

This document comprises Listing Particulars relating to Amercoeur Energy PLC as enlarged by the Acquisition. The Listing Particulars are prepared on the assumption that, unless the context otherwise requires, Resolution No. 1 to be proposed at the Extraordinary General Meeting of the Company to be held on 3rd May 1990 will have been duly passed and the Acquisition will have been completed by 30th May 1990. Dealings are expected to commence fully paid in the Consolidated Ordinary Shares and nil paid in the Rights Shares on 4th May 1990 and fully paid in the Subscription Shares on 31st May 1990.

A copy of this document, which comprises Listing Particulars relating to Amercoeur Energy PLC, has been prepared in accordance with the listing rules made under section 142 of the Financial Services Act 1986 and has been delivered for registration to the Registrar of Companies in England and Wales as required by section 149 of that Act.

The Directors and the Proposed Directors, whose names appear under "Officers and Advisers of the Company" in these Listing Particulars, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the Council of The Stock Exchange for all the Consolidated Ordinary Shares and the New Ordinary Shares to be admitted to the Official List.

Listing Particulars of Amercoeur Energy PLC

(Registered in England No. 153088)

(to be renamed United Uniform Services PLC)

Acquisition of Horace Small Manufacturing Company

Introduction to the Official List

Rights Issue of up to 28,418,436 New Ordinary Shares

of 5p each at 125p per Share

and Subscription for up to 1,957,187 New Ordinary Shares

of 5p each at \$2.04 per share

Share capital of the Company immediately following the Rights Issue and Subscription

Authorised	No.		Issued and fully paid	No.
£2,230,264.95	44,605,299	ordinary shares of 5p each	£1,530,516.20	30,770,324
£1,973,505	394,701	ordinary shares of £5 each	£1,973,505	394,701

It is proposed that, following the passing of Resolution No. 5 at the EGM, application be made to the High Court for sanction to the reduction by £4.95 of the amount paid up on each of the ordinary shares of £5.

Pending the reduction of share capital taking effect, the ordinary shares of £5 each and the ordinary shares of 5p each rank *pari passu* in all respects with regard to the payment of dividends, return of capital and voting rights.

Indebtedness

At the close of business on 12th March 1990 Horace Small had outstanding the following borrowings or liabilities in the nature of borrowing:

Bank borrowings — secured	\$'000
Subordinated debt	24,753
Other unsecured borrowings	3,520
Finance leases	944
	287
	<u>29,504</u>

At the close of business on 12th March 1990 the Amercoeur Group had no outstanding borrowings or liabilities in the nature of borrowing.

Save as disclosed above, and excluding intra-group indebtedness, at the close of business on 12th March 1990 neither the Amercoeur Group, nor Horace Small, had any loan capital outstanding, or loan capital created but unissued, or term loans or any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase or finance lease commitments, mortgages, guarantees or other material contingent liabilities.

It is intended that substantially all of the borrowings of Horace Small be repaid at Completion.

DEFINITIONS

In this document, unless the context requires otherwise, the following terms have the following meanings.

"Acquisition Agreement"	The Stock Purchase Agreement, described in Part V hereof together with the exhibits attached thereto (being forms of a Non-Competition Agreement, a Stock Option Term Sheet, a Bonus Pool Agreement, Mr. D. Small's Employment Agreement and terms of employment of Mr. J. Small), dated as of 17th January 1990 between Horace Small Manufacturing Company, a Tennessee Corporation (1), Douglas A. Small (2), the Company (3) and, to the extent set forth therein, MLM Limited (4)
"the Acquisition"	the acquisition of all of the issued and outstanding common stock of Horace Small Manufacturing Company pursuant to the Acquisition Agreement
"the Act"	the Companies Act 1985
"AGM"	the Annual General Meeting of the Company convened for 3rd May 1990
"Amercoeur" or "the Company"	Amercoeur Energy PLC
"the Amercoeur Group"	Amercoeur and its subsidiaries before the Acquisition
"Completion"	the completion of the Acquisition and related transactions which is expected to be on 30th May 1990
"Consolidated Ordinary Shares"	the issued ordinary shares of £5 each and of 5p each arising on the consolidation of the existing issued ordinary shares of 10p each and of 0.1p each respectively pursuant to the passing of Resolution No. 1 at the EGM
"the Continuing Directors"	the Directors who will remain on the Board following Completion and the Proposed Directors
"the Directors" or "the Board"	the Board of Directors of the Company
"Dollar Rate"	the exchange rate of \$1.62 to £1, being the rate at which the Company has bought dollars forward in order to complete the Acquisition
"EGM"	the Extraordinary General Meeting of the Company convened for 3rd May 1990
"the Enlarged Group"	the Amercoeur Group as enlarged by the Acquisition
"Existing Ordinary Shares"	the existing ordinary shares of 10p each and of 0.1p each in the capital of the Company in issue at the date hereof, to be consolidated pursuant to the passing of Resolution No. 1 at the EGM so that every 50 of such shares will become an ordinary share of £5 each or of 5p each respectively
"Horace Small"	Horace Small Manufacturing Company and its trading subsidiaries, Mt. Pleasant Mfg. Co., Inc. and R & R
"New Ordinary Shares"	the Rights Shares and the Subscription Shares
"Pinetrees"	Pinetrees (Coal Mining) Company Limited, the sole operating subsidiary of Amercoeur
"Proposed Directors"	the persons who are proposed to be appointed Directors of the Company following Completion and whose names are set out under "Officers and Advisers of the Company" in this document
"Qualifying Shareholders"	the holders of the Existing Ordinary Shares whose names appear on the register of members on the Record Date, other than holders of Existing Ordinary Shares with registered addresses in Canada or the United States of America or its territories or possessions or areas subject to its jurisdiction
"R & R"	R & R Uniforms, Inc.
"Record Date"	the close of business on 20th April 1990
"Rights Issue"	the proposed issue of ordinary shares to Qualifying Shareholders by way of rights
"Rights Shares"	the ordinary shares of 5p each in the capital of the Company to be provisionally allotted by way of rights pursuant to the Rights Issue
"Separate General Meeting"	the separate General Meeting of the holders of the ordinary shares of 10p each of the Company (to be consolidated into ordinary shares of £5 each pursuant to the passing of Resolution No. 1 at the EGM) convened for 3rd May 1990
"Smith New Court"	Smith New Court Corporate Finance Limited
"The Stock Exchange"	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
"the Subscription"	the subscription by Doug Small and certain senior management of Horace Small for the Subscription Shares
"the Subscription Shares"	up to 1,957,187 ordinary shares in the capital of the Company to be subscribed for in cash at and conditional upon Completion at \$2.04 per share (being the equivalent of 125p at 9th April 1990) by Doug Small and certain senior management of Horace Small as described herein
"the UK Share Option Scheme"	the non approved UK Share Option Scheme proposed to be approved and adopted at the EGM, a summary of the rules of which is set out in paragraph 10(a) of Part VI of this document
"the US Stock Option Plan"	the non qualified US Stock Option Plan proposed to be approved and adopted at the EGM a summary of the rules of which is set out in paragraph 10(b) of Part VI of this document

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OFFICERS AND ADVISERS OF THE COMPANY

Directors	Mark Andrew Vaughan-Lee Anthony David Nettleton Balme Allan Ferguson Christopher Harwood Bernard Mills Roger Joseph Taylor; all of: 40 George Street, London W1H 5RE
Proposed Directors	Douglas Alan Small Irvin Leon Small Richard Bernard Vacek Jnr. Robert Wayne Gates Jnr.; all of: 350 28th Avenue North Nashville, TN 37209, USA The Hon. William Denman Eberle of: 53 Mt. Vernon Street, Boston, MA 02108, USA Rupert James Philip Morton of: Midland Montagu Tower, 156 West 56th Street, NY 10019, USA
Company Secretary and Registered Office	Paul George Dumond, A.C.A., 40 George Street, London W1H 5RE
Financial Advisers and Joint Stockbrokers	Smith New Court Corporate Finance Limited, Chetwynd House, 24 St Swithin's Lane, London EC4N 8AE
Joint Stockbrokers	Charterhouse Tilney, 1 Paternoster Row, St. Paul's, London EC4M 7DH
Auditors and Reporting Accountants (Amercoeur)	Price Waterhouse, Chartered Accountants, Southwark Towers, 32 London Bridge Street, London SE1 9SY
Reporting Accountants (Horace Small)	Arthur Andersen & Co., Chartered Accountants, 1 Surrey Street, London WC2R 2PS Arthur Andersen & Co., Independent Public Accountants, 224 Church Street, Suite 1100, Nashville, TN 37219, USA
Auditors (Horace Small)	Kraft Bros., Eschman, Patton & McGill, Independent Public Accountants, Suite 1200 Parkway Towers, 404 James Robertson Parkway Nashville, TN 37219, USA
Bankers (Horace Small)	Third National Bank in Nashville, and Kleinwort Benson Limited, 201 4th Avenue North, Nashville, TN 37244 USA 20 Fenchurch Street, London EC3P 3DB
Solicitors to the Company and the Issue	Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA
Registrars and Receiving Agents	Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL

SUMMARY OF INFORMATION

The following information is derived from, and should be read in the context of, the full text of this document.

Following Completion it is intended that the sole business of the Enlarged Group will be that operated by Horace Small. The objective of the Continuing Directors will be to concentrate on the expansion and development of that business.

Horace Small comprises Horace Small Manufacturing Company (trading under the name Horace Small Apparel Company) and its operating subsidiaries, Mt. Pleasant Mfg. Co., Inc. and R & R. The group is an integrated manufacturer and distributor of fitted uniforms and corporate clothing and a distributor of accessories and equipment — serving, primarily, the US Federal (non-military), State and Local Government agencies, and a number of safety and security work forces and large and small corporations. Horace Small is well represented in its market and services over 30,000 customer accounts.

When ordinary shares in Amercoeur were first dealt in on the Third Market of The Stock Exchange in June 1987, Amercoeur was mainly involved in anthracite mining and peat processing. During the period ended 31st December 1989, the Company closed most of its operations. The Company is currently in negotiations for the sale of the assets of Pinetrees, its only remaining operating subsidiary.

Summary of the trading records of Amercoeur and Horace Small

Set out below is a summary of the trading records of Amercoeur and Horace Small, for the three financial periods ended 31st December 1989, extracted from the Accountants' Report on Amercoeur set out in Part III and the Accountants' Report on Horace Small set out in Part II of this document.

	Periods ended 31st December		
	18 months 1987	12 months 1988	12 months 1989
	£'000	£'000	£'000
Amercoeur			
Turnover	1,280	1,342	182
Operating profit/(loss)	55	(684)	(271)
Profit/(loss) on ordinary activities before taxation	115	(737)	(269)

	Years ended 31st December		
	1987	1988	1989
	\$'000	\$'000	\$'000
Horace Small			
Turnover	51,307	52,872	77,938
Operating profit	5,093	6,371	7,721
Profit on ordinary activities before taxation	4,403	4,792	4,633

Shareholders are directed to the Accountants' Report on Horace Small in Part II where the following material exceptional items, which are not expected to recur, are set out, which were deducted in arriving at the profit set out above:

	Years ended 31st December		
	1987	1988	1989
	\$'000	\$'000	\$'000
— Interest expense	521	1,644	3,090
— Director's remuneration	380	426	444

Market Information

Rights Issue price and the Subscription price per New Ordinary Share	125p*
Shares in issue following the Rights Issue and the Subscription	31,165,025
Market capitalisation following the Rights Issue and the Subscription at the Rights Issue price	£38.96 million
Pro forma consolidated net assets following the Acquisition, the Rights Issue and the Subscription	£21.27 million
Pro forma consolidated net assets per share following the Acquisition, the Rights Issue and the Subscription	68p
Pro forma historic yield at the Rights Issue price	3.2 per cent.

The pro forma statement of net assets of the Enlarged Group is set out in Part IV of this document. The pro forma historic yield is calculated on the basis set out under "Dividends" below.

*The Subscription price is treated as 125p being the sterling equivalent at 9th April 1990 of \$2.04.

PART I

The Enlarged Group

INFORMATION ON HORACE SMALL

Horace Small comprises Horace Small Manufacturing Company (trading under the name Horace Small Apparel Company) and its operating subsidiaries, Mt. Pleasant Mfg. Co., Inc. and R & R. Horace Small is an integrated manufacturer and distributor of fitted uniforms and corporate clothing, including shirts, trousers, jackets and outerwear, and a distributor of accessories and equipment. Horace Small is well represented in its large and highly fragmented market, servicing over 30,000 customer accounts.

Horace Small had a turnover of \$77.9 million during the year to 31st December 1989, of which the manufacturing division accounted for \$31 million and the distribution division for \$46.9 million. The executive offices, main manufacturing facility and the headquarters of its distribution subsidiary, R & R, are located in Nashville, Tennessee. There are also two manufacturing plants, in Guthrie, Kentucky and Mt. Pleasant, Tennessee. R & R currently operates sixteen distribution centres, principally in the eastern United States.

Horace Small operates in a sector of the uniform market in which established and supportive contacts with distributors and a reputation for quality products and reliability are key to success and growth. One distinguishing factor in Horace Small's success has been its "uniform distribution programme", serving primarily "image-conscious" corporations and certain US Federal (non-military), State and Local Government agencies. This programme manages the supply of uniforms to thousands of employees, in the size and specification required by the wearer, and co-ordinates the related accounting, data-storing and distribution systems for the corporation or agency concerned.

History

The business of Horace Small was founded in 1937 by Mr. Horace Small in Nashville, Tennessee, and was operated as a sole proprietorship, manufacturing primarily trousers and caps. In 1954, Horace Small was incorporated under the laws of Tennessee with Mr. Horace Small and Irvin Small, his son, as the shareholders. Various exchanges of stock between members of the Small family occurred from 1957 until 1986, when the voting common stock was held equally between Irvin and his brother, Richard. The non-voting common stock was held by Irvin Small, Richard Small, other family members and four trusts created for the benefit of Mr. Horace Small's grandchildren. Following a leveraged buyout in late 1987 and a series of purchases by Horace Small of its own non-voting stock in 1987 and 1988, Irvin Small held 100 per cent. of the voting common stock and the majority of the non-voting common stock, while Doug Small, son of Irvin, held approximately 26 per cent. of the non-voting common stock. In December 1989, Doug Small purchased all of Irvin Small's stock. As part of Completion, Doug Small will first purchase all of the remaining stock from the Small family trust.

Mt. Pleasant Mfg. Co., Inc. was acquired in 1976 and the Guthrie Garment Company was acquired in 1988. R & R was founded in Nashville, Tennessee by Robert Gates, Jr. and Ronald Pate in 1971 as a distributor of uniforms and accessories in Tennessee. In 1985, Horace Small expanded into uniform distribution through the acquisition of an 80.2 per cent. interest in R & R. Simultaneously on Completion, Doug Small will acquire and give to Horace Small for no additional consideration the remaining common stock of R & R.

The Markets served

Customers are usually organisations buying on behalf of their staff. Unlike the fashion industry, the majority of the products are functional and do not require substantial style changes from year to year; as a result stocks rarely become obsolete. The Continuing Directors believe that the fitted uniform industry is relatively recession resistant.

Horace Small operates at the quality end of the market, where public image is a very important factor and where higher margins can therefore be achieved. Customers appear to place emphasis on product quality, durability, high standards of service and a wide range of product lines.

Public Safety customers are the largest group of customers and are typically State and Local law enforcement agencies, fire departments, correctional officers, emergency medical services and private security guards. Commercial/Industrial/Service customers are private organisations whose employees represent the public perception of that organisation's image and whose appearance plays an important part in the marketing of that organisation.

Through the "uniform distribution programme" Horace Small supplies both government agencies including US Federal (non-military), State and Local Government agencies, and a growing number of private, national and regional accounts such as Federal Express Corporation.

Horace Small is the primary uniform supplier to those US Federal (non-military), government agencies (other than the Postal Service) which are its customers. The Postal Service, although an important customer, also uses a number of other suppliers. One customer accounted for approximately 15 per cent. of turnover in 1989. No other customer accounted for more than 7 per cent. of turnover in that year.

Suppliers

Horace Small purchased fabrics and other raw materials to a value of \$14.4 million from over 50 suppliers in 1989. The Continuing Directors believe that Horace Small is not dependent upon any one supplier for its principal fabrics or raw materials.

