to increase our share of the available market during 1995.

Our customers have been supportive throughout this past year and clearly recognise the importance of maintaining a strong relationship with an industry leader who offers quality products and consistent service - particularly when others in the market are showing signs of vulnerability. Furthermore, when our customers' demands rise, we quickly respond to their increased needs, and we believe that this commitment on our part has enhanced our reputation in the marketplace.

Another growth area is in the public safety sector, which we supply mainly through our stores and independent retail outlets. Expansion in the number of law-enforcement officers, predicted in the previous annual report, is now taking place, leading to increased demand for our police uniforms.

We owe a great deal to our employees who excelled during a difficult period, when substantial internal changes coincided with greatly expanded demand. Their commitment was epitomised by the enthusiasm of those in production who willingly worked through vacations in order to help to satisfy the increased order rate.

## THE FUTURE

We see 1995 as an opportunity to build on the successes of this past year. We will continue to invest in training and development in order to strengthen the performances of our people and the organisation as a whole; we will emphasize the need for better utilisation of the company's assets; and we will continue to direct our efforts towards giving unparalleled customer service. At the same time, we intend to concentrate on the basics of our business: refining our sourcing strategies, shortening our customer response times, reducing our order backlog, improving our margins and expanding our markets.

During this past year, we challenged many paradigms in restructuring our business for the future. While the process was difficult, we learned a great deal about ourselves and our company. We identified opportunities for performance improvement and market share growth, and many of these changes are already generating a return. We expect that the actions taken in 1994 will continue to mature and hope that they lead to improved results in the coming year.

DOUGLAS A. SMALL
CHIEF EXECUTIVE

*The renewal of our federal agency contracts for a further five years has had a very positive effect on our business strategy.*

Up to that point, plans for expansion and reorganisation were put on hold. Once the result was known, we moved quickly to establish the infrastructure which would enable us to service additional new business. We also began a reassessment of our entire distribution process in order to bring this to maximum efficiency and so improve the standard of service that we give to our customers.

The renewed US federal government accounts are the National Park Service, US Customs Service, Fish and Wildlife Service, Army Corps of Engineers, and Immigration and Naturalisation Service.

## NEW BUSINESS

In early 1995, our new business efforts resulted in the award of two important new accounts from major airlines. Bid proposals for these and other new business require a tremendous amount of effort, absorbing long periods of executive and sales time, with the need to address such questions as product sourcing, material quality, systems, programme management, response times and pricing. Following the successful outcome of our 1994 bidding efforts, we are currently making proposals for several additional significant new accounts.

The company will be opening two new distribution centres in 1995 to service the expanding National Account market; in Dallas, Texas and Montreal, Canada. We are excited at the opportunity to open our first facility outside the USA which will enable us to give optimum service to Air Canada and provide a distribution base for growth in the Canadian marketplace.

The restructuring process, in which we examined every aspect of our business, led to our resigning two private sector accounts which were shown, on a fully costed basis, to be unprofitable.

## DISTRIBUTION AND CUSTOMER RESPONSE SYSTEMS

The government account renewal process gave us an opportunity to re-develop and enhance our distribution centres and customer response systems. The improvements will provide our customers with the next generation in service levels and operating efficiencies.

## MANAGEMENT

We are now expanding and developing our National Accounts team in order to manage the growth in this particular area. Significant emphasis has been placed in the areas of customer service, sourcing, product development and inventory management. Our market reputation has allowed us to attract outstanding personnel. The experience they bring will quickly add benefits to our management group.

Our marketing effort, which has been very successful, will continue to develop partnerships in the airline, utility, protective apparel, and communication markets, and, with the excellent start we have already made, we are confident that 1995 will be a year of significant growth in the National Account area.

*A major part of our restructuring effort was directed towards improving the profitability of distribution through our retail stores.*

This involved significant changes in four major areas: enhancing our management, introducing more efficient operating systems, concentrating on a focussed marketing strategy, and disposing of discontinued and slow moving inventory. Many actions have followed as a result, bringing some improvements in performance. Nevertheless, the process is not yet complete and will continue in 1995.

## ORGANISATION AND OPERATIONS

Two new regional managers and 10 new store managers have been appointed to our management team. Upgrading of the stores has continued throughout the year, with our new retail computer system now installed in over half these outlets. This sophisticated management information system has proved to be a valuable asset wherever it has been introduced. It provides better information for controlling inventory, identifying sales trends, enhancing customer service and achieving higher margins. We now expect that the remainder of the stores will be converted to this system by the middle of 1995.

Part of the process of restructuring has been to re-define the operating systems within the stores in order to improve their efficiency, and to implement a customer service strategy which provides a faster response.

The potential of each outlet has been carefully analysed and, as a result, two unprofitable stores have been closed. However, a new store has been opened in Atlanta, Georgia, a premier growth area in the southeastern USA, and its performance to date has been most encouraging.

## MARKETING AND MERCHANDISING

The energy we have directed towards upgrading each store in terms of its management and operating efficiency is being matched by a concentrated sales and marketing effort. The sales management team has evaluated the market penetration of each store and its sales organisation. Territories have been revised, a new sales remuneration plan developed, new account selling programmes targeted, and field sales training enhanced. Building store for store sales at higher margins is our primary objective. A central merchandising group has been formed to establish a prime vendor programme, put in place a national retail pricing policy, and develop a sales promotion and merchandising strategy. A primary objective of this group is to manage central buying of merchandise and improve inventory turnover within the stores.

