

Horace Small Apparel PLC

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H O R A C E S M A L L A P P A R E L P L C

Horace Small Apparel is a leading manufacturer and distributor of uniforms in the United States and Canada. Its products are supplied to consumers through its national network of independent distributors, company owned distributors and it's unique national account distribution system.

Customers now include federal, state and local government agencies, major private sector commercial and transportation companies, public safety organisations and security forces.

Horace Small Apparel is committed to developing strong customer relationships based on a commitment to service, reliability and value.

CHAIRMAN'S STATEMENT

We made good progress in 1995, benefiting both from the improved trading conditions which I reported in the previous year and the increased efficiency with which we have been able to conduct our business following a period of reorganisation.

This improvement was particularly noticeable in the ability of our National Accounts team to capture more significant, long-term contracts from the private business sector to add to the substantial portfolio of local and federal government accounts which we already hold.

RESULTS

Turnover for the year to 31st December 1995 was £80.2 million (\$126.6 million) compared with £74.3 million (\$113.9 million) in 1994, and pre-tax profits before exceptional items increased from £3.4 million (\$5.2 million) to £3.8 million (\$6.0 million). In dollar terms, which is the basis on which all our operating business is conducted, this represents a year-on-year increase of 11% in sales and 15% in pre-tax profits before exceptional items. Pre-tax profits after exceptional items rose from £3.0 million (\$4.6 million) in 1994 to £3.2 million (\$5.0 million) in 1995. Adjusted earnings per share before exceptional items were 12.0p compared with 12.7p in the previous year (representing 19.0 cents in 1995 and 19.4 cents in 1994). This movement does not mirror the changes in turnover and profits mainly due to a reduction in available tax credits in 1995 compared with 1994, and the greater number of shares in issue following the successful rights issue during 1995. For 1995, the figures were calculated based on an

average exchange rate of \$1.579 to the pound (\$1.532 in 1994).

In line with the policy adopted over the past two years, there will be no dividend payment. Profits are being reinvested in the company in order to support our redevelopment programme, reduce bank borrowings and accelerate the current growth of our business.

SUCCESSFUL RIGHTS ISSUE

Our growth resulted partly from expansion of our Wholesale business, but more particularly from our being awarded contracts by two leading North American airlines at the beginning of the year, announced in our previous report. These were followed by a further contract from a leading telecommunications group. The work necessary to fulfil these contracts has required substantial increases in working capital and the setting up of dedicated distribution facilities to service the accounts. These projects were partly financed through a successfully completed rights issue in March 1995 which raised £2.6million, net of expenses.

OPERATING PERFORMANCE

National Accounts and Wholesale have again put in good performances throughout the year, and continue to build on their strong customer bases.

However, our Company Owned Distributors' performance is still disappointing and we are continuing to direct intensive efforts towards correcting this situation. We have reduced our cost structure and we do anticipate some improvement in this business in 1996.

We have also made progress during the year in strengthening our management structure in the important area of product sourcing. The growth and diversification of our National Accounts and Wholesale businesses necessitate our utilising a wider range of third party contractors, both in the USA and offshore. We are building this capability at the same time as we are continuing to improve the cost structure in our own manufacturing facilities. In 1995, we undertook a detailed study of all our future sourcing requirements and believe that we have identified considerable opportunities for the improvement of our product cost structure and for enabling us to respond more rapidly to customer requirements.

CHANGES IN BOARD AND MANAGEMENT

Bob Gates, the director responsible for National Accounts, has been promoted to President and Chief Operating Officer. His considerable success with National Accounts has resulted in it now being the Company's largest area of activity.

Douglas Small, the Company's Chief Executive Officer, has stood down to pursue other interests. We thank him for his loyal and distinguished service to the company over the past 27 years. Douglas Small retires as a director by rotation at

the forthcoming Annual General Meeting and the board are proposing that Paul Dumond, company secretary for the last six years be elected to fill the vacancy.

I have now assumed the role of Chief Executive Officer in addition to that of Chairman.

POTENTIAL FOR GROWTH

We believe that we can build on the accomplishments of the past year in expanding our customer base and improving our abilities to source products at more competitive costs. To achieve higher future earnings, we will need to continue to add new customers, to improve our cost competitiveness and to remedy the poor performance of our Company Owned Distributors. We believe that we will make progress in all these areas in 1996, and therefore, we are looking for another year of progress and improvement.

I would like to thank all the company's employees for their effort and hard work during the past year. I would also like to thank shareholders for their support, which we will continue to do our best to justify.

J. Colin Keith
CHAIRMAN

"WE BELIEVE THAT WE CAN BUILD ON THE ACCOMPLISHMENTS OF THE PAST YEAR IN EXPANDING OUR CUSTOMER BASE AND IMPROVING OUR ABILITIES TO SOURCE PRODUCTS AT MORE COMPETITIVE COSTS."

P R E S I D E N T ' S R E P O R T

1 995 proved to be another year of improvement. Trading conditions were satisfactory in the majority of our markets which provided us with a number of opportunities. The U.S Federal Government shut-down had some effect on turnover towards the end of 1995, which continued into the early part of 1996. However, we would expect much of this shortfall to be made up once the situation is normalised.

A C H I E V E M E N T S

During this year the group's operations were reorganised into four new strategic business units - National Accounts, Wholesale, Manufacturing and Company Owned Distributors.

There was an excellent performance from our National Accounts team who continued to win significant contracts from some large private sector corporations and consistently provide world-class service to these customers everyday. When coupled with the federal government accounts already held, this business unit now leads the others in its contribution towards annual sales. The strength of this team and the potential that lies within its markets suggests that this business will continue to be our main area of future growth.

Our Wholesale business also put in a strong performance, improving upon its achievements of the previous year and increasing its market share in a competitive environment. The 1995 growth plan targeting key markets including Canada was very successful and the acceptance of our new products was also encouraging.

Our Manufacturing group was challenged to take responsibility not only for its own sourcing but also for procuring all product requirements for both the Wholesale and National Accounts businesses. Furthermore they played a significant role in the success of the new National Accounts implementations. They also continued their efforts to improve our product cost structure and responsiveness, and this contributed to our improved results in 1995.

The performance of our Company Owned Distributors continues to be disappointing and fell short of our targets. We have brought in new management, reduced overheads and continued to upgrade the control systems. We believe this will lead to improvement in 1996.

N E W B U S I N E S S

We began the year in a strong position, thanks to the renewal, during the previous year, of all our federal agency contracts for a further five-year period. We were then successful, in the first few months of the year, in winning long-term contracts for the supply of uniforms to American Airlines and Air Canada. In both cases, we have been required to set

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up full service uniform programme distribution centres to supply employees wherever they are located throughout the world. These were followed later in the year by another significant contract for implementation in 1996. These public and private sector national accounts provide us with a broad and expanding customer base and a predictable level of demand, giving us a firm foundation on which to plan our procurement, manufacturing and distribution programmes. Nevertheless, the demands on our resources at the outset of each contract are considerable. Typically, we are required to design and source an entire new range of uniforms and accessories and then set up a distribution operation dedicated exclusively to that one customer. The response of our staff to these increased levels of business has been outstanding, and all concerned deserve the highest praise.

PUBLIC RECOGNITION

The depth of our commitment to our clients is one of the primary reasons for our success in winning major contracts, and so it is particularly pleasing when this is publicly recognised. FedEx, formerly known as Federal Express, one of our biggest customers over many years, has shown its appreciation of our efforts by presenting us with the FedEx Corporate Contracting Supplier of the Year Award for 1995. We also received a special commendation from the U.S Customs Service.

HEALTH AND SAFETY AT WORK

During the year, we set out to contain medical and worker's compensation costs. A company-wide programme was introduced with the purpose of changing the attitudes of all team members and to identify a series of objectives which were to be met by team members. The result of this initiative has been to bring about a material improvement in health and safety standards throughout the whole organisation. Claims have been substantially reduced compared with the previous year. Our manufacturing unit at Mt. Pleasant, Tennessee, was recognised for not having a single accident-related working day lost in over two years.

