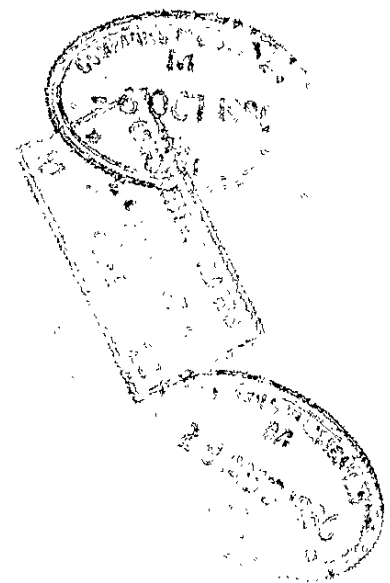


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ERCOL HOLDINGS GROUP
REPORT AND ACCOUNTS
3rd January 1986

MACINTYRE HUDSON
Chartered Accountants



ERCOL (HOLDINGS) LIMITED

I

of

a member of the above company hereby appoint Mr. L.B. Ercolani or, failing him, the duly appointed Chairman of the meeting to vote for me on my behalf at the Annual General Meeting of the company to be held at its registered office on Thursday 26th June 1986 at 11.30 a.m. and at every adjournment thereof.

Date

Signed

Please indicate with ticks in the spaces provided below how you wish your votes to be cast. If no indication is given, your proxy will vote for or against each resolution or abstain as he thinks fit.

RESOLUTIONS	FOR	AGAINST
1. Receiving the Directors' Report and audited accounts
2. Re-electing Mr. M.F. Evans
Mr. J.H.P. Roberts
as directors		
3. Declaring a dividend
4. Re-appointment of auditors

If any other proxy is preferred, delete the name inserted and add the name of the proxy you wish to appoint.

A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him and such proxy need not be a member. This form should be deposited at the company's office not less than 48 hours before the meeting.

ERCOL (HOLDINGS) LIMITED

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the members will be held at the registered office, Ercol Buildings, London Road, High Wycombe, Bucks., on Thursday 26th June 1986 at 11.30 a.m. for the following purposes:

1. Receive the Directors' Report and accounts for the year ended 3rd January 1986.
2. Re-elect the retiring directors, Messrs. M.F. Evans and J.H.P. Roberts.
3. Declare a dividend on the ordinary shares as recommended by the directors.
4. Re-appoint the auditors, Messrs. MacIntyre Hudson.
5. Transact any other ordinary business of the company.

BY ORDER OF THE BOARD

G.W. RAY

Secretary



ERCOL HOLDINGS GROUP

DIRECTORS

L.B. Ercolani D.S.O., D.F.C.	-	Chairman and Joint Managing Director
D.B. Ercolani O.B.E.	-	Joint Managing Director
V.A. Ercolani		
G.W. Roy	-	Company Secretary
M.F. Evans B.A., F.C.A.		
J.H.P. Roberts		
T.W. Dean		

DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited accounts for the year ended 3rd January 1986.

RESULTS

The profit for the year is shown in the consolidated profit and loss account on page 3.

DIVIDENDS

The Directors recommend a dividend of 22.5% for the year, payable on 1st July 1986.

PRINCIPAL ACTIVITIES

Ercol (Holdings) Limited is a holding company, and the principal activities of its trading subsidiaries are:

- Ercol Furniture Limited - the manufacturing and selling of Ercol Furniture.
- George Worley Limited - the marshalling and distribution of Ercol's furniture.
- Latimer Sawmills Limited - the conversion of timber.

REVIEW OF THE BUSINESS

The Board held the opinion that the depressed state of the Industry would be likely to continue for some time ahead. We felt it essential for the future to further establish our share of the market. It was decided that additional funds should be made available for Advertising, Marketing and Selling in 1985. This expenditure, together with changes in designs and the design range, has successfully lifted sales by £2m, which should be of long term benefit to the Company.

However, these increased overheads, coupled with a further reduction in gross margins, have had a depressing effect on the rate of net profit. We are currently taking steps with the intention of improving profitability for future years.

The Directors would like to express their thanks and appreciation for the wholehearted co-operation of all employees of the Ercol Group, this has been a major factor in the successes which have been achieved during these difficult years.