These changes in our marketing strategy coupled with the strengthening of our management team and the streamlining of our retail operations have already brought results and should produce further improvements in the coming year.

The retail restructuring has focussed our efforts towards more central control of product and sales direction. Results for 1994 showed some improvement, but there is still much to be accomplished.

*We received a significant and unexpected increase in orders in the first quarter of 1994 compared with the previous year. Demand continued to grow at such a pace that we operated throughout the remaining nine months with the highest order level in our history, a trend which continues into early 1995.*

Initially, our inventory levels were insufficient to meet this rise in demand, following reductions in 1993, and it was necessary to make extensive production increases, some from outside subcontractors at somewhat higher costs, over the short term. Work even continued during the vacation period in July and throughout the Christmas period; in marked contrast with the previous year when production was curtailed for a week.

## NEW PRODUCTS

The Quantum Outerwear System, developed in partnership with Columbia Sportswear, has been well received by our customers and is now being supplied to law enforcement and natural resource agencies across the United States.

Sentinel, a new shirt and trouser product line, has been developed for the private security market. Competitively priced and made in Mexico, this line is expected to increase our share of this important and growing market.

Sentry Plus, one of our most well-known matched shirt and trouser product lines and an industry standard for US police, fire and other agencies, has recently been re-launched with a new and improved fabric technology.

Sales to the U.S. Postal Service market also received a boost with the introduction of a new outerwear jacket.

## HIGHER MARGINS

Unit production costs have been reduced during the course of the year. The fabric control system introduced in 1993 has brought about a reduction in fabric costs through more efficient cutting of material. Both the Bassfield and Guthrie manufacturing facilities have been expanded, with significant increases in output while lowering overall costs and maintaining quality levels. Manufacturing relationships have been developed with Mexican subcontractors to provide both our new Sentinel and other private label products. These programmes represent an expanded sourcing base at a lower cost.

An evaluation of our product lines led to the deletion of certain items which were not considered sufficiently profitable. It also identified new areas of opportunity which are now being explored.

The cumulative effect of these actions - cost reductions, product evaluations, price increases and new product introduction - has been to bring about the planned improvement in our operating margins. However, further challenges and opportunities await us in 1995.

# *For Horace Small, 1994 was a year of record group turnover, and increased profits in all areas of operations.*

Since the company conducts substantially all of its operations in the United States and substantially all of its assets, liabilities, revenues and expenses are denominated in US dollars, all amounts included in this Financial Review are in US dollars.

The effects of exchange rate movements on sterling results were not significant. Applicable exchange rates for the profit and loss account and cash flow statement were $1.532 in 1994 and $1.502 in 1993, a movement of just 2%, while the year-end exchange rates used on the balance sheet were $1.565 in 1994 and $1.480 in 1993. Unless indicated otherwise, comparative results for 1993 are before the impact of the restructuring charge.

## RESULTS OF OPERATIONS

Turnover increased 6% to $ 113.9 million in the year ended 31st December, 1994 from $107.8 million in 1993. Growth in the national accounts and wholesale business accounted for all of this increase. Although retail sales declined year-to-year, same store sales (i.e., excluding the impact of closing two stores and opening a new store in Atlanta) increased slightly in 1994 compared to the prior year.

Gross profit increased 7% to $36.4 million in 1994 from $34.1 million in 1993, primarily as a result of the increase in sales. As a percentage of sales, gross profit increased to 32.0% in 1994 from 31.6% in 1993 in spite of the decline in overall sales of the retail operation which typically achieve higher gross profit margins than the rest of the company's activities. This improved gross margin percentage was most evident in the manufacturing and wholesale operations in which unit cost reductions were primary contributors to the group's overall margin improvement. These resulted from more efficient material utilization and increased production in lower cost manufacturing facilities (both in the US and Mexico) combined with elimination of less profitable products, introduction of new products at higher margins and price increases.

Effective control of group operating expenses resulted in only a 2% increase in 1994. The group's profit before tax increased 58% to $4.6 million in 1994 from $2.9 million in 1993. As a percentage of sales, pre-tax profits improved to 4.1% in 1994 from 2.7% in the previous year as a result of a higher operating margin (5.2% in 1994 compared to 3.9% in 1993) and only a 3% increase in net interest expense.

However, pre-tax profits in 1994 were impacted by $0.6 million of pre-closing operating losses from two unprofitable retail stores in excess of the amount provided as part of the restructuring charge taken in 1993. This additional charge was primarily caused by the closings occurring later in the year than had been anticipated when the restructuring charge was determined. Pre-tax profits for the year before this item were thus $5.2 million.

During 1994, the company reached final settlement with the United States Internal Revenue Service ("IRS") with respect to the denial by the IRS of certain deductions claimed in previous years. As a result of this settlement, the group recorded a US tax credit of $0.9 million in 1994.

Tax losses available for offset against future profits subject to United States Federal taxation now stand at approximately $19.0 million.

Profit after tax increased by 116% to $5.5 million in 1994 compared with $2.5 million in 1993.

## RESTRUCTURING PROGRAMME

Significant progress was made during 1994 to implement the changes and realise the benefits arising from the group's restructuring programme which started in late 1993. At 31st December, 1994, the remaining accrual for restructuring costs was $2.3 million out of the original total of $6.6 million.

Approximately 60% of the 1993 charge was related to the retail store operations. After offsetting the cost of restructuring activities during the year, details of which are set out on page 8, the balance of the accrual earmarked for retail operations is adequate to facilitate the remaining reorganization effort.