NEW DEVELOPMENT

We presented opportunities to a number of National Accounts and Wholesale customers which incorporate new technology in fabrics, design, construction, comfort and versatility. Their acceptance will generate additional business for us, enhance images and provide a better programme for our customers.

The consolidation of our sourcing activities provides many benefits for both marketing groups, including better controls, lower costs and more consistency of our products. In addition, the detailed study of our future sourcing requirements identified considerable opportunities to improve our cost structure and responsiveness. The initial

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benefits from this process should be achieved in 1996.

The change to the strategic business unit structure by separating into divisions has uncovered areas for improvement and required us to more closely scrutinise our business operations.

T H E F U T U R E

An important short term priority continues to be the development and implementation of a strategy which will improve the profitability of our Company Owned Distributors and eliminate the negative impact which store operating results have had on group profits. As other business units expand, this will become a proportionately smaller part of our business.

The implementation of our manufacturing/sourcing strategy will consume significant management effort and resources but will improve our cost competitiveness.

We will aggressively seek further growth in our customer base through the continued expansion of our National Accounts and Wholesale activities. These will continue to be the main areas of growth opportunities.

Robert W. Gates, Jr.
PRESIDENT AND CHIEF OPERATING
OFFICER

NATIONAL ACCOUNTS

Our strategy in recent years has been to enhance our federal and state government agency business with a substantial number of contracts from major corporations in the private sector. The American Airlines and Air Canada accounts are the most recent successes resulting from our strong marketing efforts.

NEW BUSINESS

Implementation of the American Airlines project is now essentially complete. We have established a full distribution centre in Fort Worth, Texas which is dedicated to the task of managing a uniform programme for the airline. Initially, our focus was on the development of a comprehensive management system to meet their complex requirements. We even established a temporary distribution centre to handle their needs while setting up in Fort Worth. Before the year end, we had shipped uniform and accessory items to over 40,000 employees of American Airlines world-wide.

For Air Canada, we have established a new uniform programme and a full service bilingual distribution centre in Montreal, Canada. Again we have successfully met our delivery commitments, shipping uniform and accessory items to more than 15,000 employees of Air Canada world-wide. The new uniform roll-out took place on 29th January 1996, when all employees coming to work on that day unveiled the new image of Air Canada by wearing uniforms supplied by our subsidiary R&R Uniforms.

Shipments began in March 1996 for a major new account covering approximately 25,000 employees of a large U.S telecommunications company. We are also currently bidding on a number of new government and commercial accounts, which if successful, would provide new sales opportunities in late 1996 or early 1997.

1996 OBJECTIVES

Our first objective in 1996 will be to add further to our list of major accounts through an intensification of our marketing efforts. In particular, we intend to build on the success of our first venture in Canada with special emphasis on expansion in that country. This next year will also see a major effort towards achieving optimum efficiency in order to improve the return on assets.

The quality of service which we give to our existing clients remains at the forefront of our minds and will involve the introduction of world-wide customer service standards in all major accounts.

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W H O L E S A L E

Success in our Wholesale business depends to a large extent upon the qualities of our sales force and the ability of individuals within it to forge strong interdependent relationships with our dealers throughout the United States and more recently in Canada.

Their task is much more than simply selling products to each dealer - they may also advise on product choice, assist in developing marketing strategies and even help in areas of inventory management. It is this degree of professionalism that leads to the constructive relationships which we are seeking. The fact that we have been able to increase sales significantly in this area of our business is evidence of how effective members of the Wholesale team have been throughout the past 12 months.

N E W M A R K E T S

The year saw an extension of our wholesale marketing efforts into Canada to match the work of our National Accounts team. This represents our initial expansion into international markets. An early success was a contract to provide a complete uniform change to Horace Small products for a major city police service.

The universal appeal of our products is further demonstrated by Sentinel, a shirt and trouser set. Developed for the private security market, Sentinel is already showing significant sales growth. The Quantum Outerwear System also contributed greatly to our marketing success in 1995.

New product introductions emphasising weather protection and warmth, as well as new concepts in tailored uniform images, will play a role in our future business growth.

The improvements from the manufacturing strategy should continue to improve our market competitiveness and service levels.

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COMPANY OWNED DISTRIBUTORS

We have already referred to the under-performance of our Company Owned Distributors. Much effort is being expended in our drive to improve the situation. However, it is important to recognise that this is not a problem which attaches to all of them. A number of them have had a good year including our newest store, opened in late 1994 in Atlanta, Georgia, soon to be the site of the 1996 Summer Olympics.

We have taken steps to improve results. Overall, we have reduced our cost structure starting with the administration area and have scrutinised the performance of each operation. The loss-making outlets in Ft Myers, Florida and Perkasi, Pennsylvania have been closed, and we will take similar action with other underperforming outlets if their results cannot be improved.

Buying practices, pricing, inventory levels and customer service are areas that have received much attention. We also believe that the new managers recently appointed have a better knowledge of the business and a greater degree of management skills.

Another success has been the production and distribution of a new R&R product catalogue. This list of all our leading products is the first for a number of years and will be an invaluable aid in the promotion of uniforms and accessories through the Company Owned Distributors.

THE FUTURE

Our key objectives in 1996 will be to consolidate the management changes made last year, reduce overall administrative costs, eliminate non-profitable operations, fully utilise the management information system to improve turnover and customer service levels, and expand our customer base.

"OVERALL WE HAVE REDUCED OUR COST STRUCTURE STARTING WITH THE ADMINISTRATION AREA AND HAVE SCRUTINISED THE PERFORMANCE OF EACH OPERATION."

During the past year, we have taken steps to lower our manufacturing costs by speeding up our production processes, reducing inventories and increasing product flexibility. We also increased our production capacity, introduced sophisticated new machinery and conducted a careful study of our out-sourcing arrangements.

Expansion of our Bassfield, Mississippi plant continued, including new equipment which has brought the desired product flexibility, lowered costs and improved product consistency. Our Guthrie, Kentucky, unit has also been expanded with similar results.

"CENTRALISING OUR SOURCING ENABLES US TO CONSOLIDATE OUR PRODUCT REQUIREMENTS AND THEN, THROUGH BULK PURCHASING, OPTIMISE OUR BUYING POWER."

CENTRALISED SOURCING

A centralised sourcing group has now been formed to manage the procurement of all apparel products for both Wholesale and National Accounts and to determine where they can be manufactured most cost-effectively. Centralising our sourcing enables us to consolidate our product requirements and then, through bulk purchasing, optimise our buying power.

Rapid increases in demand and the need for a flexible response necessitate a degree of out-sourcing, as was the case in implementing the American Airlines and Air Canada contracts in such a short time frame. Currently, we are obtaining products from a number of manufacturers within the United States and from Canada and other countries. This has enabled us to acquire expertise in the logistics of non US sourcing.

PLANS FOR THE FUTURE

The Board has recently approved a manufacturing and sourcing strategy designed to optimise our competitiveness and responsiveness. Our objective is to control a higher proportion of our own production, to bring further economies of scale and to manufacture garments in a responsive mode. At the same time, we must be prepared to adapt to significant changes in demand as we add new business. The centralisation and enhancement of our sourcing group will play a key role in this strategy.

FINANCIAL REVIEW

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

The effects of exchange rate movements on sterling results were not significant. Applicable exchange rates for the profit and loss account and cash flow statement were \$1.579 in 1995 and \$1.532 in 1994, a movement of 3%, while the year-end exchange rates used for the balance sheet were \$1.554 in 1995 and \$1.565 in 1994.