It is Horace Small's corporate policy, in accordance with general philosophy in the industry, to buy fabrics exclusively from suppliers in the United States.

Manufacturing

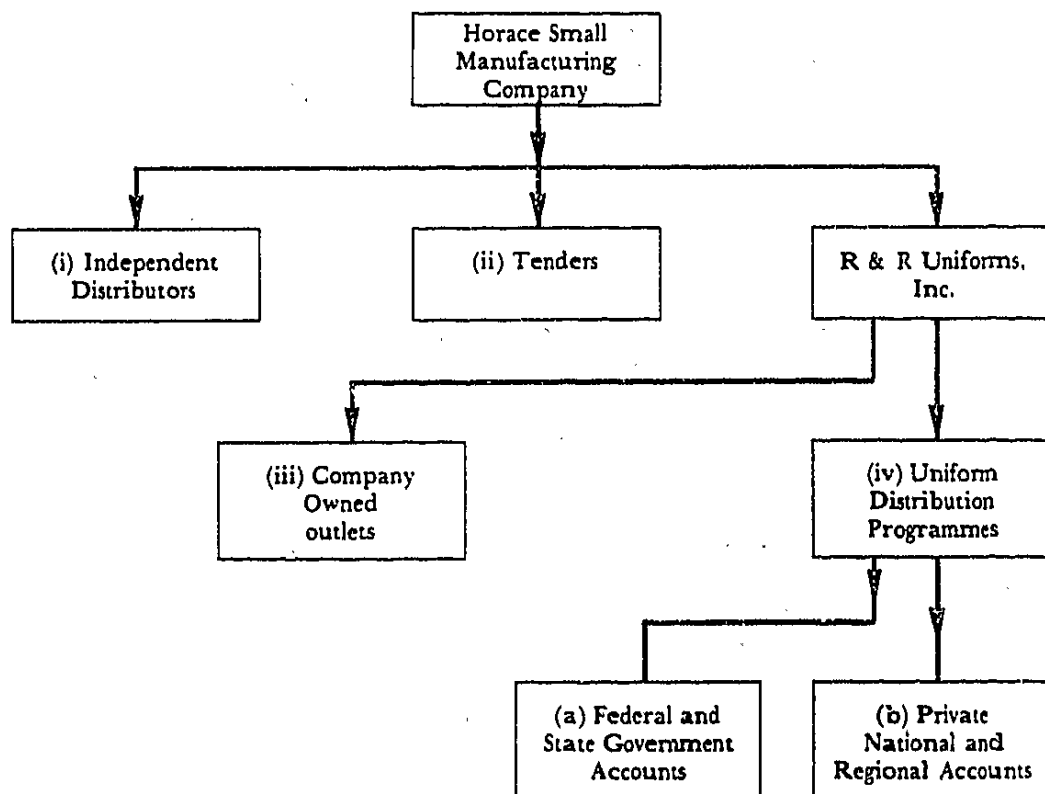
Horace Small manufactures trousers, jackets and outerwear at its primary site in Nashville, Tennessee, shirts at the Mt. Pleasant facility and trousers at the facility at Guthrie, Kentucky.

The process involves the quality testing and assembly of cloth woven by suppliers. There is very little wastage of cloth as Horace Small has installed computer-aided design technology.

Horace Small sub-contracts a proportion of its manufacturing, which in 1989 accounted for a significant proportion of this division's output. The Continuing Directors intend to keep sub-contracting within appropriate limits to ensure operating flexibility whilst avoiding undue dependence on other manufacturers.

Marketing and Sales

The marketing and sales operations are directed through the following distribution channels:



(i) Independent Distributors

The manufacturing division sells to independent distributors who maintain stocks of uniforms and accessories which are sold to customers. The typical distributor operates within a certain geographic region, through its own sales force and has alteration facilities on the premises. The sales force visits customers such as fire departments, police departments, hotels, banks, travel agencies and fast food restaurants. Orders are largely met from the distributor's existing stock. The manufacturing division sells to over 500 such distributors.

(ii) Tenders

The manufacturing division also tenders to State and Local Government agencies. These customers do not need the services offered by independent distributors or R & R and consequently are not prepared to pay the additional margins charged.

(iii) Company-Owned Outlets

R & R, the distribution division, operates 16 distribution centres most of which have a certain geographic market area. It is the Continuing Directors' intention to derive further benefits from the integration of manufacturing and distribution by increasing the proportion of the manufacturing division's output supplied to R & R and the proportion of R & R's sales supplied by the manufacturing division.

In addition to the products supplied by the manufacturing division, R & R provides a wide range of accessories such as shoes, ties, leather goods, rainwear, insignia, protective gloves and various other items of public safety and law enforcement equipment.

(iv) Uniform Distribution Programme

This programme manages the supply of uniforms to thousands of employees, in the size and specification required by the wearer, and co-ordinates the related accounting, data-storing and distribution systems for the corporation or agency concerned.

(a) US Federal (non-military), State and Local Government Contracts:

In the early 1980's, R & R developed a new uniform procurement and distribution system with specialised software programmes for the National Park Service. Because of the success of this uniform distribution programme, seven other US Federal Government agencies adopted a similar programme. R & R is currently the primary supplier of uniforms to five of these Federal agencies:

- US National Park Service
- US Customs
- US Fish and Wildlife
- US Corps of Engineers
- US Immigration and Naturalisation Service

The US Immigration and Naturalisation Service is the largest customer of the five. Sales to these five agencies totalled approximately \$12 million in the year ended 31st December 1989. All programmes and contracts have been awarded, conditional on annual renewal by the agency, until 1994, except for the Immigration and Naturalisation Services contract which has been similarly awarded until 1993.

Such Government contracts for the supply of uniforms are awarded on the basis of both price and technical capabilities and typically cover a term of five years, conditional on annual renewal within the five year period. If the next five year contract is awarded to a different distributor, all the remaining stock is bought out from the previous distributor. The management's experience is that, due to the amount of administration involved, each agency selects only one supplier and regularly annually renews within the fixed term.

(b) Private National and Regional Corporate Accounts

R & R is presently under contract to supply several corporations with uniforms for their employees; the largest customer is Federal Express Corporation. These uniforms are designed and manufactured exclusively for the specific clients. Due to the success of these uniform distribution programmes R & R is marketing similar programmes to a number of other corporations.

FINANCIAL RECORD OF HORACE SMALL

The turnover, operating profit and profit on ordinary activities before taxes of Horace Small for the three years ended 31st December, 1989, as extracted from the Accountants' Report set out in Part II of this document, are as follows:

	Years ended 31st December		
	1987	1988	1989
	\$'000	\$'000	\$'000
Turnover	51,307	62,872	77,938
Operating profit	5,093	6,371	7,721
Profit on ordinary activities before taxation	4,403	4,792	4,633

These audited figures demonstrate the growth in turnover and operating profit achieved over the last 3 years.

The financial performance of Horace Small has been affected by a number of items, none of which is expected to recur. Shareholders are directed to the Accountants' Report on Horace Small in Part II where the following material exceptional items, which are not expected to recur, are set out, which were deducted in arriving at the profit set out above:

	Years ended 31st December		
	1987	1988	1989
	\$'000	\$'000	\$'000
-- Interest expense	521	1,644	3,090
-- Director's remuneration	380	426	444

DIVIDENDS

The future dividend policy of the Enlarged Group will reflect the performance of the Enlarged Group and the obligation of the Company, as referred to in paragraph 1(f)(vii) of Part V, to restrict distributions from Horace Small to the Company to 25 per cent. of the pre-tax profits of Horace Small as described in that paragraph.

The Directors believe that the restrictions on the distributions from Horace Small to the Company are appropriate. As stated above, the Directors believe that there are excellent opportunities for acquisitions within the uniform industry's fragmented market; by restricting the dividend payable, Horace Small will be able to put more money back into growing its business.

The Continuing Directors intend to recommend a final dividend in respect of the year ending 31st December 1990 and thereafter expect that the Company will pay an interim dividend in October and a final dividend in July.

On the basis of the audited figures shown above for the period to 31st December 1989, with adjustments to reflect the items not expected to recur, the Continuing Directors would have felt able to recommend a total dividend of 3p net per share (equivalent to a gross dividend of 4p per share) in respect of that year on the assumptions that: (i) all the Consolidated Ordinary Shares and New Ordinary Shares had been in issue and had been listed on the Official List for the whole of that year, (ii) there had been no material adverse change in exchange rates and (iii) the reduction of share capital and of share premium account described in paragraph 2 of Part VI below had taken effect.

INFORMATION ON AMERCOEUR

Business

When ordinary shares in Amercoeur were first dealt in on the Third Market of The Stock Exchange in June 1987, Amercoeur was mainly involved in anthracite mining and peat processing. During the period ended 31st December 1989, the Company closed most of its operations due to the poor outlook for coal prices and the losses sustained by the Company. Losses on ordinary activities of £268,355 were recorded during the year. Extraordinary losses of £281,332 increased the loss for the period to £549,687. The extraordinary items represented losses on discontinued operations and a write down both of investments and of the assets of a subsidiary sold in the year.

Subsequent to the year end, the Company disposed of its interest in the Enercol joint venture for a nominal amount. The Company is currently in negotiation for the sale of the assets of Pinetrees, its only remaining operating subsidiary.

It is intended, therefore, that the sole business of the Enlarged Group will be that of Horace Small.

DIRECTORS, PROPOSED DIRECTORS AND EMPLOYEES

The Board of Directors of the Company following the Acquisition will comprise the following individuals:

Mark A. Vaughan-Lee (Non-Executive Chairman)

Mark Vaughan-Lee, aged 44, was appointed a Director of the Company on 27th October 1988. He is Chairman of American Business Systems PLC and American Distributors PLC and a Director of Alexander Proudfoot PLC, York Trust PLC and Fundinvest plc.

Douglas A. Small (Chief Executive)

Douglas Small (USA), aged 38, was appointed Chief Executive Officer of Horace Small in December, 1989, having been President since 1986. He has 20 years' experience with Horace Small. He is a member of the Board of Directors of the American Apparel Manufacturers Association and the Board of Directors of the National Association of Uniform Manufacturers and Distributors.

Richard B. Vacek Jnr. (Finance Director)

Richard Vacek, Jnr. (USA), aged 41, 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. His responsibilities include corporate accounting, budgets and planning, credit and management information systems.

Robert W. Gates, Jnr. (Executive Director)

Robert Gates, Jnr. (USA), aged 43, has been President of R & R since 1972. He has 21 years' experience in the industry, spending three years as a sales representative with Factory Sales Uniform Co. before co-founding R & R. In 1985 he and his co-shareholders sold 80.2 per cent. of R & R to Horace Small and he remained President of R & R.

Anthony D. N. Balme (Non-Executive Director)

Anthony Balme, aged 41, was appointed a Director of the Company on 19th October 1988. He is Chairman of Baynard Securities (London) Ltd. (a member firm of The International Stock Exchange) and is a director of a number of other UK private companies.

The Hon. William D. Eberle (Non-Executive Director)

The Hon. William Eberle (USA), aged 66, served as a Special Trade Representative during the Nixon and Ford administrations. A director of various US corporations, Mr. Eberle was a founder of Boise Cascade and served as Chairman and Chief Executive Officer of American Standard. He is currently a Director of Alexander Proudfoot PLC and Vice Chairman of the US Council of the International Chamber of Commerce.

Christopher H. B. Mills (Non-Executive Director)

Christopher Mills, aged 37, was appointed a Director of the Company on 27th October 1988. He is Managing Director of Consolidated Venture Trust plc, and a Director of American Business Systems PLC, American Distributors PLC, European Home Products PLC, Finlan Group PLC, Merchant Manufactory Estates Company PLC, Mid-States PLC and Alexander Proudfoot PLC.

R. James P. Morton (Non-Executive Director)

James Morton, aged 36, is a Director of Samuel Montagu Inc.. He is also a Director of American Business Systems PLC and American Distributors PLC.

Irvin (Jimmy) L. Small (Non-Executive Director)

Irvin (Jimmy) Small (USA), aged 61, was Chief Executive Officer of Horace Small from 1962 until December 1989 and President from 1962 until 1986. He has 40 years' experience with Horace Small, is a past President of the National Association of Uniform Manufacturers and Distributors and is widely respected within the uniform industry.

Messrs. Ferguson and Taylor, who are Directors of the Company, have indicated that they wish to resign on Completion.

The Executive Directors of Horace Small are supported by an experienced management team, in whom the Continuing Directors have great confidence.

Employees

The average number of persons employed by Horace Small and its subsidiaries for the last three financial years was as follows:

Period ended 31st December		
1987	1988	1989
948	983	1,076

Share Option Schemes

The Directors consider that it would be in the interests of the Enlarged Group if senior management, including Executive and Non-Executive Directors, who have a direct influence on future profitability and growth, were to be given incentives to contribute to the Enlarged Group's success through share option schemes.

The Acquisition Agreement requires the Company to adopt the US Stock Option Plan and grant options thereunder to senior management of Horace Small over ordinary shares in the Company representing 5 per cent. of the issued share capital as enlarged by the Rights Issue and Subscription at the Rights Issue price of 125p per share. No grant of options will be made at any time if the number of shares issuable pursuant to all subsisting options and rights to subscribe granted within 10 years of the proposed grant would exceed 10 per cent. of the Company's enlarged issued share capital at that time.

Summaries of the rules of the proposed UK Share Option Scheme and US Stock Option Plan are set out in paragraph 10 of Part VI below. The schemes require the approval of shareholders by the passing of Resolution No. 1 in the case of the US Stock Option Plan and Resolution No. 6 in the case of the UK Share Option Scheme.

INTRODUCTION TO THE OFFICIAL LIST

The Directors believe that it is appropriate to seek a listing on the Official List of The Stock Exchange for the Company's shares, thereby significantly increasing their marketability.

PROSPECTS FOR THE ENLARGED GROUP

The Continuing Directors have identified a number of opportunities for further growth.

The Continuing Directors believe that the success of the uniform distribution programme should lead to a substantial number of further corporate accounts. In addition the Enlarged Group intends to make acquisitions (funded from its own resources) of a number of small independent distributors within identified geographic market areas. The Continuing Directors also believe that the uniform industry's fragmented market offers excellent acquisition opportunities.

Horace Small is also considering expanding into the manufacture of accessories complementary to its product line, e.g. leather goods, insignia and rainwear.

In manufacturing, Horace Small plans to expand its product lines with:

- (i) uniforms specifically designed and tailored for women (such uniforms have typically been modified versions of uniforms designed for men); and
- (ii) the use of advanced materials to enhance its products and to increase the number of possible applications.

The Continuing Directors are also considering expanding the manufacturing capacity, since in 1989 a significant proportion of Horace Small's production was sub-contracted.

In addition, the capital injection of \$30 million into Horace Small should allow Horace Small to repay substantially all of the external indebtedness incurred at the time of the leveraged buy-out in late 1987. Horace Small's cash flow should enable it to continue its growth and development and the Enlarged Group to fund acquisitions out of its own resources.

The Continuing Directors view the future with confidence.

PART II

Accountants' Report on Horace Small

The following is a copy of a report from Arthur Andersen & Co., Chartered Accountants:—

The Directors,
Amercoeur Energy PLC,
40 George Street,
London,
W1H 5RE

**ARTHUR
ANDERSEN
& CO**

The Directors,
Smith New Court Corporate Finance Limited,
Chetwynd House,
24 St. Swithin's Lane,
London,
EC4N 8AE

1 Surrey Street,
London, WC2R 2PS

424 Church Street,
Suite 1100,
Nashville,
Tennessee 37219

10th April 1990

Dear Sirs,

1. We have examined the audited consolidated accounts of Horace Small Manufacturing Company and its subsidiaries (together, "Horace Small") for the three years ended 31st December 1989 in accordance with the Auditing Guideline: "Prospectuses and the Reporting Accountant". Horace Small Manufacturing Company is incorporated in the State of Tennessee, U.S.A.
2. Horace Small has been principally engaged in the manufacture and distribution of fitted uniforms.
3. The financial information set out below has been prepared under the historical cost convention, on the basis described in the accounting policies section and is based on the audited consolidated accounts of Horace Small after making such adjustments as we consider necessary. The only adjustments were to reflect United Kingdom Statements of Standard Accounting Practice where these differ from U.S. generally accepted accounting principles, particularly in relation to purchased goodwill and stock valuation. The accounts for the three financial years ended 31st December 1989 were audited by Kraft Bros., Esstman, Patton & Harrell, Independent Public Accountants, whose reports in respect of each year were unqualified.
4. In our opinion, the financial information gives, for the purposes of the Listing Particulars dated 10th April, 1990, a true and fair view of the state of affairs of Horace Small at 31st December 1987, 1988 and 1989 and of its profit and source and application of funds for each of the three years then ended.
5. No audited accounts for Horace Small have been prepared in respect of any period subsequent to 31st December 1989.