Restructuring efforts in manufacturing and wholesale during 1994 concentrated on a reduction in unit production costs through more effective utilization of material, expansion of lower cost manufacturing facilities, development of relationships with Mexican subcontractors, and elimination of less profitable items in the product line. The balance of the restructuring accrual for manufacturing and wholesale will be utilized in conjunction with further reconfiguring of the company's sourcing strategy and specific actions to improve cycle and response time. To the extent that those changes require significant reconfiguration of existing facilities, and the start up of additional operations, completion of the restructuring effort may not occur until after year end 1995.

## CASH FLOW AND FINANCING

Cash flow from operating activities declined to $2.8 million in 1994 from $6.0 million in 1993 in spite of a $5.9 million operating profit in 1994 compared to a $2.4 million operating loss after the restructuring charge in 1993. The improvement in operating profits was more than offset by increased trade debtors and inventory.

The group's trade debtors increased by $2.3 million primarily as a result of increased sales and an amount of $0.7 million due from a private sector account which was terminated as of 31st December, 1994. Inventory balances increased by $4.2 million in 1994. At year end 1993 inventory levels had been significantly reduced in response to slow order flow.

During 1994 increased demand in wholesale and manufacturing, implementation of Mexican subcontracting relationships, and fabric requirements to support additional US - based subcontractors all contributed to the increased stock level at year end.

Retail store inventory balances increased during 1994 in response to the company's strategies for improved customer service, including larger concentration in core basic products. In 1995, the stores will focus on reducing total inventory balances by eliminating duplication of items, which turn less frequently, at each of the company's stores, a reduction of vendors and more central control of product.

The decision not to pay a dividend (which in 1993 totalled $1.4 million) and the saving of related UK corporation tax liabilities ($0.5 million), plus refunds received from the IRS tax settlement ($0.5 million) improved cash flow by $2.4 million in 1994 compared to the previous year. Deferred payments on certain acquisitions completed in 1990 and 1991 required $3.1 million of cash in 1994. At 31st December, 1994, the balance of all remaining deferred payments on acquisition is approximately $26,000.

Bank borrowing, as the group's primary external source of financing for its working capital requirements, increased by $3.1 million in 1994. Financing for increased working capital requirements resulting from recently awarded contracts with American Airlines and Air Canada, together with growth from the group's pre-existing business will be provided by a 1 for 10 rights offering, which will yield £2.6 million net of expenses, and an increase in the company's bank line of credit to $40 million, subject to completion of the rights offering.

RICHARD B. VACEK, JR.
FINANCE DIRECTOR

# DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December, 1994.

**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 currently 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 Report, the Operational Reviews and the Financial Review on pages 2 to 12.

**Results**

The results for the year are set out in the profit and loss account. The profit on ordinary activities after taxation amounted to £3,586,000 (1993 - loss £2,318,000).

**Dividends and transfers to reserves**

The directors are not recommending the payment of a final dividend (1993 - nil). Last year's interim dividend of 1.0p per share was paid in November 1993.

The retained profit for the year of £3,586,000 (1993 - loss £2,630,000) has been transferred to reserves.

**Post balance sheet events**

Since the year end the group has announced that it has been awarded contracts to supply uniforms to both American Airlines and Air Canada. These contracts are together expected to result in a significant increase in sales for the group's National Accounts Division in 1995.

The award of the above contracts and the growth from the group's pre-existing business have resulted in the need to raise additional financing for working capital. Accordingly on 8th March, 1995 the group announced a rights issue of 1 new ordinary share for every 10 held at a price of 90p per share to raise £2.8 million (£2.6 million net of expenses). In addition, on completion of the rights issue the group's bank facility will be increased to $40 million.

**Going concern**

Taking account of the rights issue proceeds and the increased banking facilities, the directors have a reasonable expectation that the company has 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 accounts.

**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 |
| North Atlantic Smaller Companies Investment Trust PLC* | 4,000,000 | 12.8 |
| Seaway Ltd* | 3,651,000 | 11.7 |
| Douglas Small | 2,248,487 | 7.2 |

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 5,748,889 shares representing 18.5% of the issued share capital.

*The beneficial owner is a client of a subsidiary undertaking of JO Hambro & Company Limited, such subsidiary undertaking acting in its capacity as discretionary fund manager. The company has been informed that, in total, JO Hambro & Company Limited, through certain subsidiary undertakings acting in their capacity as discretionary fund managers, has an interest in 7,705,000 shares representing 24.7% of the issued share capital.

**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, 1994** | At 31st December, 1993 |
| Colin Keith (Chairman) | 300,000 | – |
| Douglas Small | 2,248,487 | 2,243,612 |
| Richard Vacek | 27,435 | 27,435 |
| Robert Gates | 131,789 | 156,789 |
| The Hon. William Eberle | – | – |
| Christopher Mills | 130,000 | 35,000 |
| James Morton | 160,000 | 10,000 |
| Irvin Small | 75,000 | 75,000 |

Since the year end, there have been no changes in the holdings shown above.

Details of options granted to the directors under the company's share option schemes are set out in note 15. 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, Richard Vacek and Irvin Small retire by rotation and, being eligible, offer themselves for re-election. Richard Vacek has a contract of service with Horace Small which is terminable on the giving of not more than one year's notice. Irvin Small does not have a contract of service with any company in the group.

Other than as disclosed in note 20 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 £562,000.

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 share capital of the company currently in issue) 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 £14,000 (1993 - £21,000).