RESULTS OF OPERATIONS

Turnover increased 11% to \$126.6 million in the year ended 31st December, 1995 from \$113.9 million in 1994. All of this increase was the result of continuing growth in the Wholesale business and National Accounts business (principally Air Canada and American Airlines). Sales by Company Owned Distributors declined by 4%. Same location sales, which exclude the impact of closing one outlet in 1995 and two in 1994 and opening a new outlet in 1994, declined by 5% in 1995 compared to the prior year.

Gross profit increased 10% to \$40.0 million in 1995 from \$36.4 million in 1994, primarily as a result of the increase in sales. As a percentage of sales, gross profit decreased to 31.6% in 1995 from 32.0% in 1994. This decline in gross margin percentage was partly the result of a decrease in the percentage of total group sales attributable to company

Owned Distributors which typically have higher gross profit margins than the company's other operations (but lower operating margins). In addition the Company Owned Distributors recorded lower margins than the previous year and margins on the new National Accounts business were lower than the combined margin realised on existing accounts.

Company Owned Distributors' gross margins declined because intense competition in markets served by these operations limited their ability to increase prices on existing accounts in line with increases in product costs. The competition also kept pressure on margins of new accounts secured through tendering. Start-up inefficiencies and product sourcing complexities, such as managing the large number of Canadian-based manufacturers of product for the Air Canada programme, contributed to lower initial margins in new National Accounts contracts.

Decreased gross margins in the Company Owned Distributors and National Accounts were somewhat offset by improved margins in the Manufacturing and Wholesale operations. Price increases combined with a focus on higher margin business and a lower manufacturing cost structure were primary contributors to these improved

FINANCIAL REVIEW

margins. Increased production in lower cost facilities, improved operational efficiencies and cost reduction resulted in the lower manufacturing cost structure.

Group operating expenses increased 4.4% for the year which was less than half the rate of sales growth. Effective cost containment initiatives for medical and workers' compensation programmes were important factors in controlling the rate of growth in operating expenses. The group's pre-tax profit before exceptional items increased 15% to \$6.0 million in 1995 from \$5.2 million in 1994. As a percentage of sales, pre-tax profits declined to 4.0% in 1995 from 4.1% in the previous year as a result of higher operating margins (6.5% in 1995 compared to 5.7% in 1994) reduced by a 70% increase in net interest expense and an exceptional charge of \$0.9 million in 1995 (\$0.6 million in 1994). Additional bank borrowings for working capital requirements in the start-up of new National Accounts business resulted in the higher interest charges.

The group incurred exceptional charges totalling \$0.9 million in 1995 compared to a \$0.6 million charge for closures of Company Owned Distributors in 1994. The \$0.9 million charge comprises a \$0.2 million charge following the termination of proposed merger talks with a third party and \$0.7 million for the final payments due under Douglas Small's contract for services.

The group recorded an additional \$0.4 million US tax credit following the \$0.9 million recorded in 1994, as a result of final settlement of prior years' tax returns with the United States Internal Revenue Service. Tax losses available for offset against future profits subject to United States Federal taxation now stand at approximately \$15.3 million.

Profit after tax decreased by 1.9% to \$5.4 million in 1995 compared to \$5.5 million in 1994.

RESTRUCTURING PROGRAMME

Continued progress was made during 1995 to implement the changes and realise the benefits arising from the group's restructuring programme which started in late 1993. At 31st December, 1995, the remaining accrual for restructuring costs was \$1.6 million out of the original total of \$6.6 million.

During 1995, the changes originally contemplated in the restructuring charge for Company Owned Distributors were completed with the closing of the Fort Myers, Florida operation and reorganisation of management.

Restructuring efforts in manufacturing during 1995 included completion of efforts begun in 1994 to expand the company's lower cost manufacturing facilities and undertaking the detailed study from which the manufacturing/sourcing strategy was developed.

The entire balance of the restructuring accrual at year-end 1995 will be utilised in the restructuring effort required to implement the manufacturing and sourcing strategy recently approved by the Board. As envisioned when the restructuring programme began in late 1993, this last phase of the manufacturing component will improve cycle and response time while also enabling the company to control a higher proportion of its own production and to bring further economies of scale. Since full implementation of this strategy is not expected until 1997, utilisation of the entire balance of the accrual may not occur until after year-end 1996.

CASH FLOW AND FINANCING

Net cash used by operating activities was \$9.0 million in 1995 compared to net cash provided of \$2.8 million in 1994. Working capital requirements of the new National Accounts business were the primary reasons for the net cash outflow in 1995.

The group's trade debtors increased by \$8.8 million primarily as a result of a \$7.7 million increase from new National Accounts programmes and a \$1.3 million increase in balances due from Federal Government agencies which were slow paying at year-end because of the Federal Government shutdown. Other debtors and prepayments increased \$2.2 million which mainly consisted of \$0.6 million in capitalised start-up costs on

new National Accounts contracts and \$0.9 million Canadian recoverable value added tax arising on the Air Canada contract.

Inventory balances increased by \$7.0 million in 1995 consisting of an \$8.2 million increase for new National Accounts contracts and a \$1.2 million decrease in all other operations.

Primary external financing sources for the group's working capital requirements in 1995 consisted of \$4.1 million in net proceeds from a rights issue and increased bank borrowings of \$10.2 million. Internally generated funds, including reduced working capital requirements for the new National Accounts programmes, and availability under bank credit facilities at current levels will provide necessary capital for implementation of the manufacturing/sourcing strategy, start-up of a new national account programme with a large US telecommunications company, seasonal working capital needs and the group's capital expenditure programme in 1996.

Richard B. Vacek, Jr.
FINANCE DIRECTOR

DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited accounts for the year ended 31st December, 1995.

Activities

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

A detailed review of the business and future prospects is contained in the Chairman's Statement, the President's Report, the operational reviews and the Financial Review on pages 2 to 13.

Results

The results for the year are set out in the profit and loss account. The profit on ordinary activities after taxation amounted to £3,414,000 (1994 - £3,586,000).

Dividends and transfers to reserves

The directors are not recommending the payment of a dividend (1994 - nil).

The retained profit for the year of £3,414,000 (1994 - £3,586,000) has been transferred to reserves.

Issue of ordinary share capital

On 18th April, 1995 the company issued 3,116,501 ordinary shares at 90p per share raising £2,599,000 after expenses. The purpose of this issue was to finance additional working capital required for contracts awarded during 1995.

Fixed assets

Changes in the fixed assets of the group and company are shown in notes 8 and 9 to the accounts.

Substantial interests

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

| | No. of shares | % |
|--|---------------|------|
| Second Consolidated Trust PLC | 4,083,110 | 11.9 |
| Seaway Ltd* | 4,026,100 | 11.7 |
| North Atlantic Smaller Companies Investment Trust PLC* | 3,575,000 | 10.4 |
| Douglas Small | 2,467,973 | 7.2 |
| Buckmaster Small Companies Fund | 1,520,000 | 4.4 |
| Singer and Friedlander UK Emerging Leader Fund | 1,100,000 | 3.2 |

In addition, the company has been informed that the Bank of New York, in its capacity as Depositary Agent for the company's American Depositary Receipt programme, holds a total of 3,597,139 shares representing 10.5% of the issued share capital.

*The beneficial owner is a client of a subsidiary undertaking of JO Hambro & Company Limited, such subsidiary undertaking acting in its capacity as discretionary fund manager. The company has been informed that, in total, JO Hambro & Company Limited, through certain subsidiary undertakings acting in their capacity as discretionary fund managers, has an interest in 7,660,500 shares representing 22.3% of the issued share capital.

Directors

The directors who held office during the year were as follows:

Colin Keith (Chairman), Douglas Small, Richard Vacek, Robert Gates, The Hon. William Eberle, Christopher Mills, James Morton, Irvin Small

In accordance with the Articles of Association Douglas Small retires by rotation at the forthcoming Annual General Meeting. The Board of Directors is proposing that Paul Dumond be appointed in his place.