ERCOL HOLDINGS GROUP

DIRECTORS' REPORT Continued

FIXED ASSETS

Changes in tangible fixed assets during the year are set out in note 9 to the accounts. In the opinion of the Directors the market values of the Group's freehold and leasehold properties are in excess of their book values after deducting costs of realisation.

DIRECTORS

The Directors' interests in the Company's share capital throughout the year were as follows:

	Ordinary Shares	
	Beneficial	as trustee
L.B. Ercolani	45,240	57,128
D.B. Ercolani	56,336	47,108
V.A. Ercolani	72,952	-
G.W. Ray	26,184	-
M.F. Evans	2,000	-
J.H.P. Roberts	-	80,444
T.W. Dean	-	-

The Directors had no material interests in any contracts with the company or its subsidiaries.

Mr. M.F. Evans and Mr. J.H.P. Roberts retire by rotation and being eligible offer themselves for re-election.

EMPLOYEES

The Group's policy and practice is, and always has been, to encourage the employment of disabled people wherever possible.

Consultations are conducted on a regular basis with employees with a view to informing them on matters of concern to them, and to achieving an awareness of the factors affecting the group's performance, so that their views can be taken into account in making decisions likely to affect their interest.

OTHER MATTERS

Charitable donations amounted to £3,907.

The Company is a close company within the meaning of the Income and Corporation Taxes Act 1970.

AUDITORS

MacIntyre Hudson have expressed their willingness to be re-appointed.

Ercol Buildings,
London Road,
High Wycombe,
Bucks.

29th April 1986

By Order of the Board

G.W. Ray
Secretary

ERCOL HOLDINGS GROUP

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 3rd January 1986

	Notes	1986 £	1985 £
TURNOVER	1	15,531,555	13,514,657
Change in stocks of finished goods & work in progress		(102,661)	621,404
Other operating income		24,527	17,584
		<u>15,453,421</u>	<u>14,153,645</u>
Operating expenses	2	14,830,631	13,555,170
TRADING PROFIT	4	622,790	598,475
Net interest	5	(22,256)	13,355
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>600,534</u>	<u>611,830</u>
Tax on profit on ordinary activities	6	269,196	55,696
PROFIT FOR THE FINANCIAL YEAR		<u>331,338</u>	<u>556,134</u>
Dividends	7	93,304	93,304
RETAINED PROFIT FOR THE YEAR	*	<u>238,034</u>	<u>462,830</u>
Retained profit brought forward		4,623,559	4,355,245
Consolidation goodwill written off		-	(194,516)
Retained profit carried forward		<u>£ 4,861,593</u>	<u>£4,623,559</u>

* The amount of profit dealt with in the accounts of the holding company is NIL.

ERCOL HOLDINGS GROUP

CONSOLIDATED BALANCE SHEET
3rd January 1986

	Notes	1986		1985	
		£	£	£	£
FIXED ASSETS					
Tangible assets	9		1,943,593		1,849,893
CURRENT ASSETS					
Stocks	10	3,599,671		3,373,095	
Debtors	11	2,557,553		2,457,904	
Cash at bank & in hand		745,315		684,491	
		<u>6,902,539</u>		<u>6,515,490</u>	
CREDITORS: amounts falling due within one year	12	<u>2,357,198</u>		<u>2,128,219</u>	
NET CURRENT ASSETS			<u>4,545,341</u>		<u>4,387,271</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			6,488,934		6,237,164
CREDITORS: amounts falling due after more than one year	12	85,001		85,155	
PROVISIONS FOR LIABILITIES & CHARGES	13	<u>437,890</u>		<u>424,000</u>	
			<u>522,891</u>		<u>509,155</u>
			<u>£5,966,043</u>		<u>£5,728,009</u>
CAPITAL AND RESERVES					
Called up share capital	14		414,680		414,680
Revaluation reserve			111,144		111,144
Undistributable reserves	15		578,626		578,626
Profit and loss account			<u>4,861,593</u>		<u>4,623,559</u>
			<u>£5,966,043</u>		<u>£5,728,009</u>