A. ACCOUNTING POLICIES

The accounting and reporting policies of Horace Small conform to general practice within the industry.

1. Principles of consolidation

The accompanying financial information, which has been prepared in accordance with United Kingdom Statements of Standard Accounting Practice under the historical cost convention, consolidates the accounts of Horace Small Manufacturing Company and its subsidiaries. All intra-group transactions and balances are eliminated.

The principal subsidiaries of Horace Small Manufacturing Company are as follows:

<i>Subsidiaries</i>	<i>Location</i>	<i>Activity</i>
Mt. Pleasant Mfg. Co., Inc. (100%)	Mt. Pleasant, Tennessee	Manufacturing and distribution
R & R (80.2%)	Nashville, Tennessee	Distribution

R & R has a wholly-owned subsidiary, R & R Uniforms of Florida, Inc.

All the subsidiaries have been held throughout the three year period.

During the three year period, Horace Small Manufacturing Company has acquired certain assets of the following businesses which have been absorbed into Horace Small's existing operations:

<i>Business</i>	<i>Year</i>	<i>Location</i>
Virgil Lacy Distributor of uniforms and accessories	1987	Alabama
J & D Uniforms, Inc. Distributor of uniforms and accessories	1989	Illinois and Michigan
Dickies Industrial Services Distributor of uniforms and accessories	1989	Texas

2. Purchased goodwill

Purchased goodwill, arising on the acquisition of businesses, is written off against retained earnings immediately upon acquisition.

3. Deferred loan costs

Loan costs are capitalised within debtors and amortised on a straight-line basis over the related repayment periods.

4. Tangible fixed assets

Tangible fixed assets are recorded at cost. Depreciation is computed on a reducing balance basis to write off costs over the estimated useful lives of the related assets at the following annual rates:

Buildings and improvements	2.5—20%
Machinery and equipment	6.5—33%
Furniture and fixtures	8.0—33%

Freehold land is not depreciated.

5. Stocks

Stocks are valued at the lower of first-in, first-out (FIFO) purchase cost, net of trade discounts, and net realisable value.

6. Marketable equity securities

Marketable equity securities are carried at the lower of cost or market value with market value determined for the portfolio as a whole based on quoted closing prices as at the balance sheet date.

7. Turnover and deferred income

Turnover, which arises wholly in the U.S.A., represents the invoiced value of the goods sold, exclusive of applicable sales taxes, if any. Advances on contract sales are recorded as deferred income and released to turnover only when the goods are despatched.

8. Taxation

Charges in respect of current taxation comprise Federal, State and City taxes on the taxable profit for the year.

Deferred taxation is provided under the liability method in respect of items accounted for in different periods in the accounts and tax returns. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

9. Leases

Assets held under finance leases are initially reported at the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms, with an equivalent liability categorised as appropriate under creditors due within or after one year. Such assets are amortised evenly over the shorter of the related lease terms or their economic lives. Finance charges are allocated to accounting periods over the period of the lease to effect constant rates of interest over the lease terms.

Rentals under operating leases are charged to expense as incurred.

10. Pension costs

It is Horace Small's general policy to provide for and fund pension liabilities on a going concern basis, on the advice of external actuaries, by payments to independent trusts. Independent actuarial valuations on a going concern basis are carried out annually. The amounts charged to the profit and loss accounts are calculated to produce a substantially level percentage of the current and future payroll. Variations from regular costs are allocated to profit and loss on a prudent basis over a period not exceeding employees' average remaining service lives.

Any difference between amounts charged to the profit and loss account and Horace Small's contributions paid to the pension fund is shown in the balance sheet as a prepaid expense or accrued expense, as applicable.

B. CONSOLIDATED PROFIT AND LOSS ACCOUNTS OF HORACE SMALL FOR THE YEARS ENDED 31st DECEMBER

	Notes	1987	1988	1989
		\$'000	\$'000	\$'000
Turnover	1	51,307	62,072	77,938
Cost of sales		(33,406)	(42,437)	(51,785)
Gross profit		17,901	20,435	26,153
Selling, distribution and administrative costs	2	(10,775)	(11,962)	(16,183)
Officers' remuneration: exceptional	3	(380)	(426)	(444)
other		(1,658)	(1,676)	(1,805)
Operating profit		5,093	6,371	7,721
Interest expense: exceptional	4	(521)	(1,644)	(3,090)
other		(207)	(200)	(200)
Investment income	5	98	265	202
Profit on ordinary activities before taxation	6	4,403	4,792	4,633
Tax on profit on ordinary activities	7	(2,007)	(1,743)	(1,736)
Profit on ordinary activities after taxation		2,396	3,049	2,897

C. CONSOLIDATED BALANCE SHEETS OF HORACE SMALL AT 31st DECEMBER

	Notes	1987	1988	1989
		\$'000	\$'000	\$'000
Fixed assets				
Tangible	8	2,505	3,006	3,131
Current assets				
Stock	9	16,024	22,199	27,884
Debtors and prepaid expenses	10	11,883	12,755	15,759
Cash		587	233	1,202
Marketable securities		4,154	—	—
		32,648	35,187	44,845
Creditors falling due within one year	11	(13,832)	(12,034)	(14,255)
Net current assets		18,816	23,153	30,590
Total assets less current liabilities		21,321	26,159	33,721
Creditors falling due beyond one year	12	(10,020)	(22,891)	(27,673)
Deferred taxation	13	(1,977)	(1,266)	(1,804)
Minority interest	14	(188)	(259)	(406)
		9,136	1,743	3,838
Capital and reserves				
Ordinary shares	16	87	40	40
Paid-in capital	16	212	212	212
Retained earnings	16	8,837	1,491	3,586
		9,136	1,743	3,838

**D. CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS
OF HORACE SMALL FOR THE YEARS ENDED 31st DECEMBER**

	1987	1988	1989
	\$'000	\$'000	\$'000
Cashflows from operating activities:			
Profit on ordinary activities after taxation	2,396	3,049	2,897
Adjustments to reconcile to net cash used in operating activities:			
Depreciation	542	571	615
Amortisation	—	69	92
Deferred income taxes	213	(710)	538
Gain on sale of property, plant and equipment	(13)	—	—
Loss (gain) on marketable securities	909	13	(150)
Minority interests	(2)	71	147
(Increase) decrease in:			
— Debtors and prepaid expenses	(2,044)	(972)	(3,115)
— Stock	1,030	(6,175)	(2,135)
— Creditors falling due within one year (excluding movement on long-term debt)	2,117	1,853	(91)
Other	(35)	—	(106)
Total adjustments	2,717	(5,280)	(4,205)
Net cash provided by (used in) operating activities	5,113	(2,231)	(1,308)
Cashflows used in investing activities:			
Proceeds from sale of marketable securities	20,221	6,025	150
Purchase of marketable securities	(17,533)	(1,885)	—
Increase in notes receivable	(58)	—	—
Proceeds from sale of property, plant and equipment	18	—	—
Proceeds from sale of officer's life insurance policies to a former shareholder	308	—	—
Purchase of property, plant and equipment	(559)	(554)	(498)
Fair value of assets acquired	—	—	(3,083)
Loan costs associated with acquisitions	(42)	(511)	(17)
Other purchase consideration	(517)	(384)	—
Other	(9)	19	76
Net cash provided by (used in) investing activities	1,829	2,710	(3,372)
Cashflows used in financing activities:			
Proceeds (reduction) of short-term notes	4,617	(4,617)	—
Proceeds of long-term debt	8,061	11,316	6,535
Reduction of long-term debt	(197)	(1,017)	(916)
Redemption of share capital	(22,259)	(6,515)	—
Dividends	(319)	—	—
Net cash provided by (used in) financing activities	(10,097)	(833)	5,649
Increase (decrease) in cash	(3,155)	(354)	969
Cash, beginning of year	3,742	587	233
Cash, end of year	587	233	1,202

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF HORACE SMALL

1. Turnover

Contributions to group turnover, which arose wholly in the U.S.A., were as follows:

	1987	1988	1989
	\$'000	\$'000	\$'000
Manufacturing	31,130	33,001	31,010
Distribution	20,177	29,071	46,928
	<u>51,307</u>	<u>62,872</u>	<u>77,938</u>

2. Selling, distribution and administrative costs

	1987	1988	1989
	\$'000	\$'000	\$'000
Warehouse and delivery costs	2,088	2,333	3,229
Selling costs	3,122	3,042	3,778
General and administrative costs	5,565	6,587	9,176
	<u>10,775</u>	<u>11,962</u>	<u>16,183</u>

3. Officers' remuneration

Officers' remuneration comprises the salaries, bonuses and benefits of Horace Small's employees and shareholders who have reached the grade of Vice President or above. The exceptional element represents the excess of the actual payments to a director over the remuneration which will be receivable pursuant to arrangements which will apply following the acquisition of Horace Small.

The number of employees categorised as officers in each year was as follows:

	1987	1988	1989
	<u>20</u>	<u>18</u>	<u>20</u>

4. Interest expense

The exceptional element represents the interest expense attributable to borrowings incurred to finance the acquisition of Horace Small's own shares as described in Note 12.

5. Investment income

	1987	1988	1989
	\$'000	\$'000	\$'000
Interest income	150	35	—
Dividend income	648	161	2
(Loss)/gain on marketable securities	(909)	(13)	150
Other	149	82	50
	<u>38</u>	<u>265</u>	<u>202</u>

In 1987 and 1988 certain marketable securities were sold at a loss to provide funds for the redemption of certain shareholders' interests.

6. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after taxation

	1987	1988	1989
	\$'000	\$'000	\$'000
Depreciation	542	571	613
Amortisation of loan expenses	—	154	192
Operating lease rentals	407	674	977
Auditors' remuneration	103	133	140
Pension expense	128	152	175
Savings plan expense	133	158	143
Employees' profit sharing plan expense	50	54	63

7. Tax on profit on ordinary activities

	1987	1988	1989
	\$'000	\$'000	\$'000
Current tax:			
Federal	1,532	2,053	883
State	262	400	313
	1,794	2,453	1,196
Deferred tax	213	(710)	538
Total	2,007	1,743	1,734

8. Tangible fixed assets

	1988	1989
	\$'000	\$'000
Cost:		
Land	124	124
Building and leasehold improvements	1,447	1,480
Property held under finance leases	1,816	1,816
Furniture and fixtures	1,144	1,438
Machinery and equipment	3,447	3,860
	7,978	8,718
Accumulated depreciation	(4,972)	(5,587)
Net book value	3,006	3,131

9. Stock

	1988	1989
	\$'000	\$'000
Finished goods	16,105	23,198
Work in progress	1,836	1,177
Raw materials	4,258	3,509
	22,199	27,884

10. Debtors and prepaid expenses

	1988	1989
	\$'000	\$'000
Trade debtors	11,939	14,498
Cash surrender value of key man life insurance policies	105	105
Prepaid expenses	65	164
Taxation receivable	—	544
Deferred loan costs	490	416
Other receivables	81	32
Note receivable	75	—
	<u>12,755</u>	<u>15,759</u>

The deferred loan costs, which largely arose in 1988, are being amortised on a straight-line basis over the period of the loan. It is, however, intended that, following the proposed acquisition of Horace Small by Amercoeur, the loan will be repaid from the proceeds of the Rights Issue and the Subscription. The balance of deferred loan costs will accordingly be written off to the profit and loss account on the date of the Acquisition.

11. Creditors falling due within one year

	1988	1989
	\$'000	\$'000
Trade creditors	4,939	4,953
Current portion of long-term debt	927	1,843
Accrued expenses	1,457	2,243
Payables to pension and profit-sharing trust	148	254
Taxes accrued and withheld	64	152
Federal and state corporate taxes payable	364	160
Deferred income	3,875	3,047
Deferred purchase consideration	260	1,603
	<u>12,034</u>	<u>14,255</u>

12. Creditors falling due beyond one year

	1988	1989
	\$'000	\$'000
Bank borrowings:		
notes payable	12,581	10,771
revolving credit line	6,270	12,805
Notes payable—subordinated	3,520	3,520
Obligation under finance leases	252	260
	<u>22,623</u>	<u>27,356</u>
Deferred purchase consideration	268	317
	<u>22,891</u>	<u>27,673</u>

(i) Bank borrowings

The bank borrowings are pursuant to a loan agreement entered into in 1988 with Third National Bank in Nashville, Tennessee and Kleinwort Benson Limited in London, England. The loans were to provide long-term financing for the purchase of Horace Small's own shares (which replaced substantially all short-term bank loans entered into in 1987 to finance the purchase of the shares), to finance the acquisition of other businesses, to consolidate other debts and provide for other corporate purposes. The agreement provides for a maximum of \$27 million credit facility, consisting of: (i) a maximum \$11 million revolving credit line, plus an additional \$3 million seasonal revolving credit line at specified times under certain specified conditions, expiring on 31st December 1992, and (ii) a \$13 million senior secured loan, which requires monthly interest payments and quarterly principal payments, until 29th December 1995.

The loan agreement has been amended to provide for an additional \$2.5 million temporary credit facility. This temporary additional facility expires on 29th June 1990 and no amounts were outstanding at 31st December 1989. The average monthly outstanding balance of this line totalled \$794,000 for 1989.

The borrowings under the loan agreement are secured on Horace Small's assets. In addition, the agreement places certain restrictions on dividends and capital expenditure and requires maintenance of certain minimum ratios and balances relating to Horace Small's working capital and net worth.

(ii) Notes payable—subordinated

In 1988, Horace Small Manufacturing Company redeemed a portion of the outstanding class B non-voting ordinary shares for \$6,509,000 cash plus notes payable totalling \$3,520,000, payable in quarterly instalments, of interest only, at the rate of 9.6% per annum until maturity on 15th January 1998–2000. The notes are subordinate to Horace Small Manufacturing Company's obligations under the loan agreement.

Long-term debt (excluding amounts due within one year which are shown in note 11 above) at 31st December 1989 is repayable as follows:

<i>Year Ended 31st December</i>	<i>\$'000</i>
1991	2,070
1992	3,873
1993	5,735
1994	5,736
1995 and thereafter	9,942
	<u>27,356</u>

13. Deferred taxation

The deferred taxation balance comprises the taxation effects of timing differences calculated at the tax rates expected to apply in the anticipated years of reversal and is analysed as follows:

	<i>1988</i>	<i>1989</i>
	<i>\$'000</i>	<i>\$'000</i>
LIFO stock valuation for tax purposes	1,298	1,934
Other current assets and liabilities	(231)	(1,050)
Fixed assets	199	920
	<u>1,266</u>	<u>1,804</u>

The movement on the deferred taxation account represents the deferred tax charge or credit in each year (note 7). There is no unprovided potential deferred taxation.

14. Minority interest

Minority interest represents the minority shareholders' proportionate interest in the book values of the majority-owned subsidiary. The minority interest in the net income/(loss) of this subsidiary is charged/(credited) to other investment income and was as follows:

	<i>1987</i>	<i>1988</i>	<i>1989</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Minority interest in net income/(loss)	(2)	71	147

15. Investment in subsidiaries

<i>Subsidiary</i>	<i>Cost of Investment 31st December 1989 \$'000</i>	<i>Percentage Owned</i>	<i>Incorporated and located in</i>
Mt. Pleasant Mfg. Co., Inc.	286	100%	Tennessee, USA
R & R	1,970	80.2%	Tennessee, USA

The minority interest in R & R is to be acquired by Doug Small who will give it to Horace Small immediately prior to Completion.