In accordance with the Articles of Association, Christopher Mills retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

CREST

During 1996, a new electronic share settlement system called CREST will be introduced to replace the existing Talisman system. The Uncertificated Securities Regulations 1995 (the "Regulations"), under which CREST will be implemented, provide that, before the board of a company may pass a resolution (a "directors' resolution") that title to shares of the company may be transferred by means of CREST, or within 60 days after the passing of such a directors' resolution, the company must give notice to its members of such fact.

The directors are therefore taking this opportunity to hereby give notice to shareholders in accordance with the Regulations that they intend to pass a directors' resolution so that title to the ordinary shares, in issue or to be issued, may be transferred by means of CREST or any other relevant system. The directors' resolution, once passed, will enable the Company's ordinary shares to join CREST in due course, subject to the permission of CRESTCo Limited as the operator of the system. The effect of the directors' resolution will be to disapply, in relation to the ordinary shares, those provisions of the Company's Articles of Association that are inconsistent with the transfer of ordinary shares by the CREST system and any provision of the Regulations, once the shares enter the system.

CREST will enable shareholders to hold and transfer their shares in electronic form rather than in paper if they so wish. Those shareholders wishing to retain or receive share certificates may do so.

Insurance of directors and officers

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

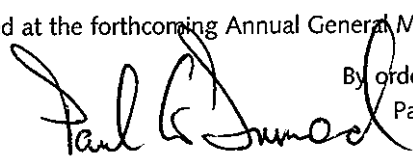
Close company status

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

Auditors

A resolution to reappoint Arthur Andersen as auditors will be proposed at the forthcoming Annual General Meeting.

Masters House
107 Hammersmith Road
London W14 0QH


By order of the Board
Paul G. Dumond
Secretary

1st April, 1996

C O R P O R A T E G O V E R N A N C E

Directors' Statement on Corporate Governance Matters

Following the publication in December 1992 of the Code of Best Practice by the Committee on the Financial Aspects of Corporate Governance, the Board has reviewed the company's compliance during the year ended 31st December, 1995. The Code covers four broad areas, namely the composition and procedures of the Board of Directors, the appointment and role of non-executive directors, the service contracts and pay of executive directors and the directors' responsibilities with respect to financial reporting and controls. The Code contains nineteen specific provisions in respect of these four areas.

The company has complied with the Code except that non-executive directors are not appointed for specific terms. However, the board periodically reviews their performance and effectiveness.

Internal financial control

The Board of Directors has overall responsibility for ensuring that the group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control system that operated throughout the period covered by the accounts are described under the following headings:

| | |
|---------------------------------------|--|
| Management information systems | Incorporating planning, budgeting and forecasting systems and a monthly review of actual results compared with budget. |
| Group controls | Common accounting systems and controls are in place throughout the group and are monitored on a regular on-going basis. |
| Organisation | <p>There are well structured financial and administrative functions at both head office and operational level staffed by appropriately qualified personnel. The key functions include:</p> <p><i>Group accounting</i> <i>Corporate planning and group treasury</i> <i>Legal and company secretarial</i> <i>Group taxation</i></p> <p>All functions report to the Board of Directors on a regular basis to provide assurance that their respective areas of responsibility are adequately controlled.</p> |
| Monitoring procedures | All aspects of internal financial control are considered and monitored regularly by the Board of Directors and the Audit Committee. |

Going concern

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

Directors' responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' responsibilities

Company law requires auditors to form an independent opinion on the accounts presented by the directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- that the companies in the group have maintained proper accounting records;
- that the accounts are in agreement with the accounting records;
- that directors' emoluments and other transactions with directors are properly disclosed in the accounts; and
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

The auditors' opinion does not encompass the directors' report on pages 14 and 15. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the directors' report are inconsistent with the accounts.

Remuneration committee report

The members of the remuneration committee during the year were William D. Eberle (Chairman), Christopher H. B. Mills and Irvin L. Small.

The group has complied throughout the year with Section A "Remuneration Committees" of the best practice provisions on directors' remuneration annexed to the Listing Rules of the London Stock Exchange. In framing the group's remuneration policy, the committee has given full consideration to the provisions of Section B "Remuneration Policy, Service Contracts and Compensation" also annexed to those rules.

With the exception of Douglas Small, the group's policy on executive directors remuneration is to provide remuneration packages to attract, retain and motivate executive directors of the quality required taking into account the levels paid by the comparable companies and the relative performance of those companies. These packages principally comprise a basic salary, which is reviewed annually, and a performance related bonus. The performance related element of remuneration for the executive directors, excluding Douglas Small, is directly related to the profitability of the group and to their performance compared with individual achievement goals.

At the time of the acquisition of Horace Small from Douglas Small in 1990, the company entered into a service contract with Mr Small for a term of seven years. His remuneration under the contract comprises a salary, subject to review annually, with no performance related bonus.

Christopher Mills is being proposed for re-election at the forthcoming Annual General Meeting and Paul Dumond is being proposed for election. Neither Christopher Mills nor Paul Dumond have service contracts with any group company. Douglas Small resigned as Group Chief Executive on 12th March 1996 and retires by rotation at the forthcoming Annual General Meeting.

Full details of the remuneration packages of the individual directors and information on share options and long term incentive schemes are set out in note 4 to the accounts.

REPORT BY THE AUDITORS TO HORACE SMALL APPAREL PLC ON CORPORATE GOVERNANCE MATTERS

Report by the Auditors on Corporate Governance Matters

In addition to our audit of the accounts, we have reviewed the directors' statement on page 16 on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

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

Opinion

With respect to the directors' statement on internal financial control and going concern on page 16, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 16 above appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.

Arthur Andersen

Arthur Andersen

Chartered Accountants

London

1st April, 1996

AUDITORS' REPORT

To the shareholders of Horace Small Apparel PLC

We have audited the accounts on pages 19 to 36 which have been prepared under the historical cost convention and the accounting policies set out on pages 23 and 24.

Respective responsibilities of directors and auditors

As set out on pages 16 and 17 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and group as at 31st December, 1995 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen

Chartered Accountants and Registered Auditors

London

1st April, 1996

GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, 1995

| | Notes | 1995 £000 | 1994 £000 |
|---|-------|--------------|--------------|
| Turnover | 1 | 80,160 | 74,336 |
| Cost of sales | | (54,831) | (50,585) |
| Gross profit | | 25,329 | 23,751 |
| Distribution costs | | (10,835) | (10,615) |
| Administrative expenses - Normal | | (9,420) | (9,353) |
| - Exceptional | | (600) | - |
| Other operating income | | 122 | 93 |
| Operating profit | 2 | 4,596 | 3,876 |
| Interest receivable and similar income | | 13 | 129 |
| Interest payable and similar charges | 5 | (1,424) | (986) |
| Profit on ordinary activities before taxation | | 3,185 | 3,019 |
| Taxation on profit on ordinary activities | 6 | 229 | 567 |
| Retained profit for the year | | 3,414 | 3,586 |
| Earnings per share: | | | |
| Basic earnings per share | 7 | 10.2p | 11.5p |
| Adjustment for exceptional items | | 1.8p | 1.2p |
| Adjusted earnings per share | 7 | 12.0p | 12.7p |
| Average exchange rate applied | £1= | \$1.579 | \$1.532 |

Movements on reserves are set out in note 15.

The accompanying notes are an integral part of these accounts.