Approved by the Board on 29th April 1986

Directors: L.B. ERCOLANI

G.W. RAY



ERCOL (HOLDINGS) LIMITED

BALANCE SHEET
3rd January 1986

	Notes	£	1986	£	£	1985	£
FIXED ASSETS							
Investments	8			562,000			562,000
DEBTORS - amounts falling due after more than one year:							
Advance Corporation Tax on proposed dividend				38,110			40,000
CURRENT ASSETS							
Debtors - amounts falling due within one year:							
Amounts owed by subsidiary companies				<u>40,938</u>			<u>40,938</u>
CREDITORS - amounts falling due within one year:							
Amounts owed to subsidiary companies				94,954			94,954
Proposed dividend				93,304			93,304
Advance Corporation Tax on proposed dividend				<u>38,110</u>			<u>40,000</u>
				<u>226,368</u>			<u>228,258</u>
NET CURRENT LIABILITIES					(185,430)		(187,320)
TOTAL ASSETS LESS CURRENT LIABILITIES					<u>£414,680</u>		<u>£414,680</u>
CAPITAL AND RESERVES							
Called up share capital	14			<u>£414,680</u>			<u>£414,680</u>

Approved by the Board on 29th April 1986

Directors: L.B. ERCOLANI

G.W. RAY

ERGOL HOLDINGS GROUP

MOVEMENT OF FUNDS STATEMENT Year ended 3rd January 1986

	1986		1985	
	£	£	£	£
SOURCE OF FUNDS				
Profit on ordinary activities before taxation		600,534		611,830
Adjustment for item not involving the movement of funds:				
Depreciation		193,468		176,580
TOTAL GENERATED FROM OPERATIONS		794,002		788,410
FUNDS FROM OTHER SOURCES				
Sales of fixed assets		9,768		2,119
Corporation Tax refund		17,334		82,127
		821,104		872,656
APPLICATION OF FUNDS				
Purchase of fixed assets	296,936		66,097	
Corporation Tax paid	213,926		282,157	
Dividend paid	93,304		93,304	
		604,166		441,558
		<u>£216,938</u>		<u>£431,098</u>
INCREASE/(DECREASE) IN WORKING CAPITAL				
Stocks		226,576		741,378
Debtors		99,649		140,381
Creditors		(170,111)		107,358
Movement of net liquid funds:				
Bank and cash balances		60,824		(558,019)
		<u>£216,938</u>		<u>£431,098</u>

ERCOL HOLDINGS GROUP

ACCOUNTING POLICIES

Year ended 3rd January 1986

a) Basis of accounting:

These accounts have been prepared, as in previous years, under the historical cost convention, modified by the revaluation of certain fixed assets.

b) Basis of consolidation:

The consolidated accounts comprise those of the company and all its subsidiaries made up to 3rd January 1986.

The Group Balance Sheet includes the assets and liabilities of subsidiaries at book value and does not take into account the fair market value of the assets acquired.

The undistributable reserves arising on consolidation represent the excess of the nominal value of shares in subsidiary companies acquired, over the nominal value of shares and cash issued in consideration of their purchase.

The company has taken advantage of the exemption in the Companies Act 1985, Section 228(7) not to present its own profit and loss account.

c) Depreciation:

Depreciation is calculated to write off the net cost of each fixed asset over its expected useful life as follows:

Freehold buildings	- in equal annual instalments over 50 years from the date of construction.
Roads	- in equal annual instalments over 5 years.
Long leasehold land and buildings	- in equal annual instalments over the length of the lease.
Kilns)
Plant and machinery)
Furniture and equipment)
Motor vehicles)
Freehold land is not depreciated.	- at rates varying between 12% and 33.3% on written down value and 10% and 33.3% on cost

d) Stocks:

These are stated at the lower of cost and net realisable value. Cost of raw materials has been calculated by valuing stocks on a first-in, first-out basis. In the case of timber stocks cost is arrived at by valuing stocks using average prices. Cost of work in progress and finished goods comprises direct labour, materials and an appropriate proportion of production overheads.

e) Deferred taxation:

Provision is made, at the Corporation Tax rate of 35%, to take account of timing differences which exist between the treatment of items for accounting purposes and their treatment for Corporation Tax purposes, except where, in the opinion of the directors, no future liability is likely to arise. Provision is also made for the potential liability arising on the surplus on the revaluation of certain fixed assets.

ERCOL HOLDINGS GROUP

ACCOUNTING POLICIES (Continued)
Year ended 3rd January 1986

f) Translation of foreign currency:

The rates of exchange ruling at the year end have been used to translate overseas currency into sterling. Exchange profits or losses are included in group trading results.

g) Turnover:

Turnover represents sales of goods to the group's customers in the normal course of business, excluding Value Added Tax and trade discounts allowed.

h) Leases:

Assets held under finance leases are not included in the balance sheet. Rentals under finance and operating leases are charged against income as incurred.