**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
8th March, 1995

By order of the Board
Paul G. Dumond
*Secretary*

## Directors' Statement on Corporate Governance Matters

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, 1994. 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 currently in effect except that non-executive directors are not appointed for specific terms. However, the board periodically reviews their performance and effectiveness.

## Report by the Auditors on Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed the above directors' statement on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the company's corporate governance procedures nor on the ability of the company to continue in operational existence.

### Opinion

With respect to the directors' statement on going concern on page 13 in our opinion the directors have provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and such statement is not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement above appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.

Arthur Andersen

Arthur Andersen
*Chartered Accountants and Registered Auditors*
London

8th March, 1995

# DIRECTORS' RESPONSIBILITY STATEMENT AND AUDITORS' REPORT

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF ACCOUNTS

The directors are required to present for each accounting period accounts 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 accounts, 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 accounts 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 seek to prevent and detect fraud and other irregularities.

## AUDITORS' REPORT

To the shareholders of Horace Small Apparel PLC

We have audited the accounts on pages 18 to 34 which have been prepared under the historical cost convention and the accounting policies set out on pages 22 and 23.

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

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

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

**Opinion**
In our opinion the accounts give a true and fair view of the state of affairs of the company and group as at 31st December, 1994 and of the group's profit 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

8th March, 1995

# GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 1994

| | Notes | 1994 £000 | 1993 £000 |
|---|---|---|---|
| Turnover | 1 | 74,336 | 71,774 |
| Cost of sales: | | | |
| Normal | | (50,585) | (49,093) |
| Restructuring charge | 2 | – | (3,605) |
| Gross profit | | 23,751 | 19,076 |
| Distribution costs: | | | |
| Normal | | (10,615) | (10,493) |
| Restructuring charge | 2 | – | (774) |
| Administrative expenses | | (9,353) | (9,491) |
| Other operating income | | 93 | 95 |
| Operating profit/(loss) | 3 | 3,876 | (1,587) |
| Interest receivable and similar income | | 129 | 74 |
| Interest payable and similar charges | 5 | (986) | (923) |
| **Profit/(Loss) on ordinary activities before taxation** | | 3,019 | (2,436) |
| Taxation on profit/(loss) on ordinary activities | 6 | 567 | 118 |
| **Profit/(Loss) on ordinary activities after taxation** | | 3,586 | (2,318) |
| Dividends | 7 | – | (312) |
| **Retained profit/(loss) for the year** | | 3,586 | (2,630) |
| **Earnings/(Loss) per share:** | | | |
| Basic earnings/(loss) per share | 8 | **11.5p** | (7.4)p |
| Adjustment for restructuring charges | | – | 12.8p |
| **Adjusted earnings per share** | 8 | 11.5p | 5.4p |
| **Average exchange rate applied** | £1= | $1.532 | $1.502 |

Movements on reserves are set out in note 16.

The accompanying notes are an integral part of these accounts.

# GROUP BALANCE SHEET
AT 31ST DECEMBER, 1994

| | Notes | 1994 £000 | 1993 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 9 | 9,993 | 9,971 |
| **Current assets** | | | |
| Stocks | 11 | 22,557 | 20,993 |
| Debtors | 12 | 13,626 | 12,567 |
| Cash at bank and in hand | | 1,158 | 1,517 |
| | | 37,341 | 35,077 |
| Creditors: amounts falling due within one year | 13 | (13,743) | (14,250) |
| Net current assets | | 23,598 | 20,827 |
| Total assets less current liabilities | | 33,591 | 30,798 |
| Creditors: amounts falling due after more than one year | 14 | (14,119) | (13,759) |
| Net assets | | 19,472 | 17,039 |
| **Capital and reserves** | | | |
| Called up share capital | 15 | 1,558 | 1,558 |
| Share premium account | 16 | 18,438 | 18,438 |
| Exchange translation | 16 | (2,970) | (1,964) |
| Profit and loss account | 16 | 2,446 | (993) |
| Shareholders' funds | | 19,472 | 17,039 |
| Year end exchange rate applied | £1= | $1.565 | $1.480 |

As approved by a meeting of the Board on 8th March, 1995.

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, 1994

| | Notes | 1994 £000 | 1993 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 10 | 42,876 | 43,953 |
| **Current assets** | | | |
| Debtors | 12 | 37 | 23 |
| Cash at bank and in hand | | 5 | 54 |
| | | 42 | 77 |
| Creditors: amounts falling due within one year | 13 | (382) | (328) |
| Net current liabilities | | (340) | (251) |
| Net assets | | 42,536 | 43,702 |
| **Capital and reserves** | | | |
| Called up share capital | 15 | 1,558 | 1,558 |
| Share premium account | 16 | 18,438 | 18,438 |
| Special reserve | 16 | 17,296 | 17,296 |
| Profit and loss account | 16 | 5,244 | 6,410 |
| Capital employed | | 42,536 | 43,702 |

As approved by a meeting of the Board on 8th March, 1995.

J. Colin Keith } Directors
Douglas A. Small

# GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31ST DECEMBER, 1994

| | 1994 £000 | 1993 £000 |
|---|---|---|
| Profit/(Loss) on ordinary activities after taxation | 3,586 | (2,318) |
| Currency translation differences on foreign currency net investments | (1,006) | 385 |
| Total gains/(losses) recognised since previous balance sheet date | 2,580 | (1,933) |

The accompanying notes are an integral part of these accounts.

# GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER, 1994

| | Notes | 1994 £000 | 1993 £000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 22 | **1,847** | 3,988 |
| | | | |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | 128 | 75 |
| Interest paid | | (1,065) | (1,155) |
| Dividends paid | | – | (935) |
| **Net cash outflow from returns on investments and servicing of finance** | | (937) | (2,015) |
| | | | |
| Taxation | | | |
| UK corporation tax paid (including ACT) | | (88) | (447) |
| Overseas tax received | | 302 | – |
| Total tax received/(paid) | | **214** | (447) |
| | | | |
| **Investing activities** | | | |
| Purchase of tangible fixed assets | | (1,370) | (1,439) |
| Consideration arising on acquisitions during the year and in earlier periods | 22 | (2,000) | (1,156) |
| Sale of tangible fixed assets | | 3 | 43 |
| **Net cash outflow from investing activities** | | (3,367) | (2,552) |
| **Net cash outflow before financing** | | (2,243) | (1,026) |
| | | | |
| **Financing** | | | |
| Proceeds of borrowings | | 2,001 | 7,924 |
| Repayments of borrowings | | – | (7,820) |
| Capital element of finance lease rental payments | | (42) | (39) |
| **Net cash inflow from financing** | 22 | **1,959** | 65 |
| **Decrease in cash and cash equivalents** | 22 | (284) | (961) |

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 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 leases 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 Horace Small's pension scheme was closed during 1993 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 10.46 years.

## 2. RESTRUCTURING CHARGES

At the end of 1993 the group embarked upon a programme to restructure its operations, the estimated costs of which were provided for in last year's accounts as an exceptional item.

Approximately 60% of the total charge related to the restructuring of the retail store operations for improved efficiency and profitability, and comprised provisions for discontinued and obsolete inventory, redirection of marketing strategy, organisational changes, and closings of unprofitable stores.

The remainder of the charges related to manufacturing operations, comprising the reconfiguration of 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 restructuring programme is continuing and £1.5 million of the original charges remain within accruals at 31st December, 1994 to be utilised as the planned actions are completed.

## 3. OPERATING PROFIT/(LOSS)

| | 1994 £000 | 1993 £000 |
|---|---|---|
| This is stated after charging: | | |
| Auditors' remuneration | 82 | 74 |
| Other fees paid in the UK to the auditors | 44 | 6 |
| Exceptional charge for store closures | 366 | – |
| Depreciation of tangible fixed assets: | | |
| Owned | 614 | 469 |
| Held under finance leases | 163 | 161 |
| Loss on disposal of tangible fixed assets | 16 | 1 |
| Hire of plant and machinery and motor vehicles under operating leases | 236 | 230 |
| Payments under operating leases – premises | 997 | 991 |
| Staff costs (note 4) | 20,049 | 19,808 |

4. EMPLOYEES

| | 1994 | 1993 |
|---|---|---|
| The weekly average number of employees was made up as follows: | Number | Number |
| Production | 772 | 720 |
| Warehousing and distribution | 432 | 454 |
| Sales | 132 | 154 |
| Administration | 44 | 37 |
| | 1,380 | 1,365 |

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

| | | |
|---|---|---|
| Staff costs during the year comprised: | £000 | £000 |
| Salaries and wages | 17,986 | 17,921 |
| Social security costs | 2,126 | 1,940 |
| Other pension credits (note 21a) | (63) | (53) |
| | 20,049 | 19,808 |

| | | |
|---|---|---|
| Staff costs include directors' emoluments as follows: | £000 | £000 |
| Fees | 30 | 32 |
| Other emoluments (including pension contributions) | 617 | 627 |
| Executive directors' prior year performance related bonuses (see below) | 16 | 38 |
| | 663 | 697 |

The emoluments of the chairman, Colin Keith, totalled £40,000 (1993 – £21,831). The emoluments of the former chairman, Mark Vaughan-Lee, in 1993 totalled £14,583. The emoluments of the highest paid director in the year totalled £296,094 (1993 – £298,825).

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

| | 1994 Number | 1993 Number |
|---|---|---|
| £5,001 - £10,000 | 3 | 3 |
| £10,001 - £15,000 | – | 1 |
| £20,001 - £25,000 | – | 1 |
| £25,001 - £30,000 | 1 | 1 |
| £35,001 - £40,000 | 1 | – |
| £115,001 - £120,000 | 1 | – |
| £130,001 - £135,000 | 1 | – |
| £135,001 - £140,000 | – | 1 |
| £145,001 - £150,000 | – | 1 |
| £295,001 - £300,000 | 1 | 1 |

*Executives' performance related bonuses*

The executive directors, excluding Douglas Small, are entitled to participate in a 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 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.

4. EMPLOYEES (continued)

All of the executive directors are also entitled to participate in any bonus which may become payable under the arrangements detailed in note 20, the level of participation being determined by the board of the principal operating subsidiary, Horace Small, at its discretion.

5. INTEREST PAYABLE AND SIMILAR CHARGES

| | 1994 £000 | 1993 £000 |
|---|---|---|
| Interest on loans repayable within five years, by instalments | 955 | 900 |
| Interest on finance leases | 23 | 23 |
| Other interest | 8 | – |
| | 986 | 923 |

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

| | 1994 £000 | 1993 £000 |
|---|---|---|
| UK Corporation tax charge at 33% based on profit for the year | (20) | (246) |
| US taxation: | | |
| Federal taxes | 587 | – |
| Deferred taxation | – | 364 |
| Total US tax credit | 587 | 364 |
| Total tax credit | 567 | 118 |

Following the final settlement with the United States Internal Revenue Service of the group's Federal returns to December 1991, tax rebates have been credited to the profit and loss account.