16. Capital and reserves

The following is a summary of capital and reserves for the three years ending 31st December 1989:

	<i>Class A</i>		<i>Class B</i>		<i>Additional Paid-in Capital</i>	<i>Retained Earnings</i>
	<i>Number</i>	<i>Amount Paid-up S'000</i>	<i>Number</i>	<i>Amount Paid-up S'000</i>		
BALANCE 1 JANUARY 1987	1,326	13	13,916,000	139	212	28,635
Net profit for the year	—	—	—	—	—	2,396
Common stock redeemed and retired-at cost	(663)	(6)	(5,907,500)	(59)	—	(22,194)
BALANCE 31 DECEMBER 1987	663	7	8,008,500	80	212	8,837
Net profit for the year	—	—	—	—	—	3,049
Common stock redeemed and retired-at cost	—	—	(4,664,875)	(47)	—	(9,988)
Purchased goodwill	—	—	—	—	—	(407)
BALANCE 31 DECEMBER 1988	663	7	3,343,625	33	212	1,491
Net profit for the year	—	—	—	—	—	2,897
Purchased goodwill	—	—	—	—	—	(802)
BALANCE 31 DECEMBER 1989	663	7	3,343,625	33	212	3,586

17. Commitments and contingencies

(a) Operating Leases

Horace Small operates certain distribution centres and certain other assets under non-cancellable operating lease agreements which expire at various dates.

Future minimum lease payments under non-cancellable operating leases are as follows:

<i>Year Ended 31st December</i>	<i>S'000</i>
1990	917
1991	697
1992	558
1993	344
1994	285
Thereafter	69
	<u>2,870</u>

(b) Major Contracts with Customers

Horace Small Manufacturing Company (through its subsidiary, R & R) supplies uniforms and accessories under major contracts with five US Federal agencies and Federal Express Corporation.

The US Government contracts expire between September 1993 and September 1994. These contracts typically cover a term of five years, conditional on annual renewal within the five year period.

Under one contract it is provided that three US Government agencies will provide for advances from the government in the amount of 80% of the cost of inventory purchased on their behalf. The advances are applied against the agencies' respective receivable accounts for approximately 70% of applicable sales. If a contract is not renewed at the end of a contract period, any remaining stock applicable to the contract will be purchased by the agency.

The contract with Federal Express Corporation is for a three-year period ending 31st December 1990, and provides for two one-year renewal options at expiration, if mutually agreed upon.

(c) Contingencies

Horace Small has been notified by its outside legal counsel that it could be subject to applicable penalty provisions of the Internal Revenue Code totalling approximately \$150,000 for its inadvertent failure in certain years to comply with reporting requirements pertaining to the Health, Life and Accidental Death and Dismemberment Plan of R & R. Management believes that the compliance deficiencies have now been corrected and that no significant penalties will be assessed. Accordingly, no provision for any such liability, has been made in the financial statements.

18. Pension, savings and employee profit sharing plans

Horace Small operates a defined benefit, non-contributory pension scheme for eligible employees of Horace Small Manufacturing Company and Mt. Pleasant Mfg. Co., Inc., based on final pensionable pay. The assets of the scheme are held separately from those of Horace Small. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified U.S. actuary on the basis of annual valuations. The last valuation assumed that the long term rate of return on assets would be 7.5% per annum and that salary increases would average 6.5% per annum.

The most recent U.S. actuarial valuation showed that the value of the fund assets represented 96% of the benefits that had accrued to members. The deficiency will be eliminated at the current employer's contribution rate and has been provided for in full at 31st December, 1989.

Horace Small also operates savings plans for employees of Horace Small Manufacturing Company and Mt. Pleasant Mfg. Co., Inc.. Horace Small contributes amounts equivalent to half of the employees' basic contributions, to a maximum of 3% of covered wages.

R & R sponsors an employees' profit sharing plan covering employees who meet certain service requirements.

Horace Small's contributions to these plans are analysed in Note 6 above.

Yours faithfully,

ARTHUR ANDERSEN & CO.

PART III
Accountants' Report on Amercoeur

Price Waterhouse



The Directors,
Amercoeur Energy PLC,
40 George Street,
London,
W1H 5RE

Southwark Towers,
32 London Bridge Street,
London,
SE1 9SY

and

The Directors,
Smith New Court Corporate Finance Limited,
Cherwynd House,
24 St Swithins Lane,
London,
EC4N 8AE

10th April 1990

Dear Sirs,

We have audited the financial statements of Amercoeur Energy PLC and its subsidiaries ("the Amercoeur Group") for the eighteen months ended 31st December 1987 and the two years ended 31st December 1989. The financial information set out below has been prepared from these financial statements to which no adjustments are considered necessary. Our work has been carried out in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant".

On 11th June 1987 Amercoeur Energy PLC (formerly Dacia Petroleum PLC) acquired the whole of the issued share capital of Amercoeur Limited. The acquisition was accounted for as a merger to form the Amercoeur Group. During the period under review, there have been a number of acquisitions and disposals of subsidiaries. Additionally, during 1989 the assets and businesses of three subsidiaries were disposed of. Details of these movements are shown in note 2. Enercol Energy Systems Limited has been disposed of in March 1990 for approximately £3,000, net of expenses. The Group currently consists of the holding company Amercoeur Energy PLC, the trading subsidiary Pinetrees (Coal Mining) Company Limited and seven non-trading companies ("the Current Amercoeur Group").

In our opinion the financial information set out below gives a true and fair view of the results and source and application of funds of the Amercoeur Group for each of the periods stated and of the state of affairs of the Amercoeur Group at the dates stated.

No financial statements have been made up and audited for any period subsequent to 31st December 1989 and no dividends have been declared or paid subsequent to 31st December 1989.

Consolidated Profit and Loss Accounts of the Amerscoeur Group

	Notes	Period ended 31st December		
		18 months 1987 £'000	12 months 1988 £'000	12 months 1989 £'000
Turnover	3	1,280	1,342	132
Cost of sales		(957)	(1,287)	(218)
Gross profit/(loss)		323	55	(86)
Distribution costs and administrative expenses		(207)	(636)	(235)
Other operating charges		(61)	—	—
Operating profit/(loss) before exceptional item		55	(581)	(271)
Exceptional item	4	—	(103)	—
Operating profit/(loss) after exceptional item		55	(684)	(271)
Interest receivable and similar income		100	11	14
Interest payable and similar charges		(38)	(64)	(12)
Share of related company loss		(2)	—	—
Profit/(loss) on ordinary activities before taxation	5	115	(737)	(269)
Tax on profit/(loss) on ordinary activities	6	9	—	—
Profit/(loss) on ordinary activities after taxation		124	(737)	(269)
Minority interest		—	22	—
Extraordinary items	7	—	(3,994)	(281)
Profit/(loss) for the financial period		124	(4,709)	(550)
Earnings/(loss) per share	8	1.68p	(5.98p)	(1.36p)

Consolidated Balance Sheets of the Amercoeur Group

The consolidated balance sheets of the Amercoeur Group at the dates stated are as follows:

		31st December 1987 £'000	31st December 1988 £'000	31st December 1989 £'000
Fixed assets				
Tangible assets	10	4,638	786	157
Investments	11	22	12	—
		<u>4,660</u>	<u>798</u>	<u>157</u>
Current assets				
Stocks	12	357	168	—
Debtors	13	302	201	25
Cash at bank and in hand		413	613	74
		<u>1,072</u>	<u>982</u>	<u>99</u>
Creditors				
Amounts falling due within one year	14	(735)	(1,024)	(170)
Net current assets/(liabilities)		<u>337</u>	<u>(42)</u>	<u>(71)</u>
Total assets less current liabilities		<u>4,997</u>	<u>756</u>	<u>86</u>
Creditors				
Amounts falling due after more than one year	15	(166)	(117)	—
Deferred Government Grants	16	(328)	—	—
		<u>4,503</u>	<u>639</u>	<u>86</u>
Representing:				
Capital and Reserves				
Called up share capital	18	1,143	1,974	1,974
Share premium account	19	2,735	2,744	2,744
Other reserves	20	676	—	—
Profit and loss account	21	(79)	(4,086)	(4,632)
		<u>4,475</u>	<u>632</u>	<u>86</u>
Minority interests		<u>28</u>	<u>7</u>	<u>—</u>
		<u>4,503</u>	<u>639</u>	<u>86</u>

Consolidated Statement of Source and Application of Funds of the Amercoeur Group

The consolidated statements of source and application of funds of the Amercoeur Group for the three periods ended 31st December 1989 are as follows:

	18 months ended 31st December 1987 £'000	Year ended 31st December 1988 £'000	Year ended 31st December 1989 £'000
Results of Operations			
Profit (loss) before taxation, after minority interests	115	(715)	(209)
Adjustment for items not involving movement of funds			
Depreciation	254	149	6
Amortisation of government grants	(69)	—	—
Other items (net)	26	(9)	(30)
	<u>326</u>	<u>(575)</u>	<u>(293)</u>
Funds from other sources			
Net proceeds from issues of shares	3,537	693	—
Deferred government grants	155	—	—
Increase in creditors due after more than one year	—	117	—
Proceeds on disposal of fixed assets	23	30	515
Proceeds on disposal of investments	5	38	—
Proceeds on disposal of subsidiaries	—	300	—
	<u>4,046</u>	<u>603</u>	<u>222</u>
Application of Funds			
Extraordinary item losses of subsidiaries up to date of disposal of businesses	—	—	(202)
Additions to tangible assets	(3,407)	(510)	(15)
Decrease in bank loans and other creditors due after more than one year	(390)	—	(148)
Purchase of subsidiaries	—	(150)	—
Other items	(31)	(2)	—
	<u>218</u>	<u>(59)</u>	<u>(141)</u>
Increase/(Decrease) in working capital			
Increase/(decrease) in stock	257	(15)	(163)
Increase/(decrease) in debtors	205	(141)	(172)
(Increase)/decrease in creditors	(326)	236	354
	<u>136</u>	<u>80</u>	<u>19</u>
Movement in net liquid funds:			
Increase/(decrease) in cash and bank balances	24	209	(532)
Decrease/(increase) in short term loans and overdrafts	58	(348)	372
	<u>218</u>	<u>(59)</u>	<u>(141)</u>

1. Accounting Policies

The principal accounting policies of the Amercoeur Group, which have been applied consistently throughout the three periods ended 31st December 1989, are as follows:

Accounting convention

The financial information has been prepared under the historical cost convention.

Basis of consolidation

The financial information is a consolidation of the financial statements of the Company and its subsidiaries (except for those where disposal is expected), all of which prepare financial statements to 31st December. The results of subsidiaries are included from the dates of acquisition, except where merger accounting principles are used, with any difference between the consideration and the value attributable to the net tangible assets at the date of acquisition being taken directly to reserves. For acquisitions treated as mergers, any differences between the nominal value of the shares issued and the nominal value of the shares of the company acquired is taken directly to reserves.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and include mine development expenditure which consists of all expenses and overheads incurred in the preparation and development of mines for production. All direct costs relating to mine development are capitalised. Overheads are capitalised where an abnormal concentration of management and professional costs are incurred on mine development.

Depletion and depreciation

The cost of the mines and the expenditure capitalised to bring them into production is written off in the proportion that the tonnage extracted bears to the total remaining estimated recoverable reserves as determined by independent assessment. Capitalised mine expenditure is fully written off when in the opinion of the directors it has no value.

Other tangible fixed assets

Other tangible fixed assets are depreciated on a straight line basis so as to write off their cost over their estimated useful lives as follows:

Freehold buildings	25 years
Plant and equipment	4-8 years
Motor vehicles	4 years

No depreciation is charged on freehold land.

Additional depreciation is provided where, in the opinion of the Directors, the net realisable value of fixed assets has fallen below their book value.

Government grants

Capital grants received in respect of capital expenditure on fixed assets are credited to the profit and loss account by instalments calculated at the same rates as the depreciation on the assets to which the grants relate.

Revenue grants are credited to the profit and loss account as received.

Leasing transactions

Finance leases have been capitalised and included in the balance sheet under tangible assets and the related obligations shown under creditors. Where grant aided assets are leased the amounts capitalised have been restricted to the minimum lease payments.

Payments made under operating leases are charged to the profit and loss account.

Investments

Listed investments are stated at the lower of cost and market value. Profits and losses on disposal and provisions against cost are dealt with in the profit and loss account.

Unlisted investments which are held as long-term investments are stated at cost unless, in the opinion of the Directors, there has been a permanent impairment in their values. Profits and losses on disposal and provisions against cost are dealt with in the profit and loss account.

Deferred taxation

The Amercoeur Group provides for deferred taxation, to take account of timing differences between the treatment of certain items for accounting purposes and their treatment for taxation purposes, on the liability method. Deferred taxation is only provided for where a liability is considered likely to arise in the foreseeable future.

Stocks

Stocks are stated at the lower of cost and net realisable value. In respect of minerals, cost includes all direct costs in bringing the mineral stock to its present location and condition. Only minerals removed from the mines and transported to stocking areas are treated as stock.

Foreign currencies

Assets and liabilities denominated in foreign currencies are expressed in sterling at rates of exchange ruling at the balance sheet date. Realised and unrealised exchange differences are dealt with in the profit and loss account, with the exception of the movements on the translation of the accounts of foreign subsidiaries and branches which are taken directly to reserves.

2. Amercoeur Group

During the three periods under review the following changes in the composition of the Amercoeur Group have taken place:

23rd December 1986	Acquisition of the whole of the issued share capital of Pinetrees (Coal Mining) Company Limited.
8th July 1987	Acquisition of 51 per cent. of the issued share capital of Enercol Energy Systems Limited.
11th November 1987	Acquisition of the anthracite processing facility to be operated by Amercoeur Anthracite Limited.
14th April 1988	Acquisition of the whole of the issued share capital of Webberat Limited.
10th May 1988	Acquisition of the whole of the issued share capital of Welsh Dragon Coal Limited.
11th October 1988	Disposal of the Amercoeur Group's shareholdings in Amercoeur Limited, Peatlogs Limited, Amercoeur Energy Limited, and Webberat Limited.
31st May 1989	Disposal of the assets of, and business carried on by, Amercoeur Anthracite Limited.
8th June 1989	Disposal of the assets of, and business carried on by, Brynglas Mining Limited.
23rd June 1989	Disposal of the assets of, and business carried on by, Welsh Dragon Coal Limited.

The Amercoeur Group consists of Amercoeur Energy PLC, Pinetrees (Coal Mining) Company Limited and seven non-trading companies. The shareholding in Enercol Energy Systems Limited was disposed of in March 1990 and is therefore included as a current asset at 31st December 1989 at a nominal value.

The Company is currently in negotiations for the sale of the assets of Pinetrees, its only remaining operating subsidiary.

3. Turnover

Turnover represents almost entirely sales of anthracite and peat products, net of VAT to UK customers, as follows:

	Periods ended 31st December		
	18 months 1987 £'000	12 months 1988 £'000	12 months 1989 £'000
Current Amercoeur Group			
Anthracite	456	127	181
Other	14	5	1
Divested businesses and subsidiaries			
Anthracite	601	1,210	—
Peat	201	—	—
Other	8	—	—
	<u>1,280</u>	<u>1,342</u>	<u>182</u>

4. Exceptional Item

The mild winter of 1987-88, coupled with the increase in the availability of imported coal, led to the temporary shut down of the mines at Brynglas and Pnietrees from May to November 1988. The exceptional item represents the costs associated with this shut down, which are:

	Year ended 31st December 1988 £'000
Redundancy pay	17
Notice and holiday pay	65
Other close down costs	21
	<u>103</u>

5. Profit/(loss) on ordinary activities before taxation

The profit (loss) on ordinary activities before taxation is stated after charging/(crediting):

	Period ended 31st December		
	18 months 1987 £'000	12 months 1988 £'000	12 months 1989 £'000
Audit fees	31	23	10
Directors' emoluments	86	42	27
Depreciation	254	149	6
Hire of plant and machinery	70	5	—
Finance leasing charges	51	2	—
Lease rentals receivable	(2)	—	—
Amortisation of deferred government grants	(69)	—	—
Overheads capitalised to mine development	(571)	(233)	—

The profit (loss) on ordinary activities before taxation is allocated between the Current Amercoeur Group and the divested businesses and subsidiaries as follows:

	Period ended 31st December		
	18 months 1987 £'000	12 months 1988 £'000	12 months 1989 £'000
Current Amercoeur Group	100	(348)	(269)
Divested businesses and subsidiaries	15	(389)	—
	<u>115</u>	<u>(737)</u>	<u>(269)</u>

	Period ended 31st December		
	18 months 1987 £'000	12 months 1988 £'000	12 months 1989 £'000
Average number of employees	<u>98</u>	<u>56</u>	<u>29</u>

6. Tax on profit on ordinary activities

The tax credit in 1987 represents the release of deferred tax.