GROUP BALANCE SHEET

AT 31ST DECEMBER, 1995

| | Notes | 1995 £000 | 1994 £000 |
|---|-------|--------------|--------------|
| Fixed assets | | | |
| Tangible assets | 8 | 11,198 | 9,993 |
| Current assets | | | |
| Stocks | 10 | 27,124 | 22,557 |
| Debtors | 11 | 20,813 | 13,626 |
| Cash at bank and in hand | | 1,087 | 1,158 |
| | | 49,024 | 37,341 |
| Creditors: amounts falling due within one year | 12 | (13,777) | (13,743) |
| Net current assets | | 35,247 | 23,598 |
| Total assets less current liabilities | | 46,445 | 33,591 |
| Creditors: amounts falling due after more than one year | 13 | (20,752) | (14,119) |
| Net assets | | 25,693 | 19,472 |
| Capital and reserves | | | |
| Called up share capital | 14 | 1,714 | 1,558 |
| Share premium account | 15 | 20,881 | 18,438 |
| Exchange translation reserve | 15 | (2,762) | (2,970) |
| Profit and loss account | 15 | 5,860 | 2,446 |
| Shareholders' funds | 16 | 25,693 | 19,472 |
| Year end exchange rate applied | £1= | \$1.554 | \$1.565 |

As approved by the Board of Directors on 1st April, 1996 and signed on its behalf by:

J. Colin Keith
Richard B. Vacek, Jr. } Directors

The accompanying notes are an integral part of these accounts.

COMPANY BALANCE SHEET

AT 31ST DECEMBER, 1995

| | Notes | 1995 £000 | 1994 £000 |
|---|-------|--------------|--------------|
| Fixed assets | | | |
| Investments | 9 | 45,475 | 42,876 |
| Current assets | | | |
| Debtors | 11 | 45 | 37 |
| Cash at bank and in hand | | 27 | 5 |
| | | 72 | 42 |
| Creditors: amounts falling due within one year | 12 | (462) | (382) |
| Net current liabilities | | (390) | (340) |
| Net assets | | 45,085 | 42,536 |
| Capital and reserves | | | |
| Called up share capital | 14 | 1,714 | 1,558 |
| Share premium account | 15 | 20,881 | 18,438 |
| Special reserve | 15 | 17,296 | 17,296 |
| Profit and loss account | 15 | 5,194 | 5,244 |
| Shareholders' funds | | 45,085 | 42,536 |

As approved by the Board of Directors on 1st April, 1996 and signed on its behalf by:

J. Colin Keith
Richard B. Vacek, Jr. } Directors

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31ST DECEMBER, 1995

| | 1995 £000 | 1994 £000 |
|--|--------------|--------------|
| Profit on ordinary activities after taxation | 3,414 | 3,586 |
| Currency translation differences on foreign currency net investments | 208 | (1,006) |
| Total gains recognised since previous balance sheet date | 3,622 | 2,580 |

The accompanying notes are an integral part of these accounts.

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 1995

| | Notes | 1995 £000 | 1994 £000 |
|--|-------|--------------|--------------|
| Net cash (outflow)/inflow from operating activities | 21(a) | (5,679) | 1,847 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 13 | 128 |
| Interest paid | | (1,360) | (1,065) |
| Net cash outflow from returns on investments and servicing of finance | | (1,347) | (937) |
| Taxation | | | |
| UK corporation tax paid | | (14) | (88) |
| Overseas tax (paid)/received | | (7) | 302 |
| Total tax (paid)/received | | (21) | 214 |
| Investing activities | | | |
| Purchase of tangible fixed assets | | (2,057) | (1,370) |
| Consideration arising on acquisitions during the year and in earlier periods | 21(d) | — | (2,000) |
| Sale of tangible fixed assets | | 6 | 3 |
| Net cash outflow from investing activities | | (2,051) | (3,367) |
| Net cash outflow before financing | | (9,098) | (2,243) |
| Financing | | | |
| Issue of ordinary shares (net of expenses) | | 2,599 | — |
| Proceeds of term borrowings | | 6,333 | — |
| Long term borrowings | | 111 | 2,001 |
| Capital element of finance lease rental payments | | (22) | (42) |
| Net cash inflow from financing | 21(c) | 9,021 | 1,959 |
| Decrease in cash and cash equivalents | 21(b) | (77) | (284) |

The accompanying notes are an integral part of these accounts.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

Turnover

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

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

Tangible fixed assets

Property and equipment are stated at cost.

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

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

Leases

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

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

Investments

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

Stocks

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

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (continued)

Set up and start up costs attributable to long term contracts

Incremental costs that are directly attributable to the set up of new facilities and systems required to service long term National Account contracts are capitalised and shown under debtors. The costs are normally amortised over the term of the contract as follows:

- i) one half is amortised on a straight line basis over the first twelve months following the commencement of full shipping operations; and
- ii) the balance is amortised on a straight line basis over a period not exceeding the term of the contract commencing with the first anniversary of full shipping operations.

Deferred taxation

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

Foreign currencies

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

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

Pensions

Entry to Horace Small's pension scheme was closed during 1993 and there is no longer a regular pension cost charged to the profit and loss account. Independent actuarial valuations on a going concern basis are carried out annually and the resultant actuarial surplus or deficit is spread in the profit and loss account over the average remaining service lives of employees, currently estimated at 9.5 years.

2. OPERATING PROFIT

| | 1995 £000 | 1994 £000 |
|--|--------------|--------------|
| This is stated after charging: | | |
| Auditors' remuneration | 91 | 82 |
| Other fees paid in the UK to the auditors | 12 | 44 |
| Exceptional charge for payments to Douglas Small and associated payroll taxes (see note 4) | 450 | - |
| Exceptional charge arising from the termination of proposed merger | 150 | - |
| Exceptional charge for closure of company owned distributors | - | 366 |
| Depreciation of tangible fixed assets: | | |
| Owned | 779 | 614 |
| Held under finance leases | 148 | 163 |
| Loss on disposal of tangible fixed assets | - | 16 |
| Hire of plant and machinery and motor vehicles under operating leases | 395 | 236 |
| Payments under operating leases - premises | 1,030 | 997 |

3. EMPLOYEES

| | 1995 | 1994 |
|--|--------|--------|
| The weekly average number of employees was made up as follows: | Number | Number |
| Production | 804 | 772 |
| Warehousing and distribution | 437 | 432 |
| Sales | 112 | 132 |
| Administration | 48 | 44 |
| | 1,401 | 1,380 |

All employees, including executive directors, are employed in North America.

| | | |
|---|--------|--------|
| Staff costs, including directors' remuneration during the year comprised: | £000 | £000 |
| Salaries and wages | 18,346 | 17,986 |
| Social security costs | 1,623 | 2,126 |
| Other pension credits (note 20a) | (25) | (63) |
| | 19,944 | 20,049 |

4. DIRECTORS' REMUNERATION AND INTERESTS

Directors' remuneration

| Name of Director | Fees £000 | Basic salary and other emoluments £000 | Taxable benefits £000 | Prior year performance related bonus £000 | Profit sharing retirement plan £000 | 1995 total £000 | 1994 total £000 |
|----------------------|--------------|---|-----------------------------|---|--|-----------------------|-----------------------|
| <i>Executive</i> | | | | | | | |
| D.A.Small | 5 | 261 | 25 | — | 4 | 295 | 300 |
| R.B.Vacek | 5 | 94 | 10 | 26 | 4 | 139 | 121 |
| R.W.Gates | 5 | 108 | 10 | 32 | 4 | 159 | 139 |
| <i>Non-executive</i> | | | | | | | |
| J.C.Keith | 5 | 35 | — | — | — | 40 | 40 |
| W.D.Eberle | 5 | 5 | — | — | — | 10 | 10 |
| C.H.B.Mills | 5 | 25 | — | — | — | 30 | 30 |
| R.J.P.Morton | 5 | 5 | — | — | — | 10 | 10 |
| I.L.Small | 5 | 5 | — | — | — | 10 | 10 |
| Aggregate emoluments | 40 | 538 | 45 | 58 | 12 | 693 | 660 |

The emoluments of the chairman, Colin Keith, totalled £40,000 (1994 – £40,000). The emoluments of the highest paid director for services rendered in the UK in the year totalled £30,000 (1994 – £30,000).

In addition to his emoluments shown above, Douglas Small is entitled to approximately £425,000 for the final payments under the contract for services entered into in 1990 when the group purchased Horace Small. Associated payroll taxes and other costs total £25,000.