At 31st December, 1994 the group had tax losses of approximately $19.0 million (1993 - $19.7 million) available for offset against future profits subject to United States Federal taxation. The losses begin to expire in 2005.

No deferred taxation has been provided and no potential liability arises 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.

7. DIVIDENDS

| | 1994 £000 | 1993 £000 |
|---|---|---|
| 1993 interim dividend of 1.0p per share (net) | – | 312 |

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit after tax of £3,586,000 (1993 – loss £2,318,000) and on the average number of ordinary shares in issue during the year of 31,165,025 (1993 - 31,165,025).

The 1993 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, and a related taxation credit of £364,000.

The fully diluted earnings per share are not materially different from the basic earnings per share.

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, 1994 | 1,422 | 5,861 | 3,279 | 1,233 | 11,795 |
| Additions | 61 | 176 | 1,007 | 126 | 1,370 |
| Disposals | – | (15) | (5) | (8) | (28) |
| Exchange movement | (79) | (320) | (199) | (69) | (667) |
| At 31st December, 1994 | 1,404 | 5,702 | 4,082 | 1,282 | 12,470 |
| **Depreciation** | | | | | |
| At 1st January, 1994 | 39 | 463 | 997 | 325 | 1,824 |
| Charge for the year | 12 | 137 | 499 | 129 | 777 |
| Disposals | – | (2) | (4) | (3) | (9) |
| Exchange movement | (2) | (28) | (65) | (20) | (115) |
| At 31st December, 1994 | 49 | 570 | 1,427 | 431 | 2,477 |
| **Net book value** | | | | | |
| At 31st December, 1994 | 1,355 | 5,132 | 2,655 | 851 | 9,993 |
| At 31st December, 1993 | 1,383 | 5,398 | 2,282 | 908 | 9,971 |
| Leased assets included in the above: | | | | | |
| **Net book value** | | | | | |
| At 31st December, 1994 | – | 5,130 | 14 | – | 5,144 |
| At 31st December, 1993 | – | 5,398 | 58 | – | 5,456 |

Freehold property includes freehold land with a book value of £1,036,000 (1993 – £1,095,000) which is not being depreciated. Long leasehold property includes land, with a book value of £1,810,000 (1993 – £1,914,000), 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 | |
|---|---|---|
| | 1994 £000 | 1993 £000 |
| Investment in subsidiary undertakings at cost | 38,491 | 21,600 |
| Long term loans to subsidiary undertakings | 4,385 | 22,353 |
| | 42,876 | 43,953 |
| Movements in the year comprise: | | |
| Issue of shares in exchange for long term loans to subsidiary undertakings | 16,891 | – |
| Decrease in loans to subsidiary undertakings | (16,760) | (364) |
| Exchange movement on long term loans | (1,208) | 507 |
| | (1,077) | 143 |

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 of Delaware, Inc.* | 100% common stock | USA | Holding company |
| 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 of Delaware, Inc.
***** Held by Horace Small Holdings Corporation
***** Held by Horace Small Manufacturing Company
***** Held by R&R Uniforms, Inc.

A full list of subsidiary undertakings will be included in the company's annual return.

11. STOCKS

| | The Group | |
|---|---|---|
| | 1994 £000 | 1993 £000 |
| Raw materials | 2,854 | 1,904 |
| Work-in-progress | 1,661 | 1,112 |
| Finished goods | 18,042 | 17,977 |
| | 22,557 | 20,993 |

Finished goods 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 | |
|---|---|---|---|---|
| | 1994 £000 | 1993 £000 | 1994 £000 | 1993 £000 |
| Amounts falling due within one year: | | | | |
| Trade debtors | 12,637 | 11,839 | – | – |
| Amounts owed by subsidiary undertakings | – | – | 8 | 8 |
| Other debtors | 164 | 78 | – | – |
| Value added tax recoverable | 6 | 4 | 6 | 4 |
| Prepayments and accrued income | 512 | 385 | 23 | 11 |
| | 13,319 | 12,306 | 37 | 23 |
| Amounts falling due after more than one year: | | | | |
| Other debtors | 18 | 21 | – | – |
| Prepayments and accrued income | 289 | 240 | – | – |
| | 307 | 261 | – | – |
| | 13,626 | 12,567 | 37 | 23 |

13. CREDITORS: amounts falling due within one year

| | The Group | | The Company | |
|---|---|---|---|---|
| | 1994 £000 | 1993 £000 | 1994 £000 | 1993 £000 |
| Obligations under finance leases | 29 | 51 | – | – |
| Payments received on account | 335 | 728 | – | – |
| Trade creditors | 7,730 | 5,622 | – | – |
| Amounts owed to subsidiary undertakings | – | – | 247 | 137 |
| Other creditors | 29 | 1,466 | – | – |
| UK corporation tax | 18 | 2 | 18 | 2 |
| Advance corporation tax | – | 84 | – | 84 |
| Overseas tax | 447 | 367 | – | – |
| Accruals | 5,155 | 5,930 | 117 | 105 |
| | 13,743 | 14,250 | 382 | 328 |

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

| | The Group | |
|---|---|---|
| | 1994 £000 | 1993 £000 |
| Obligations under finance leases: | | |
| Payable over one to two years | 6 | 23 |
| Payable over two to five years | 25 | 29 |
| Payable over five years | 112 | 123 |
| Bank loan: | | |
| Payable over one to two years | 13,798 | – |
| Payable over two to five years | – | 12,519 |
| Other creditors: | | |
| Payable over one to two years | – | 869 |
| Payable over five years | 178 | 196 |
| | 14,119 | 13,759 |

The bank loan comprises a revolving credit facility of $25 million 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 bank facility was increased to $30 million in January 1995 and will rise further to $40 million, subject to the completion of the rights issue as set out in note 23. The overall facility reduces again to $30 million on 1st January, 1996.