7. Extraordinary Items

The extraordinary loss in the year ended 31st December 1988 relates to the following items:

	£'000
Loss on disposal of the peat operations	(1,431)
Write-down of coal division assets to estimated net sales value	(2,055)
Other items net	(8)
	<u>13,494</u>

The extraordinary loss in the year ended 31st December 1989 relates to the following items:

	£'000
Trading losses of subsidiaries for the period from the decision being taken to sell, to the date of disposal of their businesses	(202)
Write-down of fixed assets to net sales value	(67)
Write-down of investments	(12)
	<u>(281)</u>

No taxation arises on the extraordinary items.

8. Earnings/(loss) per share

The calculation of earnings (loss) per share is based upon the profit (loss) on ordinary activities after taxation and minority interest for each period and on the weighted average number of ordinary shares in issue during that period.

9. Dividends

No dividends have been declared or paid during the three periods ended 31st December 1989.

10. Tangible Assets

	1987 £'000	1988 £'000	1989 £'000
Cost			
Freehold land and buildings	766	694	12
Mines	2,397	1,194	321
Plant, equipment and motor vehicles	1,879	984	271
	<u>5,042</u>	<u>2,872</u>	<u>604</u>
	1987 £'000	1988 £'000	1989 £'000
Depreciation			
Freehold land and buildings	11	262	5
Mines	163	1,194	321
Plant, equipment and motor vehicles	230	630	121
	<u>404</u>	<u>2,086</u>	<u>447</u>
Net book amounts	<u>4,638</u>	<u>786</u>	<u>157</u>
Assets held under finance leases included in the above	<u>389</u>	<u>24</u>	<u>—</u>
Depreciation charged on assets under finance leases during period	<u>51</u>	<u>7</u>	<u>—</u>

11. Investments

	1987 £'000	1988 £'000	1989 £'000
Cost			
Shares in listed companies	10	12	12
Shares in unlisted companies	58	58	58
	<u>68</u>	<u>70</u>	<u>70</u>
Provision			
Shares in listed companies	—	—	12
Shares in unlisted companies	46	58	58
	<u>46</u>	<u>58</u>	<u>70</u>
Net book amounts	<u>22</u>	<u>12</u>	<u>—</u>

12. Stock

Stock is mainly represented by goods held for resale.

13. Debtors

	1987 £'000	1988 £'000	1989 £'000
Amounts falling due within one year:			
Trade debtors	131	106	6
Amounts owed by related companies	10	—	—
Prepayments and accrued income	29	—	—
Other debtors	132	95	19
	<u>302</u>	<u>201</u>	<u>25</u>

14. Creditors: Amounts falling due within one year

	1987 £'000	1988 £'000	1989 £'000
Bank loans and overdrafts	54	402	—
Trade creditors	312	208	20
Hire purchase obligations	84	10	—
Obligations under finance leases	81	—	—
Other creditors, including tax and social security	204	404	150
	<u>735</u>	<u>1,024</u>	<u>170</u>

15. Creditors: Amounts falling due after more than one year

	1987 £'000	1988 £'000	1989 £'000
Bank loan	8	107	—
Obligations under finance leases and hire purchase agreements	158	10	—
	<u>166</u>	<u>117</u>	<u>—</u>

16. Deferred Government Grants

	Period ended 31st December		
	18 months 1987 £'000	12 months 1988 £'000	12 months 1989 £'000
At beginning of period	241	328	—
Grants received	134	—	—
Amortisation	(69)	—	—
Eliminated through company disposal	—	(328)	—
At end of period	<u>328</u>	<u>—</u>	<u>—</u>

17. Deferred Tax

There was no potential liability to deferred tax at 31st December 1987, 1988 or 1989.

18. Called up Share Capital

	1987 £'000	1988 £'000	1989 £'000
Authorised			
Ordinary shares of 10p	1,400	2,800	1,974
Ordinary shares of 0.1p	—	—	826
	<u>1,400</u>	<u>2,800</u>	<u>2,800</u>
Issued and fully paid ordinary shares 10p	<u>1,143</u>	<u>1,974</u>	<u>1,974</u>

During the period the following changes in share capital occurred:

1st June 1987	750,000 deferred shares of 10p were converted into 750,000 ordinary shares of 10p.
11th June 1987	3,930,000 ordinary shares of 10p were issued and credited as fully paid as consideration for the whole of the issued share capital of Amercoeur Limited. This acquisition was accounted for as a merger with 2,400,000 shares being treated as issued on 13th September 1986. Additionally 1,173,330 ordinary shares of 10p each were issued and credited as fully paid in settlement of loans owed by the Amercoeur Group.
16th June 1987	4,250,000 ordinary shares of 10p each were issued at 65p by way of a private placing raising £2.43 million net of expenses.
13th November 1987	253,164 ordinary shares of 10p each were issued at 39.5p and credited as fully paid as part of the consideration for the purchase of the anthracite processing facility.
10th March 1988	347,222 ordinary shares of 10p each were issued at 36p as part consideration for Welsh Dragon Coal Ltd.
14th April 1988	67,425 ordinary shares of 10p each were issued at 33p as consideration for Webberat Ltd.
21st December 1988	7,894,094 ordinary shares of 10p each were issued at par under a Rights Issue.

During the period the Company operated a Share Option Scheme which related to the ordinary shares of the Company. Since 31st December 1989 all options under the Scheme have been cancelled.

19. Share Premium Account

	1987 £'000	1988 £'000	1989 £'000
Share premium	<u>2,735</u>	<u>2,744</u>	<u>2,744</u>

The movement on share premium relates to issues of shares noted above, net of expenses.

20. Other reserves

	Period ended 31st December		
	18 months 1987 £'000	12 months 1988 £'000	12 months 1989 £'000
At beginning of period	272	676	—
Merger adjustment	427	—	—
Goodwill on acquisition of Enercol Energy Systems Limited	(23)	23	—
Merger reserve realised on disposal	—	(699)	—
At end of period	<u>676</u>	<u>—</u>	<u>—</u>

21. Profit and Loss Account

	Period ended 31st December		
	18 months 1987 £'000	12 months 1988 £'000	12 months 1989 £'000
At beginning of period	(183)	(79)	(4,086)
Result for the period	124	(4,709)	(550)
Merger reserve realised on disposal	—	699	—
Unrealised exchange movement	(20)	3	4
At end of period	<u>(79)</u>	<u>(4,086)</u>	<u>(4,632)</u>

22. Post Balance Sheet Events

Subsequent to 31st December 1989 the Company had a rights issue of one ordinary share of 0.1p to qualifying holders of each ordinary share of 10p at a price of 2p per share. The proceeds of the rights issued and fully taken up were £394,700 less expenses of £37,375. The rights issue was to provide funds to enable the Amercoeur Group to investigate various potential acquisitions.

The Company is currently in negotiations for the disposal of the assets of Pinetrees, its only remaining operating subsidiary.

Yours faithfully,

PRICE WATERHOUSE
Chartered Accountants

PART IV

Pro Forma Statement of Net Assets of the Enlarged Group

The following pro forma statement of combined net assets is provided for illustrative purposes only. It is based on the audited consolidated balance sheet of Horace Small as at 31st December 1989, as set out in the Accountants' Report included as Part II, and the audited consolidated balance sheet of Amercoeur as at 31st December 1989, as set out in the Accountants' Report included as Part III. The following adjustments have been made in order to record:

1. the cash proceeds of the share issues — £394,000, less expenses of £37,375, in January 1990.
— £37,900,000, less expenses in relation to the Acquisition, Rights Issue and Subscription of £1,700,000 payable by the Company and other fees of £293,000 (\$475,000) payable by Horace Small.
2. the Acquisition for a cash consideration comprising \$14.75 million in respect of all of the outstanding common stock of Horace Small and \$13.5 million in respect of a Non-Competition agreement with Doug Small, equivalent to £17,438,000 in aggregate.
3. the repayment of bank debt in Horace Small amounting to £15,691,000 (\$25,419,000) as at 31st December 1989, the related write off of the deferred loan costs of £257,000 (\$416,000) and the repayment of loan notes amounting to £2,173,000 (\$3,520,000) as at 31st December 1989.
4. the acquisition by Doug Small, and gift by him to Horace Small, of the minority interest of R & R amounting to £251,000 (\$406,000) at 31st December, 1989.

	Horace Small \$'000	Horace Small £'000	Amercoeur £'000	Adjustments £'000	Pro forma £'000
Fixed assets	3,131	1,933	157	—	2,090
Current assets					
Stock	27,884	17,212	—	—	17,212
Debtors	15,759	9,728	25	(257)	9,496
Cash	1,202	742	74	958	1,774
	44,845	27,682	99	701	28,482
Creditors due within one year	(14,255)	(8,799)	(170)	1,138	(7,831)
Net current assets	30,590	18,883	(71)	1,839	20,651
Creditors due beyond one year	(27,673)	(17,082)	—	16,726	(356)
Deferred taxation	(1,804)	(1,114)	—	—	(1,114)
Minority interest	(406)	(251)	—	251	—
Net assets	3,838	2,369	86	18,816	21,271

Notes.

- (i) No account has been taken of the trading results of Amercoeur or Horace Small since 31st December 1989.
- (ii) The Continuing Directors have yet to decide upon the fair values of the net assets acquired. Accordingly, the above pro forma does not take account of any revaluation or goodwill which may arise.
- (iii) An exchange rate of \$1.62 = £1 has been used in the preparation of this statement

PART V

Principal Terms of the Acquisition and Subscription

1. The Acquisition

- (a) The Acquisition Agreement was entered into between Horace Small, Doug Small, the Company and MLM Limited and dated as of 17th January 1990 whereby Doug Small agreed to sell, and the Company agreed to purchase, all the common stock of Horace Small in issue. The Acquisition may be effected through an intermediate holding company formed for that purpose, to which Amercoeur's rights under the Acquisition Agreement may be assigned.
- (b) The total sum payable in cash on Completion by Amercoeur was \$58.25 million, of which:
- \$14.75 million was the consideration for the purchase of all the issued and outstanding common stock of Horace Small;
 - \$13.5 million was to be paid to Doug Small on Completion pursuant to the Non-Competition Agreement referred to below; and
 - \$30 million was to be applied by way of capital contribution or loan to Horace Small to enable it to repay substantially all of its existing bank and certain other indebtedness. The Acquisition Agreement provided that the indebtedness of Horace Small at Completion was not to be more than \$31,832,000.
- (c) The conditions of the Acquisition Agreement comprised *inter alia*:
- (i) Arthur Andersen & Co. having completed a "long form" accountants' report and due diligence review of Horace Small and the results of such a report and review being satisfactory in form and substance to the Company, in good faith on the exercise of its sole discretion;
 - (ii) the approval of the Amercoeur shareholders of the Acquisition by the passing of Resolution No. 1 set out in the Notice of the EGM;
 - (iii) the adoption of the US Stock Option Plan pursuant to the passing of Resolution No. 1 set out in the Notice of the EGM; and
 - (iv) the obtaining of all requisite third party and governmental consents and approvals which the Directors consider include the approval of the Council of The Stock Exchange to the admission of all the Consolidated Shares and the New Ordinary Shares to the Official List of The Stock Exchange.

Condition (i) has now been satisfied.

(d) Representations, warranties, covenants and indemnities on the part of Doug Small were given to the Company but liability thereunder was limited to an aggregate of \$16.25 million. Undertakings were given by Doug Small and the Company relating to the conduct of the business prior to Completion.

(e) Irvin Small, as a former shareholder of Horace Small, agreed to give to the Company the warranties, representations, covenants and indemnities contained in the Acquisition Agreement, liability under which was limited to an aggregate of \$12 million.

(f) The Acquisition Agreement contained, *inter alia*, the following further provisions:

- (i) the Company agreed to permit Doug Small and up to 14 senior executives of Horace Small (who are "accredited investors" for the purposes of US securities laws) to purchase New Ordinary Shares at the Rights Issue price for an aggregate value of up to \$5 million and Doug Small undertook to purchase New Ordinary Shares to the value of not less than \$1 million;
- (ii) the Company agreed, that, at Completion, senior management of Horace Small would be granted options to subscribe for ordinary shares of 5p each in the Company representing 5 per cent. of the enlarged issued share capital of the Company following the Rights Issue and Subscription, at the Rights Issue price. This will be effected pursuant to the US Stock Option Plan;
- (iii) the Company and Doug Small agreed that at Completion Doug Small would enter into an Employment Agreement between Horace Small, the Company and himself as President, Chief Executive Officer and Director of Horace Small and a Director of the Company for a period terminating on the earlier of 30th May 1997 or his death or disability at a base salary of \$400,000 per annum. Doug Small was also to receive a super bonus equal to 20 per cent. of the consolidated profits before tax of Horace Small for the year ended 31st December 1990 (payable no later

than 1st July 1991) with adjustments for write off of goodwill, expenses of the Acquisition, bonus payments and distributions and other specified adjustments and the second payment to be made no later than 1st July 1992 and equal to 25 per cent. of the consolidated profits before tax of Horace Small for the year ending 31st December 1991 (adjusted as aforesaid). In addition, Doug Small is to be provided with various benefits available to Executive Directors of Horace Small. The Company has undertaken to guarantee the performance of Horace Small under the Employment Agreement and to elect Doug Small, Irvin Small, Dick Vacek and Robert Gates as Directors of Horace Small and to use its best efforts to cause them to be elected Directors of the Company;

- (iv) Doug Small undertook that, by Completion, he would have acquired the outstanding minority interest in Horace Small's subsidiary, R & R, at his own expense, and given it to Horace Small and that he would have acquired the remaining shares of the common stock of Horace Small which he did not already own;
- (v) Horace Small agreed to pay a fee to SunTrust Corporate Finance, its financial adviser, and the Company agreed to pay the fees of Samuel Montagu Inc., the Company's adviser;
- (vi) MIM Limited, on behalf of clients, undertook for no consideration and subject to all the conditions being satisfied, to procure that the Company had sufficient funds to complete the Acquisition Agreement and to vote in favour of the resolution to approve the Acquisition;
- (vii) the Company agreed to limit distributions in relation to each financial year of the Company from Horace Small to the Company to not more than 25 per cent. of the profits after tax of Horace Small or, to the extent that any payments were deductible against tax on profits of Horace Small, 25 per cent. of the profits before tax, after adding back tax deductions attributable to non-compete payments pursuant to the Non-Competition Agreement between the Company and Doug Small;
- (viii) the Company agreed to enter into the Non-Competition Agreement by which it was to pay to Doug Small \$13.5 million, in consideration for an undertaking on the part of Doug Small not to compete with the Company for a period of five years from Completion;
- (ix) the Company agreed to enter into a Bonus Pool Agreement with Horace Small, Richard Vacek, Doug Small and Robert Gates in order to provide certain long term incentives to employees of Horace Small and its subsidiaries. Employees were to be nominated by the Board of Horace Small in its discretion and the bonus pool would be determined on the basis of one fifth of Base Profits less \$55 million, but in any event the bonus pool was not to exceed \$12 million. The Base Profits are based on the aggregate of the consolidated profits before tax (subject to certain adjustments) of Horace Small for the periods from 1st January, 1990 to 31st December, 1996. The agreement provided that Doug Small was not to receive more than 60 per cent. of the bonus pool.

2. The Subscription Undertakings

Subscription undertakings have been given to the Company and Smith New Court by Doug Small and other executives of Horace Small (the "subscribers") whereby the subscribers, in order to participate in the equity of the Enlarged Group, agreed to subscribe at and conditional on Completion for an aggregate of up to 1,957,187 New Ordinary Shares at \$2.04 per share being the equivalent of 125p at 9th April 1990 in the following amounts:

<u>Subscribers</u>	<u>No. of New Ordinary Shares</u>
Doug Small	1,256,612
Irvin Small	24,465
Richard Vacek	7,339
Robert Gates	146,789
Ronald Pate	146,789
Gary McDaniel	146,789
MIM Limited	
in anticipation of	466,800
resale to certain clients	

PART VI

Additional Information

1. Incorporation and Share Capital

(a) Amercoeur

The Company was incorporated in England on 11th February 1919 (with registered number 153088) as a private limited company under the Companies Acts 1908 to 1917. The Company was re-registered as a public limited company under the Companies Acts 1948 to 1981 on 14th May 1982. The change of name of the Company to Amercoeur Energy PLC was effective on 12th June 1987.

