

Dear Shareholder

I have the good fortune to be supplying a foreword for this year's annual report for Claus Industries plc.

As you know, our primary business of toy manufacture and global just-in-time delivery systems is a highly seasonal one. This gives us the advantage of being able to employ a pool of casual labour in the final two months of the year to satisfy our peak demand before down-sizing for the slack ten months which follow.

This pattern, combined with the advantageous business rates from our chosen factory location at the North Pole, means we can keep our expenses under very close control. The board and I continue to work from the company's Mayfair offices, a location we feel is essential to maintain executive morale.

Speaking of down-sizing, I should point out that our policy of employing only workers of restricted growth has again proved its worth. Our employees are particularly well-suited to work on the miniaturised and computerised toys required by our target market.

Positive discrimination of this kind has also won us a good deal of helpful public relations among parents, who represent a key target demographic for the company.

You will have seen much speculation in the press in recent months suggesting that, because the majority of

our clients are at the younger end of the age range, our manufacturing process should be subject to statutory control by the DTI. I reject this view. Experience has shown that – as in the City of London – the necessary policing activity can be achieved more effectively through a process of strict self-regulation. (Or, perhaps in our case, I should say elf-regulation!)

I would like to assure shareholders that I take a close personal interest in our compliance and monitoring procedures, and that all the staff at Claus Industries plc are well aware that I know when they've been bad or good.

I turn now to the major change in our operations

which this year has brought. The company's increasing growth means that, as chief executive, I can no longer retain my traditional hands-on involvement in our delivery operations. Flying around the world making overnight deliveries – albeit only once a year – is not the best use of a manager's time.

From this December, our delivery functions have been contracted out to a private operator, whose staff make their calls during normal business hours.

I am delighted to say that this change has also allowed us to upgrade our ordering procedures. Orders can now be recorded on an 0891 telephone line (calls are charged at 39p a minute cheap rate, 49p a minute at

other times) or e-mailed to our despatch department at <http://www.santaclaus.co.uk>.

The change in our deliveries procedure will allow me to devote more attention to our licensing subsidiary, where amusing drawings of myself have provided a steady flow of income from the greetings card industry. Once again, our own-brand division are promoting the popular 'Santa Sleighs 'Em' toys range. New lines for 1995 include a Kung-Fu Santa with working martial arts kick and a removable sack containing hand grenades and a rocket launcher.

Finally, let me thank you for your support throughout the year and assure you that increased dividend cheques will be fluttering down your chimneys very soon. I look forward to meeting as many of you as possible at the AGM on January 2.

One incidental benefit of the switch to distributing through an outside contractor is that we have been able to improve the standard of catering available at the AGM. This year, for the first time ever, we will be serving venison.

Yours sincerely,

S. Claus

S Claus
chief executive
Claus Industries plc
(Dictated by Mr Claus to
Paul Slade)



Chief executive Mr Claus has received much support from employees