## 15. 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, 1994 and at 31st December, 1994 | 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 | 1994 Number of ordinary shares | 1993 Number of ordinary shares |
|---|---|---|---|---|
| Directors: | | | | |
| Colin Keith | 13th July, 1993 | 70p | 400,000 | 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 | 155,000 |
| | 30th May, 1990 | 125p | 180,000 | 197,500 |
| | 26th June, 1992 | 86p | 106,500 | 113,250 |
| | 30th November, 1992 | 81p | 50,000 | 50,000 |
| | 6th July, 1993 | 79p | 50,000 | 50,000 |
| | 8th November, 1993 | 64p | 50,000 | 50,000 |
| | 15th August, 1994 | 84p | 87,500 | – |
| | | | 2,569,000 | 2,505,750 |

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 other personnel to acquire up to 24,250 shares lapsed during the year.

The market price of the ordinary shares at 31st December, 1994 was 86p and the range during 1994 was 49p to 90p.

## 16. RESERVES

| | Share Premium £000 | Exchange Translation £000 | Profit and Loss Account £000 | Total £000 |
|---|---|---|---|---|
| **Group** | | | | |
| At 1st January, 1994 | 18,438 | (1,964) | (993) | 15,481 |
| Profit for the year | – | – | 3,586 | 3,586 |
| Goodwill arising on acquisitions | – | – | (147) | (147) |
| Currency translation differences | – | (1,006) | – | (1,006) |
| At 31st December, 1994 | 18,438 | (2,970) | 2,446 | 17,914 |

| | Share Premium £000 | Special Reserve £000 | Profit and Loss Account £000 | Total £000 |
|---|---|---|---|---|
| **Company** | | | | |
| At 1st January, 1994 | 18,438 | 17,296 | 6,410 | 42,144 |
| Loss for the year | – | – | (1,166) | (1,166) |
| At 31st December, 1994 | 18,438 | 17,296 | 5,244 | 40,978 |

At 31st December, 1994 the profit and loss account of the company included £4,617,000 (1993 – £5,825,000) of unrealised exchange gains on the translation of amounts denominated in US dollars advanced to subsidiary undertakings. Accordingly, the distributable reserves of the company at 31st December, 1994 totalled £627,000 (1993 – £585,000).

Of the group profit for the year, a loss of £1,166,000 (1993 – profit £1,002,000) has been dealt with in the accounts of the company.

At 31st December, 1994 the cumulative amount of goodwill resulting from acquisitions which had been written off to reserves, net of goodwill attributable to subsidiary undertakings or businesses disposed of, amounted to £22,436,000 (1993 – £22,289,000).

The goodwill written off during the year arose on the payment of deferred consideration for an acquisition in a prior year which was higher than the anticipated amount which had been reserved for.

## 17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | The Group | |
|---|---|---|
| | 1994 £000 | 1993 £000 |
| Profit/(Loss) on ordinary activities after taxation | 3,586 | (2,318) |
| Dividends | – | (312) |
| | 3,586 | (2,630) |
| Currency translation differences on foreign currency net investments | (1,006) | 385 |
| Goodwill written off | (147) | (19) |
| Net movement of shareholders' funds | 2,433 | (2,264) |
| Shareholders' funds at the beginning of the year | 17,039 | 19,303 |
| Shareholders' funds at the end of the year | 19,472 | 17,039 |

## 18. 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:

| | 1994 £000 | 1993 £000 |
|---|---|---|
| Operating leases – land and buildings: | | |
| Within one year | 179 | 43 |
| From one to five years | 196 | 496 |
| Over five years | 302 | 319 |
| | 677 | 858 |
| Operating leases – other assets: | | |
| Within one year | 70 | 43 |
| From one to five years | 129 | 134 |
| | 199 | 177 |

## 19. CAPITAL COMMITMENTS

Authorised capital commitments at 31st December, 1994 totalled £1,398,000 (1993 – £1,875,000), of which £118,000 (1993 – £104,000) had been contracted for but not provided in these accounts.

## 20. 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 $17,603,000 at 31st December, 1994 (1993 – $11,993,000). 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.

21. 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, 1994 was £3,007,000 (1993 – £3,416,000) and the actuarial value of the assets was sufficient to cover 112% 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 £63,000 (1993 – credit £53,000). No contributions were paid to the scheme during the year (1993 – £24,000). Prepaid contributions of £289,000 (1993 – £240,000) at the year end are shown in the balance sheet under 'Prepayments'. The directors consider that no material adjustment would arise if these amounts were revised to reflect UK actuarial practice and Accounting Standards, the expense of which exercise is therefore not justified.

(b) The Horace Small Profit Sharing Retirement Plan 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 of 3% of covered wages. The total charge for the year was £388,000 (1993 - £358,000).