The following table shows the present authorised and issued share capital of the Company:

Authorised		Issued
£826,497.50	ordinary shares of 0.1p each	£19,735.025
£1,973,502.50	ordinary shares of 10p each	£1,973,502.50

The following table shows the authorised and issued share capital of the Company following the consolidation of shares and the Rights Issue and Subscription.

Authorised		Issued
£2,230,264.95	ordinary shares of 5p each	£1,538,516.20
£1,973,505	ordinary shares of £5 each	£1,973,505

On 10th April 1987 the Company had an authorised share capital of £750,000 divided into 5,000,000 ordinary shares of 10p each and 2,500,000 deferred shares of 10p each of which 1,070,000 ordinary shares of 10p each were in issue and 750,000 deferred shares of 10p each were in issue.

On 1st June 1987 the Company converted each of the 750,000 deferred shares of 10p into one ordinary share of 10p.

On 11th June 1987 the Company issued 3,930,000 ordinary shares of 10p each credited as fully paid to Amercoeur Inc. in consideration for the whole of the issued share capital of Amercoeur Limited. The consideration for the acquisition was £1,097,000, satisfied by the issue of such shares.

On 11th June 1987 the Company issued 1,090,000 and 83,330 ordinary shares of 10p each credited as fully paid to Temple Investment & Finance Company Limited ("Temple") and to Westar Finance N.V. ("Westar") respectively in settlement of loans amounting to £327,533 and £25,000 which were owed by the Group to Temple and Westar respectively.

On 16th June 1987 the Company issued 4,250,000 ordinary shares of 10p each at 65p per share, by way of a private placing, raising £2.43 million net of expenses.

On 13th November 1987 the Company issued 253,164 ordinary shares of 10p credited as fully paid as part of the consideration for the purchase of an anthracite processing facility. The total consideration was £350,000 of which £250,000 was in cash.

On 10th March 1988 the Company issued 347,222 ordinary shares of 10p each credited as fully paid as part of the consideration for the purchase by the Company of the issued share capital of Welsh Dragon Coal Limited. The total consideration was £275,000 of which £150,000 was in cash.

On 14th April 1988 the Company issued 67,425 ordinary shares of 10p each credited as fully paid in consideration for the acquisition by the Company of the issued share capital of Webberat Limited. The total consideration for the acquisition was £22,250 satisfied by the issue of such shares.

On 21st December 1988 7,894,094 ordinary shares of 10p each were issued fully paid in cash at par pursuant to a rights issue.

On 12th January 1990 19,735,025 ordinary shares of 0.1p each were allotted fully paid in cash at 2p per share pursuant to the rights issue announced on 23rd November, 1989.

A Separate General Meeting of the holders of the ordinary shares of 10p each to be consolidated into ordinary shares of £5 each pursuant to the passing of Resolution No. 1 at the EGM has been convened for 3rd May 1990 immediately prior to the EGM at which an Extraordinary Resolution will be proposed in order to approve the passing of Resolution No. 5 to be proposed at the EGM to reduce the share capital on the ordinary shares of £5 each arising on the consolidation, so that their nominal value becomes 5p each.

An Extraordinary General Meeting of the Company has been convened for 3rd May 1990, to be held immediately after the Separate General Meeting, at which Resolutions will be proposed as summarised below. Resolutions Nos. 1 to 5 are to be proposed as Special Resolutions and Resolution No. 6 is to be proposed as an Ordinary Resolution.

At the said EGM:

Resolution No. 1 will be proposed in order:

- (a) to approve the Acquisition, the Rights Issue, the Subscription, and matters related to the Acquisition;
- (b) to consolidate every 50 shares of the Company to 1 Consolidated Ordinary Share being either an ordinary share of £5 arising on consolidation of the ordinary shares of 10p each or an ordinary share of 5p arising on consolidation of the ordinary shares of 0.1p each including the additional 25 ordinary shares of 0.1p each and the additional 25 ordinary shares of 10p each issued to Consolidated Venture Trust plc for an aggregate subscription price of £2.53 to enable the consolidation to be effected, and an amendment to the Company's Articles of Association to refer to the ordinary shares with their consolidated nominal values;
- (c) to increase the share capital of the Company to £4,203,769.95 by the creation of 28,075,399 ordinary shares of 5p each;
- (d) to authorise the Directors to allot and issue the New Ordinary Shares under the Rights Issue and Subscription; and
- (e) to approve and adopt the US Stock Option Plan, a summary of the Rules of which is set out in paragraph 10(b) below.

Resolution No. 2 will be proposed in order to give the Directors general authority to allot the unissued shares under Section 80 of the Companies Act 1985 until 2nd May 1995, and to empower them to disapply the pre-emption rights under Section 89 of the Companies Act 1985, in certain circumstances and (other than under Resolution No. 1) up to £77,900 in nominal amount until the earlier of the conclusion of the next Annual General Meeting of the Company or 3rd August 1991.

Resolution No. 3 will be proposed in order to change the name of the Company to United Uniform Services PLC.

Resolution No. 4 will be proposed in order:

- (a) to amend the objects clause in the Memorandum of Association of the Company, to give it objects more in keeping with its business; and
- (b) to amend the Articles of Association of the Company so that they shall be as summarised in paragraph 5 below.

Resolution No. 5 will be proposed in order to reduce, subject to the sanction of the High Court, the share premium account existing and arising on the issue of New Ordinary Shares pursuant to the Rights Issue and the Subscription and to reduce the share capital on each of the ordinary shares of £5 each in the Company arising on consolidation, pursuant to Resolution No. 1, by £4.95.

Resolution No. 6 will be proposed in order to approve and adopt the UK Share Option Scheme, a summary of the Rules of which is set out in paragraph 10(a) below.

Immediately following the Rights Issue and the Subscription and subject to the passing of Resolution No. 2 referred to above, the Directors will be generally authorised pursuant to Section 80 of the Companies Act 1985 to allot relevant securities (as defined therein) up to an aggregate nominal amount of £535,000 (being the Company's authorised but unissued share capital after allowing for the allotments and issues referred to above) and such authority would expire on 2nd May 1995.

The provisions of Section 89(1) of the Companies Act 1985, to the extent that they are not disapplied, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash (other than allotments under any employees' share scheme). The provisions of Section 89(1) will, subject to the passing of Resolution No. 1 at the EGM, be disapplied in connection with the Rights Issue and the Subscription. Immediately following completion of the Rights Issue and the Subscription and subject to the passing of Resolution No. 2 referred to above, the provisions of Section 89(1) of the Companies Act 1985 will be disapplied, up to 3rd August 1991.

or, if earlier, the Annual General Meeting in 1991 in connection with a rights issue, a share option scheme for employees and executive or non-executive directors or the provision of a cash alternative under Section 430(4) of the Companies Act 1985 and otherwise up to an aggregate nominal amount of £77,900 (representing 5 per cent. in number of the Company's issued share capital following the Rights Issue and the Subscription).

At Completion the Continuing Directors will grant options under the US Stock Option Plan pursuant to the Acquisition Agreement to management of Horace Small representing 5 per cent. of the issued ordinary share capital as enlarged by the Rights Issue and Subscription. Such options will be exercisable at the Rights Issue price.

Following completion of the Rights Issue and the Subscription no material issue of shares (other than to shareholders *pro rata* to their existing shareholdings or pursuant to options) will be made by the Company within a year of the date of this document without the prior approval of the Company in general meeting.

The Existing Ordinary Shares are in registered form. Subject to the passing of Resolution No. 1 at the EGM: (i) the New Ordinary Shares the subject of the Rights Issue are expected to be provisionally allotted on 5rd May 1990 and Provisional Allotment Letters in respect thereof are expected to be despatched on that day, and (ii) the New Ordinary Shares the subject of the Subscription will be issued at Completion. Following payment for the New Ordinary Shares, share certificates in respect of all New Ordinary Shares are expected to be despatched on 12th July 1990.

Existing share certificates of 10p each will remain valid in respect of the ordinary shares of £5 each until the reduction of share capital becomes effective, when new certificates for ordinary shares of 5p each will be despatched.

(b) Horace Small

On 1st January 1988, Horace Small entered into agreements to redeem 4,308,875 Class B Shares, for a price paid in cash and subordinated notes equal to \$2,150 per share.

On 29th December 1989, Doug Small acquired 3,130 shares from Irvin L. Small.

Doug Small has also agreed to acquire an additional 322,625 shares from The Irvin Leon Small Trust created under the Last Will and Testament of Horace Small which purchase will vest ownership of all issued and outstanding stock of Horace Small in Doug Small.

Currently the share capital of Horace Small consists of 4,006,625 shares. Horace Small has not issued any stock or made any other redemption in the two years prior to 10th April 1990.

Save as disclosed in this document:

- (i) no share or loan capital of the Company or, to a material extent, of any of its subsidiaries or of Horace Small, has been issued within the three years immediately preceding the date of this document or is proposed to be issued (otherwise than intra-group issues by wholly-owned subsidiaries and *pro rata* issues by partly-owned subsidiaries) fully or partly paid, for cash or for a consideration other than cash;
- (ii) no commission, discounts, brokerages or other special terms have been granted by the Company or to a material extent by any of its subsidiaries or by Horace Small within the three years immediately preceding the date of this document in connection with the issue or sale of any share or loan capital of the Company or to a material extent of any subsidiary or of Horace Small; and
- (iii) no unissued capital of the Enlarged Group, or any of its subsidiaries, is under option or is agreed, conditionally or unconditionally, to be put under option.

2. Reduction of Share Capital and Reduction of Share Premium Account

As at 31st December 1989 there was a deficit on the Company's profit and loss account of approximately £4.658 million which, if left in place, would prevent the Company from paying any dividends until profits in excess of the deficit have been made.

Further, as a result of the Acquisition, goodwill of up to £15 million will arise in the consolidated accounts of the Company, although this figure may vary depending on the net worth of Horace Small at Completion. Additional goodwill will also arise in the future as a result of further acquisitions. Goodwill arises in a company's accounts where the total consideration payable by it on an acquisition of a business or a company exceeds the fair value of the net separable assets acquired. Statement of Standard Accounting Practice No. 22 requires the Company to write off such goodwill either immediately against reserves or by amortising it through the profit and loss account of the Company. The Directors consider that it is in the interests of the Company to write off goodwill arising in its accounts, including the goodwill which will arise as a result of the Acquisition, and any future goodwill, against reserves. There are, however, insufficient existing reserves against which to do this.

The Directors therefore propose that the share capital of the Company be reduced by approximately £1.954 million by cancelling paid up capital to the extent of £4.95 upon each of the ordinary shares of £5 each arising on consolidation of the existing ordinary shares of 10p each and reducing the nominal value thereof to 5p. The Directors also propose that the share premium account, which will, following the Rights Issue and the Subscription amount to approximately £37.8 million, be reduced by £20 million.

Following the implementation of these proposals, the deficit of approximately £4.658 million on the profit and loss account of the Company will be eliminated. £17.242 million will be credited to a special reserve and will be used for the purpose of writing off the goodwill which will arise as a result of the Acquisition and which may arise as a result of any future acquisitions.

In connection with the application to the High Court, the Company will be obliged, in order to protect the position of creditors, to undertake to the High Court that the special reserve created on the reduction of the Company's share capital and share premium account will be treated as an undistributable reserve until all creditors who would have been able to prove in a notional liquidation of the Company commencing on the date on which the proposed reduction of capital and reduction of share premium account shall take effect shall have been paid in full or shall otherwise have agreed, subject to reducing the special reserve by the amount of any further increase in the paid up share capital or reserves of the Company after the said reduction of share capital and reduction of share premium account shall take effect. The Company will also give to the High Court such other undertakings as may be necessary for the protection of creditors. It is hoped that High Court approval will be obtained by the end of July 1990.

3. Details of the Rights Issue and the Subscription

As described in this document the Company is raising approximately £35.5 million (£33.8 million net of expenses) by a Rights Issue of 28,418,436 New Ordinary Shares to Qualifying Shareholders at 125p per share on the basis of 18 New Ordinary Shares for every 25 Existing Ordinary Shares held and by the Subscription. The Rights Issue price of 125p represents an issue premium of 120p over the nominal value of 5p each of the New Ordinary Shares. The Subscription will raise approximately \$4 million (£2.5 million) by the issue of up to 1,957,187 New Ordinary Shares. The Subscription is to be made at \$2.04 per share which is equivalent to 125p on 9th April 1990, the date before the issue of this document. The estimated net proceeds of the Rights Issue and Subscription will be applied by the Company to satisfy the consideration for all other obligations under the Acquisition Agreement and the payment of the expenses of the Acquisition and the Rights Issue and the Subscription. Any balance left outstanding will be used to provide working capital for the Enlarged Group.

The Rights Issue is expected to be completed by 24th May 1990 (the latest date for acceptance and payment). In the unlikely event that the Acquisition is not completed in accordance with its terms, the Directors would seek shareholders' approval prior to spending any of the proceeds (after expenses) of the Rights Issue on any other acquisition.

Fractional entitlements will not be allotted but will be aggregated and sold in the market for the benefit of those entitled thereto, save that amounts of less than £2.50 (after deducting expenses of sale) will be retained for the benefit of the Company.

The New Ordinary Shares will, when fully paid, rank *pari passu* in all respects with the Consolidated Ordinary Shares of 5p each and, with regard to dividend payments, return of capital and voting rights, with the Consolidated Ordinary Shares of £5 each.

Subject to the passing of Resolution No. 1 at the EGM and the admission to the Official List of the Consolidated Ordinary Shares, fully paid, and the Rights Shares, nil paid, and the agreement of The Stock Exchange to admit the Subscription Shares to the Official List (subject only to allotment) and

the Acquisition Agreement being otherwise unconditional, it is intended that nil paid renounceable Provisional Allotment Letters in respect of the Rights Shares will be despatched on 3rd May 1990 to shareholders on the register at the close of business on 20th April 1990.

Shareholders who wish to subscribe for all or any of the New Ordinary Shares provisionally allotted to them must lodge their Provisional Allotment Letter, together with a remittance for the full amount payable on acceptance, in accordance with the instructions printed thereon with the Company's Receiving Agent, Stentiford Close Registrars Limited, Broseley House, Newlands Drive, Witham, Essex CM8 2UL so as to arrive not later than 3.00 p.m. on 24th May 1990. Cheques must be in pounds sterling drawn on a bank in the UK, made payable to "Stentiford Close Registrars Limited" and crossed "not negotiable". It is a term of the Rights Issue that all cheques (which are liable to be presented on receipt) should be honoured on first presentation. No interest will be payable on payments made before the last date for payment.

The Provisional Allotment Letters will be fully renounceable, save as required by the laws of certain foreign jurisdictions. Provisional Allotment Letters for the New Ordinary Shares may be split (nil paid) until 3.00 p.m. on 22nd May 1990 and split (fully paid) until 3.00 p.m. on 13th June 1990. Fully paid Provisional Allotment Letters will be renounceable until 3.00 p.m. on 15th June 1990, after which time the New Ordinary Shares may only be dealt in in registered form and will be transferable by instrument of transfer in the usual common form. Definitive certificates will be despatched approximately four weeks thereafter. Pending the issue of definitive share certificates for the New Ordinary Shares, instruments of transfer will be certified against lodgement of fully paid Provisional Allotment Letters.

If payment in full is not received by 3.00 p.m. on 24th May 1990 the provisional allotment will be deemed to have been declined and will be cancelled. Where New Ordinary Shares are not taken up in accordance with provisional allotments, such New Ordinary Shares will be sold by not later than 3.00 p.m. on 25th May 1990 if a premium over the subscription price and expenses of sale (including any VAT thereon) can be obtained. Any net proceeds (after deduction of the subscription price and expenses of sale) will be distributed *pro rata* by cheque among the provisional allottees whose rights have not been taken up. Payment will be made by cheque for the amounts due and will be sent, at the risk of the person entitled thereto, to the first-named or sole holder at his/her registered address except that individual amounts of less than £2.50 will not be so distributed but will be retained for the benefit of the Company. If a premium cannot be obtained, Smith New Court has agreed to procure subscribers (or failing which to subscribe itself) for New Ordinary Shares, to the extent that they are not taken up in accordance with provisional allotments or cannot be sold in the market at a premium.