NOTES TO THE ACCOUNTS

4. DIRECTORS' REMUNERATION AND INTERESTS (continued)

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

| | 1995 Number | 1994 Number |
|---------------------|----------------|----------------|
| £5,001 - £10,000 | 3 | 3 |
| £25,001 - £30,000 | 1 | 1 |
| £35,001 - £40,000 | 1 | 1 |
| £115,001 - £120,000 | - | 1 |
| £130,001 - £135,000 | - | 1 |
| £135,001 - £140,000 | 1 | - |
| £155,001 - £160,000 | 1 | - |
| £290,001 - £295,000 | 1 | - |
| £295,001 - £300,000 | - | 1 |

Executives' performance related bonuses

The executive directors, excluding Douglas Small, are entitled to participate in a management bonus pool which is available to all of the group's senior management. The level of each director's bonus is determined in the year following the year to which the bonus relates.

All of the executive directors are also entitled to participate in any bonus which may become payable under the arrangements detailed in note 19, the level of participation being determined by the board of the principal operating subsidiary, Horace Small, at its discretion.

Directors' interests

The aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for ordinary shares in the company granted to or held by the directors. Details of the options are as follows:

| | 31st December, 1994* | 31st December, 1995 | Dated of grant | Exercise price |
|-------------------------|----------------------|---------------------|----------------------|----------------|
| Directors: | | | | |
| D.A.Small | 562,650 | 562,650 | 30th May, 1990 | 122.19p |
| R.B.Vacek | 102,300 | 102,300 | 30th May, 1990 | 122.19p |
| | 20,460 | 20,460 | 24th September, 1992 | 68.43p |
| | - | 20,000 | 7th June, 1995 | 106.00p |
| R.W.Gates | 102,300 | 102,300 | 30th May, 1990 | 122.19p |
| | 20,460 | 20,460 | 24th September, 1992 | 68.43p |
| | - | 25,000 | 7th June, 1995 | 106.00p |
| | - | 100,000 | 26th September, 1995 | 98.00p |
| J.C.Keith | 409,200 | 409,200 | 13th July, 1993 | 68.43p |
| W.D.Eberle | 102,300 | 102,300 | 30th May, 1990 | 122.19p |
| C.H.B.Mills (UK scheme) | 409,200 | 409,200 | 30th May, 1990 | 122.19p |
| R.J.P.Morton | 102,300 | 102,300 | 30th May, 1990 | 122.19p |
| I.L.Small | 102,300 | 102,300 | 3rd November, 1992 | 70.38p |

*The number of options in issue on 18th April, 1995, together with the exercise price of each option has been adjusted, in accordance with the rules of the share option schemes to take account of the dilutive effect of the rights issue on that date. Prior year comparatives have been re-stated accordingly.

4. DIRECTORS' REMUNERATION AND INTERESTS (continued)

Options granted under the company's US Stock Option Plan may be exercised between the third and tenth anniversaries of the date of grant.

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

Since the year end there have been no changes in the numbers of options held by directors or their exercise prices.

The directors' beneficial interests in the share capital of the company, are set out below:

| | Ordinary Shares of 5p each | |
|--------------|----------------------------|---------------------------|
| | At 31st December, 1995 | At 31st December, 1994 |
| D.A.Small | 2,467,973 | 2,248,487 |
| R.B.Vacek | 30,178 | 27,435 |
| R.W.Gates | 144,967 | 131,789 |
| J.C.Keith | 330,000 | 300,000 |
| W.D.Eberle | — | — |
| C.H.B.Mills | 168,000 | 130,000 |
| R.J.P.Morton | 151,000 | 160,000 |
| I.L.Small | 81,911 | 75,000 |

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

5. INTEREST PAYABLE AND SIMILAR CHARGES

| | 1995 £000 | 1994 £000 |
|---|--------------|--------------|
| Interest on loans repayable within five years, by instalments | 1,067 | 955 |
| Interest on loans repayable beyond five years, by instalments | 333 | — |
| Interest on finance leases | 13 | 23 |
| Other interest | 11 | 8 |
| | 1,424 | 986 |

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

| | 1995 £000 | 1994 £000 |
|---|--------------|--------------|
| UK Corporation tax charge at 33% based on profit for the year | — | (20) |
| US Federal tax credit | 229 | 587 |
| Total tax credit | 229 | 567 |

At 31st December, 1995 the group had tax losses of approximately \$15.3 million (1994 - \$19.0 million) available for offset against future profits subject to United States Federal taxation. The losses begin to expire in 2007.

No deferred taxation has been provided and no potential liability arises in the group or company due to the availability of tax losses to offset reversals of other short term timing differences and the excess of the book value of tangible assets over their tax value.

NOTES TO THE ACCOUNTS

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit after tax of £3,414,000 (1994 - £3,586,000) and on the average number of ordinary shares in issue during the year of 33,367,922 (1994 - 31,165,025). The adjusted earnings per share are based on adjusted profits after tax of £3,989,000 (1994 - £3,952,000) after excluding exceptional charges totalling £575,000 (1994 - £366,000), net of taxation.

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

8. TANGIBLE ASSETS

The Group

| | Freehold property £000 | Long leasehold property £000 | Plant, machinery & vehicles £000 | Furniture, fixtures & fittings £000 | Total £000 |
|--------------------------------------|------------------------------|---------------------------------------|---|--|---------------|
| Cost | | | | | |
| At 1st January, 1995 | 1,404 | 5,702 | 4,082 | 1,282 | 12,470 |
| Additions | 54 | 242 | 1,341 | 420 | 2,057 |
| Disposals | - | (2) | - | (7) | (9) |
| Exchange movement | 10 | 40 | 48 | 15 | 113 |
| At 31st December, 1995 | 1,468 | 5,982 | 5,471 | 1,710 | 14,631 |
| Depreciation | | | | | |
| At 1st January, 1995 | 49 | 570 | 1,427 | 431 | 2,477 |
| Charge for the year | 14 | 146 | 623 | 144 | 927 |
| Disposals | - | - | - | (3) | (3) |
| Exchange movement | 1 | 6 | 20 | 5 | 32 |
| At 31st December, 1995 | 64 | 722 | 2,070 | 577 | 3,433 |
| Net book value | | | | | |
| At 31st December, 1995 | 1,404 | 5,260 | 3,401 | 1,133 | 11,198 |
| At 31st December, 1994 | 1,355 | 5,132 | 2,655 | 851 | 9,993 |
| Leased assets included in the above: | | | | | |
| Net book value | | | | | |
| At 31st December, 1995 | - | 5,260 | 6 | - | 5,266 |
| At 31st December, 1994 | - | 5,130 | 14 | - | 5,144 |

Freehold property includes freehold land with a book value of £1,043,000 (1994 - £1,036,000) which is not being depreciated. Long leasehold property includes land, with a book value of £1,823,000 (1994 - £1,810,000), which is not being depreciated as the group has an option to acquire the freehold of the property for a nominal sum at any time prior to the year 2008.