ERCOL HOLDINGS GROUP

NOTES TO THE ACCOUNTS
Year ended 3rd January 1986

1. TURNOVER	1986 £000s	1985 £000s
A geographical analysis of turnover is as follows:		
United Kingdom	14,733	12,523
Western Europe	412	446
Rest of world	387	546
	<u>£15,532</u>	<u>£13,515</u>
2. OPERATING EXPENSES	1986 £	1985 £
Raw materials & consumables	3,998,360	3,853,453
Other external charges	669,318	567,155
Staff costs (note 3b)	6,845,090	6,325,773
Depreciation of fixed assets	193,468	176,580
Other operating charges	3,124,395	2,632,209
	<u>£14,830,631</u>	<u>£13,555,170</u>
3. EMPLOYEES	1986	1985
a. Average number of persons employed during the year:		
Manufacturing	663	655
Sawmilling	31	33
Transport	24	24
	<u>718</u>	<u>712</u>
	£	£
b. Staff costs:		
Wages and salaries	6,035,696	5,559,675
social security costs	603,127	579,635
Other pension costs	206,267	186,463
	<u>£6,845,090</u>	<u>£6,325,773</u>
c. Directors' emoluments:	£	£
Fees	6,000	6,000
Executive remuneration including insurance premiums and pension contributions	237,313	219,227
	<u>£243,313</u>	<u>£225,227</u>
Emoluments of the chairman, who was the highest paid director	<u>£44,880</u>	<u>£41,280</u>
The number of other directors in each category of remuneration was as follows:		
Up to £ 5,000	2	2
£25,001 - £30,000	-	1
£30,001 - £35,000	1	1
£35,001 - £40,000	-	1
£40,001 - £45,000	2	1

ERCOL HOLDINGS GROUP

NOTES TO THE ACCOUNTS (Continued)
Year ended 3rd January 1986

4. TRADING PROFIT is stated after charging:	1986	1985
	£	£
Operating leases	5,936	7,505
Finance leases	135,000	96,037
Auditors' remuneration	10,670	10,200
	<u> </u>	<u> </u>
5. NET INTEREST	1986	1985
	£	£
Interest receivable: bank deposit	-	13,164
Corporation Tax	-	14,425
Interest payable: bank overdraft	(405)	(50)
lease purchase	(21,361)	(14,184)
Corporation Tax	(490)	-
	<u>£(22,256)</u>	<u>£13,355</u>
6. TAX ON PROFIT ON ORDINARY ACTIVITIES	1986	1985
	£	£
U.K. Corporation Tax at 41.25% (1985 46.25%) on the profits of the year	259,400	304,000
Transfer to/(from) deferred tax	12,000	(21,000)
Adjustment in respect of previous years	(2,204)	(9,304)
Exceptional adjustment to deferred tax arising from a change in the relevant rate of taxation	-	(218,000)
	<u>£269,196</u>	<u>£ 55,696</u>
7. DIVIDENDS	1986	1985
Proposed 22.5p per share (1985 22.5p per share)	<u>£93,304</u>	<u>£93,304</u>
8. FIXED ASSET INVESTMENTS	1986	1985
	£	£
Shares in group companies at cost	<u>£562,000</u>	<u>£562,000</u>

The following is a list of subsidiary companies which are all wholly owned and all registered in England:

Ercol Furniture Limited	
Walter Skull & Son (1932) Limited	
Furniture Industries Limited	(held via Ercol Furniture Limited)
Latimer Sawmills Limited	(do)
George Worley Limited	(do)
Latimer Timber Services Limited	(do)

ERCOL HOLDINGS GROUP

NOTES TO THE ACCOUNTS (Continued)
Year ended 3rd January 19869. FIXED ASSETS
Tangible assets

	Freehold property £	Long leasehold property £	Plant & equipment £	Vehicles £	Total £
Cost or valuation:					
Opening total					
Cost	1,433,582	82,133	2,038,576	202,613	3,756,904
Valuation 1965	-	68,250	-	-	68,250
Valuation 1973	145,000	-	-	-	145,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Additions	1,578,582	150,383	2,038,576	202,613	3,970,154
Disposals	36,081	-	237,958	22,897	296,936
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Closing total	1,614,663	150,383	2,262,672	198,434	4,226,152
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation:					
Opening total	455,697	29,276	1,456,118	179,170	2,120,261
Provision for the year	28,531	1,942	150,610	11,188	192,271
Eliminated on disposal	-	-	(7,628)	(22,345)	(29,973)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Closing total	484,228	31,218	1,599,100	168,013	2,282,559
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value at end of year	<u>£1,130,435</u>	<u>£119,165</u>	<u>£663,572</u>	<u>£30,421</u>	<u>£1,943,593</u>