Pursuant to the Underwriting Agreement referred to in paragraph 12 (3) below, 23,669,639 New Ordinary Shares have been underwritten by Smith New Court. MIM Limited on behalf of clients, including Consolidated Venture Trust plc, has irrevocably undertaken to take up its entitlement to 4,748,797 New Ordinary Shares which have not been underwritten. Messrs. Ferguson and Taylor have undertaken not to take up their rights under the Rights Issue. In addition, MIM Limited, on behalf of clients, has agreed to sub-underwrite up to a further 8,800,436 Rights Shares for normal sub-underwriting commission.

Pursuant to the Subscription referred to in paragraph 2 of Part V, Doug Small and certain senior management of Horace Small are to subscribe for up to 1,957,187 New Ordinary Shares at a price of \$2.04 per share (being the equivalent of 125p at 9th April 1990 at the dollar rate) payable in full at Completion. It is expected that their New Ordinary Shares will be admitted to the Official List on the next business day thereafter and that dealings therein will commence on the same date. Such New Ordinary Shares will rank *pari passu* in all respects with the other issued New Ordinary Shares of the Company.

4. Memorandum of Association

The Memorandum of Association of the Company subject to the passing of Resolution No. 4 at the EGM provides that the Company's principal object is to carry on the business of a holding company. If Resolution No. 4 is not passed, the Company's principal object will remain that of a holding company with oil and gas investments. The objects of the Company are set out in full in Clause 4 of the Memorandum of Association.

5. Articles of Association

The Articles of Association of the Company ("the Articles"), subject to the passing of Resolution No. 4 at the EGM, will contain provisions, *inter alia*, to the following effect:

(a) Dividends and other distributions

All dividends on shares shall be declared and paid according to the amount paid up on the shares (otherwise than in advance of calls), save that while there exist shares of £5 each and 5p each the dividends paid on the shares of 5p each shall be in proportion to one hundred times the

amount of the capital paid up or credited as paid up thereon but no dividend shall be declared in excess of the amount recommended by the Directors. The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company available for distribution.

There are no fixed dates on which entitlement to dividend arises on the ordinary shares.

(b) Voting rights

The holders of ordinary shares shall be entitled to attend and vote at any general meeting of the Company. Subject to disenfranchisement in the event of non-compliance with a statutory notice requiring disclosure as to beneficial ownership and subject to any rights or restrictions attached to any shares, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative or proxy shall have one vote, and on a poll every member present in person, by representative or by proxy shall have one vote for every share of which he is the holder.

(c) Variation of rights and share capital

The Company may by Ordinary Resolution increase its share capital, consolidate and divide all or any of its shares into shares of larger amount and, subject to the provisions of the Companies Act 1985, sub-divide its shares into shares of smaller amount or cancel shares which have not been taken or agreed to be taken by any person. Subject to the provisions of the Companies Act 1985, the Company may by Special Resolution reduce its share capital or any capital redemption reserve or share premium account. The Company may also, subject to the provisions of the Companies Act 1985, purchase its own shares.

Subject to the provisions of the Companies Act 1985, the rights attached to any class of shares may be varied with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of an Extraordinary Resolution passed at a separate meeting of the holders of the shares of that class.

(d) Transfer of shares

Transfers of shares may be effected by a transfer in any usual form or in any other form which the Directors may approve and shall be executed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. The Directors may in their absolute discretion without giving any reason refuse to register the transfer of a share which is not fully paid or of a share (which is not fully paid) on which the Company has a lien or is in favour of more than four transferees. The instrument of transfer must be in respect of only one class of shares and be lodged duly stamped at the registered office of the Company or at such other place as the Directors may appoint, accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may require to show the right of the transferor to make the transfer.

(e) Directors

- (i) Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two nor more than twelve.
- (ii) Directors' fees shall not exceed £250,000 in aggregate per annum, or such larger sum as may be determined from time to time by the Company in general meeting, and such remuneration shall be divided among them in such proportion and manner as they may agree or, failing agreement, equally.
- (iii) The Directors may grant remuneration to any Director who shall perform special services outside his ordinary duties as a Director.
- (iv) The Directors may from time to time appoint one or more of their number to be managing director or to any other executive office of the Company on such terms as they think fit, and may revoke or vary such appointment. Such an appointment shall (subject to the provisions of any contract between him and the Company) automatically be terminated if the managing director ceases for any reason to be a Director. Any revocation or termination of such appointment shall be without prejudice to any claim for breach of contract between the Director and the Company. A managing director shall receive such remuneration as the Directors may determine.
- (v) Any managing director shall not (but subject to the terms of any contract of service between him and the Company) be subject to retirement by rotation.
- (vi) Section 293 of the Companies Act 1985 (retirement of Directors who have reached the age of 70) shall apply to the Company.
- (vii) A Director shall not require a share qualification.

(viii)(a) Save as proposed in sub-paragraph (b), a Director shall not vote (nor be counted in the quorum) on any resolution of the Directors of the Company in respect of any contract or arrangement in which he is materially interested. The Company may, by Ordinary Resolution, suspend or relax such provision to any extent or ratify any transaction not duly authorised by reason of a contravention of the Articles.

(b) A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any Resolution concerning any of the following matters, namely:

- (i) the giving of any security or indemnity to him in respect of money lent or obligations undertaken by him for the benefit of the Company or of any of its subsidiaries;
- (ii) the giving of any security to a third party in respect of a debt or obligation of the Company or of any of its subsidiaries which he has himself assumed responsibility in whole or in part;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any of its subsidiaries, in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
- (iv) any proposal concerning any other company (not being a company in which he is beneficially interested in 1 per cent. or more of any class of the equity share capital) in which he is interested directly or indirectly;
- (v) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement, death or disability benefits scheme approved by the Board of the Inland Revenue under which he may benefit;
- (vi) any proposal concerning an employees' share scheme under which he may benefit and which does not accord to any Director as such any privilege or advantage not accorded to the employees to whom such scheme relates.

(f) *Borrowing powers*

- (i) The Directors may, subject to sub-paragraph (ii) and to the provisions of the Companies Act 1985, exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company, or of any third party.
- (ii) The Directors shall restrict the borrowing of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary companies so as to secure (so far, as regards subsidiaries, as they can secure) that the aggregate amount for the time being remaining outstanding of all monies borrowed by the Group and for the time being owing to persons outside the Group shall not at any time, without the previous sanction of an Ordinary Resolution of the Company, exceed an amount equal to four times the adjusted capital and reserves of the Company (calculated and adjusted as provided in the Articles).

(g) *Distribution of assets on liquidation*

In the event of a winding-up of the Company, the assets of the Company available for distribution amongst the members will be divided between the holders of the ordinary shares according to the respective number of shares held by them and in accordance with the provisions of the Companies Act 1985 and subject to Resolution No. 5 to be proposed at the EGM. The liquidator may, with the sanction of an Extraordinary Resolution of the Company and subject to the Companies Act 1985, divide amongst the members *in specie* the whole or any part of the assets of the Company.

(h) *Unclaimed dividends*

Any dividend unclaimed after a period of 12 years from its due payment date shall, if the Directors so resolve, be forfeited and shall cease to remain owing by the Company.

(i) *Untraced shareholders*

The Company may sell any shares in the Company of a member who is untraceable if, during a period of 12 years, at least three dividends in respect of the shares in question have been paid and no dividend during that period has been claimed, and the Company gives notice by advertisement in two newspapers of its intention to sell the shares and gives notice to The Stock Exchange and in the period of three months after the said advertisements the Company has no indication that such member can be traced.

In the unlikely event that Resolution No. 4 is not passed at the EGM, the Company will not be empowered to purchase its shares, a quorum will comprise 3 members, there will be no maximum number of Directors, with the aggregate fees payable to Directors being £40,000, and the borrowing powers will be limited to an amount equal to three times adjusted capital and reserves (as defined in the Articles).

6. Directors' and significant interests

- (a) The Directors and their families have the following interests in the existing issued share capital of the Company as recorded in the Register of Directors' interests maintained under the provisions of Section 325 of the Act:

Beneficial Interests	Ordinary Shares	% by number of existing issued shares
M. A. Vaughan-Lee	—	—
R. J. Taylor	300,000	0.7
A. D. N. Balme	686,666	1.7
A. Ferguson	—	—
C. H. B. Mills	—	—

Mr. A. D. N. Balme is a director and shareholder of Carter Capital Limited, a company which is beneficially interested in 2,201,106 Existing Ordinary Shares in the Company.

Mr. A. Ferguson is a director of Temple Investment & Finance Company Limited, a company in which his wife is beneficially interested and which controls 1.6 per cent. of the existing issued share capital of the Company. He is also a director of Amercoeur Inc. whose interest in the share capital of the Company is set out in paragraph 6(e) below.

Mr. Balme, Mr. Ferguson and Mr. Taylor have irrevocably undertaken to procure that all the votes attaching to all those shares in which they are interested shall be cast in favour of all the resolutions to be proposed at the Separate General Meeting and at the EGM and Mr. Ferguson and Mr. Taylor have undertaken not to take up their rights under the Rights Issue.

Mr. R. J. P. Morton is a director of Samuel Montagu, Inc. which will receive a fee in connection with the Acquisition.

Mr. Mills is a Director of and a shareholder in Consolidated Venture Trust plc, one of the clients of MIM Limited, which has undertaken to take up its rights in return for a payment of commission of 1.25 per cent of its subscription monies in respect of the first period of 30 days of its commitment and an additional payment of 0.125 per cent. for each additional week (or part thereof) of its commitment and which has also agreed to subscribe £2.53 for 25 Ordinary Shares of 10p each and 25 Ordinary Shares of 0.1p each in order to facilitate the consolidation. Each of Mr. Mills and Mr. Vaughan-Lee has agreed to sub-underwrite for no commission 24,000 Rights Shares and MIM Limited on behalf of clients has agreed to sub-underwrite up to a further 8,800,436 Rights Shares

Pursuant to the Acquisition and following Completion and completion of the Rights Issue and Subscription, the Continuing Directors and their families will have the following interests in the share capital of the Company as required to be recorded in the register of Directors' interests maintained under the provisions of Section 325 of the Act:

	New Ordinary Shares	% by number of enlarged issued share capital
M. A. Vaughan-Lee	—	—
D. A. Small	1,265,123	4.06
I. L. Small	24,630	0.79
R. B. Vacek	7,389	0.02
R. W. Gates	147,783	0.47
A. D. N. Balme	13,733	0.04
W. D. Eberle	—	—
C. H. B. Mills	—	—
R. J. P. Morton	—	—

- (b) Save as referred to in paragraphs 7 and 12(3) below and this paragraph 6, no Director or proposed Director of the Company has any interest in a transaction which is of an unusual nature, contains unusual terms or was significant to the business of the Enlarged Group and which was effected by the Enlarged Group during the current or immediately preceding financial year or during any earlier financial year and which remains in any respects outstanding or unperformed save that:
- (i) Mr. D. Small is interested in the Acquisition Agreement, the Employment Agreement, the Bonus Pool Agreement and the Non-Competition Agreement referred to in Part V of this document;
 - (ii) Mr. I. Small is interested by reason of the purchase of the remaining common stock of Horace Small by Mr. D. Small for which he has received a consideration of \$11,990,100. In addition, the Acquisition Agreement provides that he is to be employed by Horace Small at a salary of \$50,000 per annum for a period of three years;
 - (iii) Mr. R. W. Gates is interested by reason of the purchase of the remaining stock of R & R by Horace Small at the cost of Mr. D. Small as described in Part V of this document for which he will receive a consideration of \$364,500 and he is still due to receive under the original acquisition agreement for R & R approximately \$117,000 from Horace Small.
 - (iv) Mr. Gates is interested in a lease agreement between, *inter alia*, himself and R & R and as a partner in a Tennessee general partnership with respect to a lease of property to expire on 14th July 1990 pursuant to which he receives rent in an amount equal to his partnership share of the \$75,000 annual rent.
- (c) Save as disclosed in paragraph 7 below in relation to Doug Small and Irvin Small, no other Director or Proposed Director has a service contract with any member of the Enlarged Group which is not terminable without payment of compensation (other than statutory compensation) within one year.
- (d) The aggregate emoluments, pension contributions and the estimated value of benefits in kind of the Directors of the Company in respect of the financial year ended 31st December 1989 were £27,000. Excluding any payments due pursuant to the Acquisition Agreement and any payments by way of bonus, the aggregate emoluments to be paid to the Directors or Proposed Directors of the Enlarged Group in respect of the financial year ending 31st December 1990 under arrangements in force at the date of this document are expected to be approximately £340,000. Save as disclosed in this paragraph 6 or pursuant to the Acquisition Agreement and related documents referred to in Part V, no other payment is to be made to any Director or Proposed Director in connection with the implementation of the Acquisition and/or the Rights Issue.
- (e) The Company has been notified of the following interests in the existing issued share capital of the Company:

	Existing Ordinary Shares	% of existing issued share capital
Amercoeur Inc.	2,460,000	6.23
Carter Capital Limited	2,201,106	5.6
MIM Limited	6,595,552	16.7
Westar Finance N.V.	3,046,128	7.7

MIM Limited's interest is held on behalf of its discretionary clients.

Save as set out above, no interest amounting to 5 per cent. or more of the existing ordinary issued share capital has been notified to the Directors of the Company and the Directors are not aware of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

- (f) No loans or guarantees have been granted or provided by any member of the Enlarged Group to or for the benefit of any Director or Proposed Director of the Company.

7. Officers' and Directors' Service Agreements and Bonus Pool Agreement

Pursuant to the Acquisition Agreement, at Completion, Doug Small will enter into an Employment Agreement with Horace Small Manufacturing Company and the Company under which he will be paid a basic salary of US\$400,000 per annum, reviewable upwards annually, together with a bonus as described in paragraph 1 of Part V of this document.

Pursuant to a Bonus Pool Agreement (in the form of one of the Exhibits to the Acquisition Agreement) to be entered into by Completion certain employees of Horace Small (including Messrs Doug Small, Vacek and Gates) may receive a bonus out of a pool, which is limited to US\$12 million and calculated by reference to the aggregate of the consolidated profits before tax (adjusted in accordance with the said Bonus Pool Agreement) of Horace Small for the 7 year period from 1st January 1990 to 31st December 1996, such bonus to be paid during the calendar year 1997 (or earlier in certain events), but Doug Small is not to receive more than 60 per cent. of the bonus pool.

Pursuant to the Acquisition Agreement, Mr. Irvin L. Small will enter into an employment agreement with Horace Small Manufacturing Company and the Company under which he will be paid a basic salary of US\$50,000 per annum for a term of three years, which agreement will contain a covenant not to compete for the term of the agreement.

Pursuant to his employment agreement with R & R, Mr. Gates is entitled to a bonus of $3\frac{1}{3}$ per cent. of the pre-tax net profits of R & R and its subsidiaries (FIFO basis) for the period commencing 1st July 1985 and ending on 31st December, 1990.

Pursuant to his employment agreement with R & R, Mr. Pate is entitled to a bonus of $3\frac{1}{3}$ per cent. of the pre-tax net profits of R & R and its subsidiaries (FIFO basis) for the period commencing 1st July 1985 and ending on 31st December 1990.

Pursuant to his employment agreement with R & R, Mr. McDaniel is entitled to a bonus of $3\frac{1}{3}$ per cent. of the pre-tax net profits of R & R and its subsidiaries (FIFO basis) for the period commencing 1st July 1985 and ending on 31st December 1990.

Horace Small operates a Management Bonus Programme as follows:

Manufacturing Division

Bonuses, for the most part, are discretionary, based on appropriate guidelines. Total bonuses for the manufacturing division were \$537,600 for the year ended 31st December 1989 and \$522,144 for the year ended 31st December 1988.

R & R Uniforms

Managers of the distribution centres and the corporate executives are eligible for bonuses. The maximum amount of bonuses for managers is set in their employment agreements and cannot exceed approximately 20 per cent. of their annual salary. The bonuses, for the most part, are discretionary, based on appropriate guidelines. Total bonuses for R & R were \$295,000 for the year ended 31st December 1989 and \$207,395 for the year ended 31st December 1988.