9. FIXED ASSET INVESTMENTS

| | The Company | |
|--|-------------|----------|
| | 1995 | 1994 |
| | £000 | £000 |
| Investment in subsidiary undertakings at cost | 41,000 | 38,491 |
| Long term loans to subsidiary undertakings | 4,475 | 4,385 |
| | 45,475 | 42,876 |
| Movements in the year comprise: | | |
| Issue of shares by subsidiary undertakings for cash | 2,509 | - |
| Issue of shares in exchange for long term loans to subsidiary undertakings | - | 16,891 |
| Increase/(Decrease) in loans to subsidiary undertakings | 64 | (16,760) |
| Exchange movement on long term loans | 26 | (1,208) |
| | 2,599 | (1,077) |

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

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

* Held by Horace Small Apparel PLC

** Held by Horace Small Holdings Corporation of Delaware, Inc.

*** Held by Horace Small Holdings Corporation

**** Held by Horace Small Manufacturing Company

***** Held by R&R Uniforms, Inc.

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

NOTES TO THE ACCOUNTS

10. STOCKS

| | The Group | |
|------------------|--------------|--------------|
| | 1995 £000 | 1994 £000 |
| Raw materials | 2,812 | 2,854 |
| Work-in-progress | 1,907 | 1,661 |
| Finished goods | 22,405 | 18,042 |
| | 27,124 | 22,557 |

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

11. DEBTORS

| | The Group | | The Company | |
|---|--------------|--------------|--------------|--------------|
| | 1995 £000 | 1994 £000 | 1995 £000 | 1994 £000 |
| Amounts falling due within one year: | | | | |
| Trade debtors | 18,418 | 12,637 | — | — |
| Amounts owed by subsidiary undertakings | — | — | 8 | 8 |
| Other debtors | 160 | 164 | — | — |
| Value added tax recoverable | 18 | 6 | 18 | 6 |
| Prepayments and accrued income | 830 | 314 | 19 | 23 |
| | 19,426 | 13,121 | 45 | 37 |
| Amounts falling due after more than one year: | | | | |
| Other debtors | 17 | 18 | — | — |
| Overseas tax | 88 | — | — | — |
| Prepayments and accrued income | 672 | 289 | — | — |
| Deferred start up costs | 610 | 198 | — | — |
| | 1,387 | 505 | — | — |
| | 20,813 | 13,626 | 45 | 37 |

12. CREDITORS: amounts falling due within one year

| | The Group | | The Company | |
|---|--------------|--------------|--------------|--------------|
| | 1995 £000 | 1994 £000 | 1995 £000 | 1994 £000 |
| Obligations under finance leases | 10 | 29 | - | - |
| Payments received on account | 322 | 335 | - | - |
| Trade creditors | 8,261 | 7,730 | - | - |
| Amounts owed to subsidiary undertakings | - | - | 379 | 247 |
| Other creditors | 34 | 29 | - | - |
| UK corporation tax | 4 | 18 | 4 | 18 |
| Overseas tax | 373 | 447 | - | - |
| Accruals | 4,773 | 5,155 | 79 | 117 |
| | 13,777 | 13,743 | 462 | 382 |

At the end of 1993 the group embarked upon a programme to restructure its operations, the estimated costs of which were provided for in the 1993 accounts. The restructuring programme is continuing and £1.0 million (1994 - £1.5 million) of the original charges remain within accruals at 31st December, 1995 to be utilised as the planned actions are completed.

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

| | The Group | |
|-----------------------------------|--------------|--------------|
| | 1995 £000 | 1994 £000 |
| Obligations under finance leases: | | |
| Payable over one to two years | 8 | 6 |
| Payable over two to five years | 65 | 25 |
| Payable over five years | 69 | 112 |
| Bank loan: | | |
| Payable over one to two years | 15,178 | 13,798 |
| Payable over two to five years | 3,510 | - |
| Payable over five years | 1,755 | - |
| Other creditors: | | |
| Payable over two to five years | 138 | - |
| Payable over five years | 29 | 178 |
| | 20,752 | 14,119 |

The bank loans, which are unsecured, comprise a revolving credit facility of \$30 million from the SunTrust Bank, Nashville, N.A., which decreased according to its terms to \$20 million on 1st March, 1996 and a term loan of \$10 million from Creditanstalt. The SunTrust Bank facility bears interest, at the group's option, at either the bank's base rate plus 0.25% to 0.5% or US dollar LIBOR plus 1.5% to 2.75% and the Creditanstalt facility bears interest, at the group's option, at either base rate plus 0.25% to 1.0% or US dollar LIBOR plus 2.0% to 3.25%.

NOTES TO THE ACCOUNTS

14. CALLED UP SHARE CAPITAL

(a) Share Capital

This comprises ordinary shares of 5 pence each as follows:

| | Authorised | | Allotted, called up and fully paid | |
|--|---------------|-------|------------------------------------|-------|
| | No. of shares | £000 | No. of shares | £000 |
| At 1st January, 1995 | 45,000,000 | 2,250 | 31,165,025 | 1,558 |
| Issue of ordinary shares on 18th April, 1995 | — | — | 3,116,501 | 156 |
| At 31st December, 1995 | 45,000,000 | 2,250 | 34,281,526 | 1,714 |

(b) Options

The following options, including those detailed in note 4, granted under the UK Executive Share Option Scheme and the US Stock Option Plan, were outstanding at 31st December:

| Date of Grant | Price per fully paid share | 1995 Number of ordinary shares | 1994 Number of ordinary shares* |
|----------------------------|----------------------------|-----------------------------------|------------------------------------|
| 30th May, 1990 | 122.19p | 1,155,993 | 1,155,993 |
| 30th May, 1990 (UK scheme) | 122.19p | 567,765 | 567,765 |
| 26th June, 1992 | 84.07p | 108,953 | 108,953 |
| 24th September, 1992 | 68.43p | 40,920 | 40,920 |
| 3rd November, 1992 | 70.38p | 102,300 | 102,300 |
| 30th November, 1992 | 79.18p | 51,150 | 51,150 |
| 6th July, 1993 | 77.22p | — | 51,150 |
| 13th July, 1993 | 68.43p | 409,200 | 409,200 |
| 8th November, 1993 | 62.56p | 51,150 | 51,150 |
| 15th August, 1994 | 82.11p | 89,515 | 89,515 |
| 7th June, 1995 | 106.00p | 165,500 | — |
| 26th September, 1995 | 98.00p | 100,000 | — |
| 18th December, 1995 | 91.00p | 30,000 | — |
| | | 2,872,446 | 2,628,096 |

*The numbers options in issue on 18th April, 1995, together with the exercise price of each option have been adjusted in accordance with the rules of the company's share option schemes to take account of the dilutive affect of the rights issue on that date. Prior year comparatives have been restated accordingly.

Options granted under the company's US Stock Option Plan may be exercised between the third and tenth anniversaries of the date of grant.

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

No options were exercised during the year. Options held to acquire up to 51,150 shares lapsed during the year.

The market price of the ordinary shares at 31st December, 1995 was 90.5p and the range during 1995 was 83.0p to 132.0p.

15. RESERVES

| | Share Premium £000 | Exchange Translation Reserve £000 | Profit and Loss Account £000 | Total £000 |
|----------------------------------|--------------------------|--|---------------------------------------|---------------|
| Group | | | | |
| At 1st January, 1995 | 18,438 | (2,970) | 2,446 | 17,914 |
| Profit for the year | — | — | 3,414 | 3,414 |
| Issue of ordinary shares | 2,443 | — | — | 2,443 |
| Currency translation differences | — | 208 | — | 208 |
| At 31st December, 1995 | 20,881 | (2,762) | 5,860 | 23,979 |

| | Share Premium £000 | Special Reserve £000 | Profit and Loss Account £000 | Total £000 |
|--------------------------|--------------------------|----------------------------|------------------------------------|---------------|
| Company | | | | |
| At 1st January, 1995 | 18,438 | 17,296 | 5,244 | 40,978 |
| Issue of ordinary shares | 2,443 | — | — | 2,443 |
| Loss for the year | — | — | (50) | (50) |
| At 31st December, 1995 | 20,881 | 17,296 | 5,194 | 43,371 |

At 31st December, 1995 the profit and loss account of the company included £4,643,000 (1994 - £4,617,000) of unrealised exchange gains on the translation of amounts denominated in US dollars advanced to subsidiary undertakings. Accordingly, the distributable reserves of the company at 31st December, 1995 totalled £551,000 (1994 - £627,000).

Of the group profit for the year, a loss of £50,000 (1994 - loss £1,166,000) has been dealt with in the accounts of the company.