10. STOCKS

	1986 £	1985 £
Timber	1,563,794	1,291,122
Other raw materials	275,407	218,842
Work in progress	1,611,177	1,755,216
Finished goods	149,293	107,915
	<hr/>	<hr/>
	<u>£3,599,671</u>	<u>£3,373,095</u>

11. DEBTORS: amounts falling due within one year

	1986 £	1985 £
Trade debtors	2,155,843	2,074,913
Prepayments	369,578	338,461
Other debtors	32,132	44,530
	<hr/>	<hr/>
	<u>£2,557,553</u>	<u>£2,457,904</u>

ERCOL HOLDINGS GROUP

NOTES TO THE ACCOUNTS (Continued)
Year ended 3rd January 1986

12. CREDITORS

	Amounts falling due within one year		Amounts falling due after one year	
	1986	1985	1986	1985
	£	£	£	£
Trade creditors	645,500	487,038		
Bills payable	35,328	91,373		
Accruals	446,825	510,722		
Corporation Tax	443,801	383,194		
Other taxation & social security costs	566,409	465,759		
Advance Corporation Tax on proposed dividend	38,110	40,000		
Other creditors	87,921	56,829	85,001	85,155
Proposed dividend	93,304	93,304		
	<u>£2,357,198</u>	<u>£2,128,219</u>	<u>£85,001</u>	<u>£85,155</u>

Other creditors include an amount of £80,000 (1985 - £116,000) which is secured by a specific charge over fixed assets with a net book value of £67,000 (1985 - £104,000)

13. PROVISIONS FOR LIABILITIES AND CHARGES

	1986	1985
	£	£
Deferred taxation:		
Accelerated capital allowances	441,000	429,000
Surplus on valuation of freehold property	35,000	35,000
	<u>476,000</u>	<u>464,000</u>
Less: Advance Corporation Tax recoverable	38,110	40,000
	<u>£437,890</u>	<u>£424,000</u>

14. CALLED UP SHARE CAPITAL

	1986	1985
	£	£
Authorised:		
960,000 Ordinary shares of £1 each	960,000	960,000
40,000 Employee shares of £1 each	40,000	40,000
	<u>£1,000,000</u>	<u>£1,000,000</u>
Allotted, called up and fully paid:		
Ordinary shares of £1	<u>£414,680</u>	<u>£414,680</u>

15. UNDISTRIBUTABLE RESERVES

	1986	1985
	£	£
Arising on consolidation	562,000	562,000
Share premium of subsidiary company	1,000	1,000
Capital surplus on transfers of shares within the group	15,626	15,626
	<u>£578,626</u>	<u>£578,626</u>

ERCOL HOLDINGS GROUP

NOTES TO THE ACCOUNTS (Continued)
Year ended 3rd January 1986

16. COMMITMENTS

	1986	1985
a. Capital:		
Authorised but not contracted	£ NIL	£102,000
	<u> </u>	<u> </u>
b. Finance leases (gross)	1986	1985
	£	£
Payable within one year	170,200	125,800
Payable between two and five years	170,000	99,400
Payable after more than five years	16,300	-
	<u>£356,500</u>	<u>£225,200</u>

c. Pensions:

The group operates non-contributory pension schemes for all eligible members of staff. The schemes are administered independently of the group's finances and are fully funded. The contributions are charged against profits in the year in which they are made.

17. CONTINGENT LIABILITIES

At 3rd January 1986 there were no contingent liabilities or guarantees other than those arising in the ordinary course of the group's business and on these no material losses are anticipated.

AUDITORS' REPORT
TO THE MEMBERS OF
ERCOL (HOLDINGS) LIMITED

We have audited the accounts on pages 3 to 13 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the affairs of the company and the group as at 3rd January 1986, and of the results and movements of funds of the group for the year then ended, and comply with the Companies Act 1985.

MacINTYRE HUDSON,
Chartered Accountants,
High Wycombe.

29th April 1986