8. Premises

The principal operating facilities of the Enlarged Group are:

Location	Use	Approximate (sq ft)	Annual Rent	Tenure
Nashville, Tennessee	Executive offices Manufacturing of trousers, jackets, outerwear and liners Warehouse	186,000	\$1,800	Leasehold
Nashville, Tennessee	R & R corporate offices and distribution centre	86,000	\$30,800 ⁽¹⁾	Leasehold
Mt. Pleasant, Tennessee	Manufacturing of shirts Warehouse	53,000	\$10,200 ⁽²⁾	Leasehold
Memphis, Tennessee	R & R sales office and distribution centre	30,000	\$114,312	Leasehold
Guthrie, Kentucky	Manufacturing of trousers	20,000	—	Freehold

(1) Annual rent to increase to approximately \$190,000, with effect from November 1990;

(2) Annual rent to increase to approximately \$27,600 with effect from December 1990.

In addition to the above facilities, R & R operates 13 distribution centres.

9. Subsidiaries

The principal trading subsidiaries of the Enlarged Group, following Completion, (all of which will be wholly-owned) are as follows:

Company	Registered office	Principal place of business	Country of incorporation and operation	Cost of investment	% of capital held	Nature of business
Horace Small Manufacturing Company	350 28th Avenue North TN 37209	Nashville USA	USA	\$16,250,000	100	Manufacturing and distribution
Mt. Pleasant Mfg. Co., Inc.	350 28th Avenue North, Nashville TN 37209	USA	USA	\$286,000	100	Manufacturing
R & R	260 Cumberland Bend Road, Nashville, TN 37226	USA	USA	\$1,970,000	100	Distribution

* This figure excludes the cost of bonuses to be paid to Doug Small

10. Details of Share Option Scheme and Stock Option Plan

Subject to the passing of the relevant resolutions at the EGM, the Company will have established a UK Share Option Scheme and a US Stock Option Plan. Summaries of the rules of these schemes are set out below. The existing Share Option Scheme has been suspended and allocations granted thereunder have been terminated.

(a) UK Share Option Scheme

1. Eligibility:

All employees and Executive and Non-Executive Directors of Amercoeur and its subsidiaries are eligible to participate.

2. Grant of Options:

Options may be granted at any time except within any period of two months preceding the announcement of annual or half yearly results by the Group.

3. Subscription Price:

The price per share payable on the exercise of an Option may not be less than the higher of the nominal value of the share and its middle market quotation for dealings on The Stock Exchange or the USM on the last dealing day before the date of grant of an Option. If the shares are at any time not dealt in on the USM and are not listed by The Stock Exchange the Directors may set the subscription price in their discretion but not at less than the nominal value of a share. Until 28th June 1990 options may be issued at a subscription price of 125p.

The subscription price may be varied in the event of an issue of shares by way of capitalisation of profits or reserves or by way of rights or on any consolidation sub-division or reduction of capital, (subject to confirmation by the auditors that any such adjustment is fair and reasonable).

4. Scheme Limitations:

Subject to adjustment on any variation of share capital, no Option may be granted at any time if as a result the total number of shares issuable pursuant to subsisting options and other subsisting rights granted under this and any other Share Acquisition Scheme of the Company would exceed the lesser of 6,233,004 ordinary shares and 10 per cent. of the issued ordinary share capital of the Company at that time and no option may be granted to any individual if, as a result, the number of ordinary shares subject to subsisting options held by such individual would exceed 3,116,502 ordinary shares or such greater number as shall represent 10 per cent. of the issued ordinary share capital of the Company from time to time.

5. Assignment

Options may only be assigned to a Trust or a Pension Fund whose beneficiaries are the Participant or his wife or child or to a company the whole of the share capital of which is beneficially owned by the Participant.

6. Exercise

Options may be exercised on and after the third anniversary of the date of their grant provided that Options may be exercised earlier on the death of the Participant or on his ceasing to be an eligible Participant by reason of injury, disability, redundancy, retirement (at normal retirement age or earlier by agreement with his employer) or because the company or business to which his employment relates is transferred to someone who is not a member of the Group. In any of these cases a limited period in which to exercise the options will arise.

7. Change in Control

Additional rights of exercise will arise for limited periods on a change in control of the Company as a result of a take-over offer or a re-organisation and on the voluntary winding up of the Company.

8. *Amendment*

No amendment may adversely affect rights already acquired by a Participant without the approval of the Company at a General Meeting. In addition no amendment may be made to the advantage of present or future Participants except with the prior approval of the Company General Meeting to any of the following: —

1. the subscription price.
2. the scheme limits.
3. eligibility.
4. rights of Transfer and Exercise.
5. adjustments to Options.

(b) *US Stock Option Plan*

(All terms are as defined in that plan)

The Stock Option Plan provides for the grant of options over Ordinary Shares comprising options not complying with the requirements of Section 442(A) of the United States Internal Revenue Code 1986 (as amended).

1. *Eligibility*

All employees, officers and directors of Horace Small and its subsidiaries ("Horace Small Group"), including officers who are also directors, may be nominated for participation in the Plan at the sole discretion of the committee which the directors of the Company appoint to administer the Plan (the "Committee"). The Committee shall also determine the number of shares (subject to the limitations set out below) and the terms of options to be so granted;

2. *Duration of Options and Price of Ordinary Shares*

Options so granted will lapse if not exercised before the expiry of ten years from the date of grant and will entitle the recipient to subscribe for shares in the Company at a price to be not less than the fair market value or nominal value of such shares on the date of grant, whichever is the greater. Fair market value for this purpose will not be not less than the middle market quotation for an Ordinary Share (as derived from the relevant appendix to The Stock Exchange Daily Official List) for the last dealing day prior to the grant of an option. Until 28th June 1990 options may be issued at an exercise price of 125p;

3. *Duration of Plan*

Options may be granted by the Committee at any time save that no option may be granted after 3rd May 2000;

4. *Exercise of Options*

Any option granted will generally not be exercisable until three years after the date of grant; however, upon termination of a participant's employment with the Horace Small Group or directorship within the Horace Small Group, and regardless of whether or not such termination occurs within three years of any such grant of options under the Plan, all such participant's options will be exercisable until the earlier of the expiration of their terms or the following periods:

- (a) with respect to termination by reason of death or disability (within the meaning of Section 105(d)(4) of the United States Internal Revenue Code of 1986, as amended) 6 months from the said death or disability;
- (b) with respect to termination by retirement, 3 months from said retirement; and
- (c) with respect to any reason other than death, disability or retirement, 1 month from said termination, except that with the consent of all remaining directors on the Board, such options shall not be exercisable and shall terminate coincident with the date of termination of such employment or directorship;

5. *Limits*

The total number of shares available for grants of options under the Plan shall be 6,293,004 Ordinary Shares (subject to increase by shareholders in general meeting or on occasion of certain specified variations of share capital) provided, however, that no option shall be granted under the Plan if such a grant would result in the aggregate number of Ordinary Shares issuable pursuant to the exercise of subsisting options and all other subsisting rights to subscribe for Ordinary Shares granted within the preceding ten years under the Plan or any other option or other plan providing for the acquisition of Ordinary Shares established on or after the adoption of the Plan exceeding 10 per cent. of the issued share capital of the Company and that no option may be granted to any individual if, as a result, the number of ordinary shares subject to subsisting options held by such individual would exceed 3,116,502 Ordinary Shares or such greater number as shall represent 10 per cent. of the issued ordinary share capital of the Company from time to time;

6. *Changes*

In the event of any dissolution or liquidation or change of control of the Company occurs or appears imminent or if the Company becomes party to a binding agreement of merger or other reorganisation in which the Company is not the surviving entity all outstanding options become fully vested and exercisable;

7. *Alterations*

The directors may from time to time suspend or terminate the Plan, save that without the optionholders' written consent, no amendment, suspension or termination of the Plan shall alter or impair any of the rights or obligations under any option. Any amendment relating to any of the matters set out in paragraph (a) 8 above shall require the prior approval of the Company in general meeting.

11. *Working capital*

The Directors and Proposed Directors of the Company consider that, having regard to the proceeds of the Rights Issue and Subscription, the Enlarged Group will have sufficient working capital for its present requirements.

12. *Material contracts*

Other than the material contracts listed in paragraph 5 of Part III in the Circular dated 23rd November 1989 to shareholders of the Company (which the Directors consider are immaterial to the Enlarged Group), the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Amercoeur and Horace Small within the two years immediately preceding the date of this document and are or may be material.

Amercoeur

- (1) the Acquisition Agreement described in paragraph 1 of Part V above;
- (2) the Subscription Undertakings described in paragraph 2 of Part V above;
- (3) an agreement dated 10th April 1990 between the Company (1) Smith New Court (2) and certain of the Directors and Mr. Doug Small (3), whereby Smith New Court has agreed to underwrite the issue of 23,669,639 New Ordinary Shares ("the Underwritten Shares") at 125p per share, being all the Rights Shares other than the 4,748,797 New Ordinary Shares with respect to which irrevocable commitments from MIM Limited have been received.

The Underwriting Agreement is conditional, *inter alia*, upon:—

- (i) the passing of Resolution No.1 at the EGM, and
- (ii) the admission of the Consolidated Ordinary Shares (fully paid) and the Rights Shares (nil paid) to the Official List.
- (iii) the conditions to the Acquisition Agreement being satisfied on 3rd May 1990 in all respects or in the reasonable opinion of Smith New Court being capable of satisfaction at completion without amendment.

Under the Underwriting Agreement the Company is to pay to Smith New Court a fee of £130,000 and a commission of 2 per cent. on the aggregate issue price of the Underwritten Shares for the first 30 days of its commitment, and thereafter a further $\frac{1}{8}$ per cent. for each period of 7 days or part thereof until a date which is expected to be no later than the first business day following 24th May 1990. The Company is to pay all fees and expenses incurred by Smith New Court but Smith New Court will pay all sub-underwriters' commissions, save that the basic rate of commission will be 1.25 per cent. in respect of the Underwritten Shares not exceeding 8,800,436 which MIM shall procure to be sub-underwritten. No commission will be payable on 48,000 Underwritten Shares sub-underwritten by Mr. Mills and Mr. Vaughan-Lee.

The Company, the Directors and Doug Small have given certain warranties and indemnities to Smith New Court.

- (4) Under irrevocable undertakings dated 10th April 1990 MIM Limited on behalf of clients, and Consolidated Venture Trust plc, had undertaken to take up rights in respect of the Rights Issue over 4,748,797 New Ordinary Shares in consideration of the payment of a commission of 1.25 per cent. of the subscription monies in respect of the first period of 30 days of its commitment and an additional payment of 0.125 per cent. for each additional week (or part thereof) of its commitment;

- (5) Under irrevocable undertakings given at the following respective dates, the following have irrevocably undertaken to vote in favour of all the resolutions to be proposed at the Separate General Meeting and at the EGM and not to take up their rights under the Rights Issue in respect of the following numbers of Existing Ordinary Shares:—

Date	Name	No. of Existing Ordinary Shares re undertaking to vote at the EGM	No. of ordinary shares of 10p each re undertaking to vote at the Separate General Meeting	No. of Existing Ordinary Shares re Rights undertaking
22nd March 1990	A. D. N. Balme	2,887,772	1,443,886	686,666
22nd March 1990	A. Ferguson	6,192,794	3,096,397	6,192,794
22nd March 1990	R. J. Taylor	300,000	150,000	300,000

- (6) A sale and purchase agreement dated 2nd March, 1990 between the Company, Lancashire County Enterprises (Investments) Limited ("LCE") and O'Brien Energy Systems Inc. ("the purchaser") whereby the purchaser purchased all the shares in Enercol Energy Systems Ltd held by the Company and certain such shares held by LCC for a consideration in the case of the Company's shares in Enercol Energy Systems Limited for £7,650 and further payment up to a maximum aggregate amount of £37,250.

Horace Small

- (1) *SunTrust Agreement.* Horace Small Manufacturing Company entered into an oral agreement with SunTrust Corporate Finance authorising SunTrust to act as investment banker on its behalf in connection with the acquisition of Horace Small for a consideration of \$475,000.
- (2) *Dickies Acquisition.* On 26th June, 1989, R & R Uniforms, Inc. entered into an agreement to acquire for a consideration of approximately \$3,250,000 almost all the assets of Factory Sales Company, a division of Dickies Industrial Services, Inc. which included sales operations in Dallas, Houston and San Antonio, Texas.
- (3) *J & D Acquisition.* With effect from and on 1st January 1989, R & R Uniforms of Florida, Inc. entered into an agreement to acquire all the inventory and certain fixed assets of J & D Uniforms, Inc. in consideration of \$610,000.

13. UK Taxation of Dividends

The Company is not required to withhold tax at source but, when paying a dividend, the Company may have to remit to the Inland Revenue an amount of advance corporation tax ("ACT") at a rate which is related to the basic rate of income tax and is currently 25/75ths of the dividend paid. Accordingly, the ACT related to a dividend currently equals 25 per cent. of the sum of the cash dividend plus the ACT.

For shareholders resident in the United Kingdom, the ACT paid is available as a tax credit, which individual shareholders who are so resident may set off against their total income tax liability or, in appropriate cases, reclaim in cash. A United Kingdom resident corporate shareholder will not be liable to United Kingdom corporation tax on any dividend received and will be able to treat any dividend and the related tax credit as franked investment income.

Whether holders of shares in the Company who are resident in countries other than the United Kingdom are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends on such shares depends in general upon the provisions of any double tax convention or agreement which exists between such countries and the United Kingdom. Persons who are not resident in the United Kingdom should consult their own tax advisers on the possible application of such provisions, the procedure for claiming payment and what relief or credit may be claimed in the jurisdiction in which they are resident for such tax credit.

14. Litigation

No member of the Enlarged Group is engaged in any litigation or arbitration proceedings, and no litigation, arbitration or claim is known to the Directors to be pending or threatened against the Enlarged Group, which may have, or has had during the 12 months prior to the date hereof, a significant effect on the Enlarged Group's financial position.

15. General

- (a) Save as disclosed in Part I there has been no significant change in the trading or financial position of Amercoeur and its subsidiaries since 31st December 1989 or in the trading or financial position of Horace Small since 31st December 1989.
- (b) Arthur Andersen & Co. has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its report with the references thereto and to its name, in the form and context in which they appear.
- (c) Price Waterhouse has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its report with the references thereto and to its name, in the form and context in which they appear.
- (d) Smith New Court has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its name in the form and context in which it appears.
- (e) The costs and expenses associated with the Acquisition, the Rights Issue and the Subscription payable by the Company are estimated to amount to approximately £1.7 million.
- (f) Price Waterhouse, Chartered Accountants, of Southwark Towers, 82 London Bridge Street, London SE1 9SY has audited the accounts of Amercoeur for each of the three periods ended 31st December 1989. For each of these three periods Price Waterhouse has made a report on the accounts of the Company which was an unqualified report within the meaning of section 271 of the Companies Act 1985. Full accounts for the two periods ended 31st December 1987 and 1988 have been delivered to the Registrar of Companies. Full accounts for the period to 31st December 1989 will be delivered in due course. The summarised financial information set out in this document does not amount to full accounts within the meaning of section 255(3) of the Companies Act 1985.
- (g) The auditors, Price Waterhouse, are not seeking re-appointment. A resolution for the appointment of Arthur Andersen & Co. as auditors will be proposed at the forthcoming AGM.

16. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Ashurst Morris Crisp at Broadwalk House, 5 Appold Street, London EC2A 2HA during usual business hours (Saturdays, Sundays, and Bank Holidays excepted) up to and including 24th May 1990.

- (a) the existing Memorandum and Articles of Association of the Company;
- (b) the audited consolidated accounts of Amercoeur for the three periods ended 31st December 1989;
- (c) the Arthur Andersen & Co. Accountants' Report on Horace Small and the related statement of adjustments thereto;
- (d) the Price Waterhouse Accountants' Report on Amercoeur;
- (e) the audited consolidated accounts of Horace Small for the three years ended 31st December 1989;
- (f) the employment agreements referred to in paragraph 7 of Part VI;
- (g) the material contracts referred to in paragraph 12 of Part VI;
- (h) the written consents referred to in paragraphs 15(b), (c) and (d);
- (i) the draft rules of the US Stock Option Plan and the UK Share Option Scheme;
- (j) the Circular dated 23rd November 1989;
- (k) the Circular dated 10th April 1990;
- (l) Working Capital letter;
- (m) Reporting Accountants' letters;
- (n) the Memorandum and Articles of Association of the Company as to be altered pursuant to Resolutions Nos. 1 and 4 to be proposed at the EGM;
- (o) waivers of options by existing optionholders to effect the termination of allocations referred to in paragraph 10 of Part VI.

Dated 10th April 1990.