At 31st December, 1995 the cumulative amount of goodwill resulting from acquisitions which had been written off to reserves, net of goodwill attributable to subsidiary undertakings or businesses disposed of, amounted to £22,436,000 (1994 - £22,436,000).

NOTES TO THE ACCOUNTS

16. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | The Group | |
|--|--------------|--------------|
| | 1995 £000 | 1994 £000 |
| Profit on ordinary activities after taxation | 3,414 | 3,586 |
| Issue of new ordinary shares | 2,599 | – |
| Currency translation differences on foreign currency net investments | 208 | (1,006) |
| Goodwill written off | – | (147) |
| Net movement of shareholders' funds | 6,221 | 2,433 |
| Shareholders' funds at the beginning of the year | 19,472 | 17,039 |
| Shareholders' funds at the end of the year | 25,693 | 19,472 |

17. OPERATING LEASE COMMITMENTS

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

| | 1995 £000 | 1994 £000 |
|--|--------------|--------------|
| Operating leases – land and buildings: | | |
| Within one year | 59 | 179 |
| From one to five years | 574 | 196 |
| Over five years | 319 | 302 |
| | 952 | 677 |
| Operating leases – other assets: | | |
| Within one year | 82 | 70 |
| From one to five years | 120 | 129 |
| | 202 | 199 |

18. CAPITAL COMMITMENTS

Authorised capital commitments at 31st December, 1995 totalled £3,668,000 (1994 - £1,398,000), of which £79,000 (1994 - £118,000) had been contracted for but not provided for in these accounts.

19. ACQUISITION AGREEMENTS

Under the terms of the bonus pool agreement between Horace Small, Richard Vacek, Douglas Small and Robert Gates, a bonus, payable in 1997 (or earlier following certain specified events), is due to certain Horace Small employees. The bonus is equal to 20 per cent of the excess aggregate profits of that company (as defined in the agreement) over \$55 million arising in the period 1st January, 1990 to 31st December, 1996, such bonus not to exceed \$12 million. The eligible employees are to be nominated by the board of Horace Small at its discretion and Douglas Small is entitled to receive not more than 60 per cent of the bonus pool. The adjusted cumulative profits on which the bonus may become payable totalled \$24,663,000 at 31st December, 1995 (1994 - \$17,603,000). No provision for this contingent bonus has been made in these accounts.

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

20. PENSION AND RETIREMENT ARRANGEMENTS

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

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

The pension cost and related prepayment are assessed in accordance with the advice of the actuaries under the principles of US Accounting Standards. The projected unit credit actuarial cost method is used to determine the normal cost of the pension plan and estimate pension benefit obligations. In the most recent actuarial valuation the main assumptions were that (a) salaries would increase by 4.5% p.a., (b) pensions in payment remain constant, and (c) the return on scheme investments would be 8.0% p.a.

The market value of the assets of the scheme at 31st December, 1995 was £3,348,000 (1994 - £3,007,000) and the actuarial value of the assets was sufficient to cover 107% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The pension credit for the year, reflecting the benefit of amortisation of the actuarial surplus, was £25,000 (1994 - credit £63,000). No contributions were paid to the scheme during the year (1994 - nil). Prepaid contributions of £317,000 (1994 - £289,000) at the year end are shown in the balance sheet under 'Prepayments'. The directors consider that no material adjustment would arise if these amounts were revised to reflect UK actuarial practice and Accounting Standards, the expense of which exercise is therefore not justified.

(b) The Horace Small Profit Sharing Retirement Plan includes a profit sharing component, made at the group's discretion, for all eligible employees. Horace Small also contributes amounts equal to one-half of the employees' contribution up to a maximum of 3% of covered wages. The total charge for the year was £394,000 (1994 - £388,000).

21. NOTES TO THE GROUP CASH FLOW STATEMENT

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

| | 1995 £000 | 1994 £000 |
|---|--------------|--------------|
| Operating profit | 4,596 | 3,876 |
| Depreciation charge | 927 | 777 |
| Loss on sale of fixed assets | - | 16 |
| (Increase) in stocks | (4,411) | (2,762) |
| (Increase) in debtors | (6,874) | (1,777) |
| Increase in creditors and provisions | 62 | 1,711 |
| Miscellaneous, principally translation adjustments | 21 | 6 |
| Net cash (outflow)/inflow from operating activities | (5,679) | 1,847 |

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

| | 1995 £000 | 1994 £000 |
|---|--------------|--------------|
| At 1st January | 1,158 | 1,517 |
| Net cash outflow | (77) | (284) |
| Effect of foreign exchange rate changes | 6 | (75) |
| At 31st December | 1,087 | 1,158 |

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

NOTES TO THE ACCOUNTS

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

(c) Analysis of changes in financing during the year

| | 1995 | | 1994 | |
|--------------------------------------|---|---|---|---|
| | Share capital (including premium) £000 | Loans and finance lease obligations £000 | Share capital (including premium) £000 | Loans and finance lease obligations £000 |
| At 1st January | 19,996 | 13,970 | 19,996 | 12,745 |
| Cash inflow from financing | 2,599 | 6,422 | - | 1,959 |
| Inception of finance lease contracts | - | 7 | - | - |
| Translation adjustments | - | 196 | - | (734) |
| At 31st December | 22,595 | 20,595 | 19,996 | 13,970 |

(d) Acquisition of subsidiary undertakings and unincorporated businesses

An analysis of cash paid is set out below:

| | 1995 £000 | 1994 £000 |
|---|--------------|--------------|
| Deferred consideration arising on acquisitions in prior years | - | 2,000 |

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DIRECTORS

J. Colin Keith (Chairman and Chief Executive)

Colin Keith, aged 51, was appointed a non-executive Director in April 1993, Chairman in June 1993 and Chief Executive in March 1996. He currently serves as Chairman of Denison International Limited, a private international group engaged in the manufacture and distribution of hydraulic pumps and valves. He is also a non-executive director of Scholl PLC.

Robert W. Gates, Jr. (President and Chief Operating Officer)(USA)

Robert Gates, aged 49, was one of the founders of R&R Uniforms and has served as its President since its inception in 1972. He became President and Chief Operating Officer of Horace Small in March 1996.

Richard B. Vacek, Jr. (Finance Director)(USA)

Richard Vacek, aged 47, 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.

The Hon. William D. Eberle (USA)*†

The Hon. William Eberle, aged 72, was appointed a non-executive Director in June 1990. He served as a Special Trade Representative during the Nixon and Ford administrations. A director of various U.S. corporations, he was a founder of Boise Cascade and served as Chairman and Chief Executive Officer of American Standard. He is currently Deputy Chairman of Mid-States PLC and Vice Chairman of the US Council of the International Chamber of Commerce.

Christopher H.B. Mills*†

Christopher Mills, aged 43, was appointed a non-executive Director in January 1988. He is Managing Director of North Atlantic Smaller Companies Investment Trust PLC and a director of Proudfoot PLC, American Opportunity Trust PLC, Mid-States PLC and Stanelco PLC.

R. James P. Morton*

James Morton, aged 43, was appointed non-executive Director in May 1990. He is a Managing Director of Chelverton Investment Management Limited. He is also director of Ingham plc and of a number of private companies.

Douglas A. Small (USA)

Douglas Small, aged 44, joined the company in 1969 as an industrial engineer and held numerous positions throughout the company before being named President in 1987 and Chief Executive in 1989. He resigned as Chief Executive in 1996.

Irvin ('Jimmy') L. Small (USA)†

Jimmy Small, aged 67, the son of the founder, Horace Small, joined his father in 1950. He was Chief Executive Officer from 1962 until December 1989 and President from 1962 until 1986. He is a past president of the National Association of Uniform Manufacturers and Distributors and is widely respected within the uniform industry. He retired from Horace Small in January 1992 after 42 years, but remains a non-executive Director of the company.

* Member of the Audit Committee

† Member of the Remuneration Committee