22. NOTES TO THE GROUP CASH FLOW STATEMENT

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

| | 1994 £000 | 1993 £000 |
|---|---|---|
| Operating profit/(loss) | 3,876 | (1,587) |
| Depreciation charge | 777 | 630 |
| Loss on sale of fixed assets | 16 | 1 |
| (Increase)/Decrease in stocks | (2,762) | 4,093 |
| (Increase) in debtors | (1,777) | (88) |
| Increase in creditors and provisions | 1,711 | 943 |
| Miscellaneous, principally translation adjustments | 6 | (4) |
| Net cash inflow from operating activities | 1,847 | 3,988 |

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

| | 1994 £000 | 1993 £000 |
|---|---|---|
| At 1st January | 1,517 | 2,462 |
| Net cash outflow | (284) | (961) |
| Effect of foreign exchange rate changes | (75) | 16 |
| At 31st December | 1,158 | 1,517 |

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

## 22. NOTES TO THE GROUP CASH FLOW STATEMENT (continued)

**(c) Analysis of changes in financing during the year**

| | 1994 £000 | 1993 £000 |
|---|---|---|
| Loans and finance lease obligations: | | |
| At 1st January | 12,745 | 12,395 |
| Cash inflows from financing | 1,959 | 65 |
| Translation adjustments | (734) | 285 |
| At 31st December | 13,970 | 12,745 |

**(d) Acquisition of subsidiary undertakings and unincorporated businesses**

An analysis of cash paid is set out below:

| | 1994 £000 | 1993 £000 |
|---|---|---|
| Consideration arising on acquisitions during the year | – | 142 |
| Deferred consideration arising on acquisitions in prior years | 2,000 | 1,014 |
| | 2,000 | 1,156 |

## 23. POST BALANCE SHEET EVENTS

Subsequent to the year end the group announced that it had been awarded contracts to supply uniforms to both American Airlines and Air Canada which are together expected to result in a significant increase in sales for Horace Small's National Accounts division in 1995.

The award of the above contracts and the growth from the group's pre-existing business has resulted in the need to raise additional financing for working capital. Accordingly, on 8th March, 1995 the group announced a rights issue of 1 new ordinary share for every 10 held at a price of 90p per share to raise £2.8 million (£2.6 million net of expenses). In addition, on completion of the rights issue the group's bank facility will be increased to $40 million.

# NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Horace Small Apparel PLC will be held at the offices of J.O. Hambro & Partners Limited, 30 Queen Anne's Gate, London SW1 on Friday 26th May, 1995 at 11.00am.

Agenda

1. To receive and adopt the Directors' Report and Accounts for the year ended 31st December, 1994.
2. To re-elect Mr Richard Vacek as a director.
3. To re-elect Mr Irvin Small 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 £562,000, provided that this authority shall expire on the earlier of the date of the next Annual General Meeting or 26th August, 1996, 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 26th August, 1996 or 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;

   (ii)(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;

   (ii)(c) otherwise than pursuant to sub-paragraphs (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, 26th August, 1996).

By order of the Board
Paul G. Dumond
*Secretary*

8th March, 1995

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 Limited, 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 together with copies of any service contracts for periods in excess of one year between each director and the company are available for inspection at the Registered Office during normal business hours and at the place of the meeting from 15 minutes prior to the meeting until its conclusion.

# DIRECTORS

| | |
|---|---|
| J. Colin Keith *(Chairman)* | Colin Keith, aged 50, was appointed a non-executive Director in April 1993 and Chairman in June 1993. He currently serves as Chairman of Denison International Limited, a private international group engaged in the manufacture and distribution of hydraulic pumps and valves. He is also a non-executive director of Scholl PLC. |
| Douglas A. Small *(Chief Executive)(USA)* | Douglas Small, aged 43, 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 48, 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. |
| Richard B. Vacek, Jr. *(Finance Director)(USA)* | Richard Vacek, aged 46, 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 66, 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 71, 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 Deputy Chairman of Mid-States PLC and Vice Chairman of the US Council of the International Chamber of Commerce. |
| Christopher H.B. Mills * † | Christopher Mills, aged 42, 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, American Opportunity Trust PLC, Mid-States PLC and Stanelco PLC. |
| R. James P. Morton * | James Morton, aged 42, 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

| | |
|---|---|
| US OFFICES | 350 28th Avenue North<br>P.O. Box 1269<br>Nashville, Tennessee 37202-1269, USA<br>Tel: (615) 320 1000<br>Fax: (615) 320 5282 |
| LONDON OFFICE AND REGISTERED ADDRESS | Masters House<br>107 Hammersmith Road<br>London W14 0QH<br>Tel: 0171 603 1515<br>Fax: 0171 603 8448 |
| COMPANY NUMBER: | 153088 |
| SECRETARY | Paul G. Dumond A.C.A. |
| BANKERS | Third National Bank in Nashville<br>201 Fourth Avenue North, Nashville, Tennessee 37244, USA |
| AUDITORS | Arthur Andersen<br>1 Surrey Street, London WC2R 2PS |
| LEGAL ADVISORS | Boult, Cummings, Connors & Berry<br>414 Union Street, Suite 1600<br>Nashville, Tennessee 37219, USA<br><br>Ashurst Morris Crisp<br>5 Appold Street,<br>London EC2A 2HA |
| REGISTRARS | Independent Registrars Group Limited<br>Broseley House, Newlands Drive<br>Witham, Essex CM8 2UL |
| STOCKBROKERS | Collins Stewart & Company<br>21 New Street, London EC2M 4HR |

Designed and produced by The Design Agency. Printed in England by Broadgate Promotional & Financial Print.