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CARADON LIMITED
AND SUBSIDIARY COMPANIES
DIRECTORS' REPORT AND ACCOUNTS
30TH MARCH, 1986

CLASSIDATE
31 JUL 1986
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PEAT, MARWICK, MITCHELL & CO.,
1 Puddle Dock, Blackfriars, London EC4V 3PD.

CARADON LIMITED
AND SUBSIDIARY COMPANIES

DIRECTORS' REPORT

The directors present their report with the audited accounts for the period ended 30th March, 1986.

PRINCIPAL ACTIVITIES

The principal activities of the group fall into the following main categories:

Manufacture and sale of bathroom equipment, plastic plumbing and drainage products, thermoplastic injection mouldings, and valves and showers.

BUSINESS REVIEW

The company was incorporated on 4th March, 1985 and on 23rd October, 1985 commenced operations with the acquisition of the U.K. activities of the Building Products Division of Reed International P.L.C.

The group will remain in its existing markets and continue to build on the established positions which its major businesses enjoy in their respective sectors of the building and plastics industries.

FIXED ASSETS

Movements in fixed assets for the period from 23rd October, 1985 to 30th March, 1986 are shown in note 11.

PROPOSED DIVIDEND

The directors of Caradon Limited propose that a dividend of £196,000 be paid to the holders of the 9% Cumulative Redeemable Preference Shares of the company and that a dividend of £180,000 be paid to the holders of the Convertible Cumulative Participating Preferred Ordinary Shares. The directors do not recommend payment of a dividend on the Ordinary Shares.

TRANSFER TO RESERVES

The consolidated profit after taxation for the period is £1,966,000. The remaining profit after providing for dividends is £1,590,000 against which goodwill amounting to £440,000 has been written off. The balance of £1,150,000 has been transferred to reserves.

RESEARCH AND DEVELOPMENT

The group's businesses commit substantial resources to research and development so as to ensure that they maintain their competitive positions in their chosen markets.

EMPLOYEE PARTICIPATION

The group is fully committed to employee involvement and participation and its operating companies encourage the development of cooperation with employees.

CARADON LIMITED
AND SUBSIDIARY COMPANIES

DIRECTORS' REPORT

DISABLED PERSONS

It is the policy of the group to employ disabled persons, wherever possible, in jobs suited to their individual circumstances and to give them full and fair consideration at all times in recruitment, career development and for training and promotion.

POLITICAL AND CHARITABLE CONTRIBUTIONS

It is group policy neither to make contributions to any political party nor for any political purpose. Charitable donations made during the period totalled £1,510.

DIRECTORS AND DIRECTORS' INTERESTS

The composition of the board of directors and their interests in the share capital of the company during the period was as follows:

		<u>Ordinary shares of £1</u>	
		<u>At 4.3.85</u>	<u>At 30.3.86</u>
Mr. A.P. Hichens (Chairman)	(appointed 25.9.85)	-	35,714
Mr. P.J. Jansen	(appointed 25.9.85)	-	107,143
Mr. M.K. Collins	(appointed 29.8.85)	-	71,429
Mr. S.W. Curran	(appointed 23.10.85)	-	-
Mr. L. Neal	(resigned 25.9.85)	1	-
Mr. B. Ratzke	(resigned 25.9.85)	1	-

Mr. A.P. Hichens has a non-beneficial interest in a further 35,715 ordinary shares. Messrs. A.D. Heeks and D.C. Cohen have been appointed as directors since 30th March, 1986.

CLOSE COMPANY

The company is not a close company within the meaning of the Income and Corporation Taxes Act 1970.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Peat, Marwick, Mitchell & Co. as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board,

J.J. ROE

Secretary

3rd June, 1986.

REPORT OF THE AUDITORS TO THE MEMBERS OF
CARADON LIMITED

We have audited the accounts set out on pages 4 to 21 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared on the basis of the accounting policies set out on pages 9 and 10, give a true and fair view of the state of affairs of the company and of the group at 30th March, 1986 and of its profit and source and application of funds for the period to that date and comply with the Companies Act 1985.

Peat Marwick Mitchell & Co.

PEAT, MARWICK, MITCHELL & CO.

LONDON

3rd June, 1986.

Chartered Accountants

CARADON LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 30TH MARCH, 1986

	<u>Note</u>	23rd October, 1985 to 30th March, 1986 <u>£000</u>
TURNOVER	2	61,623
Change in finished goods and work in progress		1,481 52
Own work capitalised	7	515
Other operating income		(23,615)
Raw materials and consumables		(13,538)
Other charges	4	(18,057)
Staff costs	6	(1,925)
Depreciation	6	(3,450)
Interest payable and similar charges		<u>3,086</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	1,120
Taxation on profit on ordinary activities	8	<u>1,966</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	9	376
Proposed dividends	10	<u>1,590</u>
RETAINED PROFIT FOR THE PERIOD	20	<u><u>1,590</u></u>

The notes on pages 9 to 21 form part of these accounts.

CARADON LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AT 30TH MARCH, 1986

	<u>Note</u>	<u>1986</u> £000	£000
FIXED ASSETS			
Tangible assets	11		36,445
CURRENT ASSETS			
Stocks	13	24,921	
Debtors	14	27,121	
Cash at bank and in hand		13,944	
		<u>65,986</u>	
CREDITORS FALLING DUE WITHIN ONE YEAR	15	<u>34,569</u>	
NET CURRENT ASSETS			31,417
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>67,862</u>
CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR	16		55,304
PROVISIONS FOR LIABILITIES AND CHARGES	17		908
NET ASSETS			<u>11,650</u>
CAPITAL AND RESERVES			
Called up share capital	18		9,488
Share premium account	19		1,012
Profit and loss account	20		1,150
			<u>11,650</u>

These accounts were approved by the board of directors on 3rd June 1986.

A.P. HICHENS

) *Anthony Hichens*
) Directors

P.J. JANSEN

) *P.J. Jansen*
)

The notes on pages 9 to 21 form part of these accounts.

CARADON LIMITEDBALANCE SHEET AT 30TH MARCH, 1986

	<u>Note</u>	<u>1986</u> £000	£000
FIXED ASSETS			
Investments	12		60,991
CURRENT ASSETS			
Debtors	14	5,803	
Cash at bank and in hand		<u>1,510</u>	
		7,313	
CREDITORS FALLING DUE WITHIN ONE YEAR	15	<u>2,462</u>	
NET CURRENT ASSETS			4,851
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>65,842</u>
CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR	16		55,000
NET ASSETS			<u>10,842</u>
CAPITAL AND RESERVES			
Called up share capital	18		9,488
Share premium account	19		1,012
Profit and loss account	20		342
			<u>10,842</u>

These accounts were approved by the board of directors on 3rd June, 1986.

A.P. HICHENS

) *Anthony Hichens*
) Directors

P.J. JANSEN

) *P.J. Jansen*

The notes on pages 9 to 21 form part of these accounts.

CARADON LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE PERIOD ENDED 30TH MARCH, 1986

23rd October,
1985 to 30th
March, 1986
£000 £000

SOURCE OF FUNDS

Profit on ordinary activities
before taxation

3,086

Adjustments for items not involving
the movement of funds:

Depreciation and amortisation

1,925
(6)

Exchange differences

62

Loss on sale of fixed assets

5,067

FUNDS GENERATED FROM OPERATIONS

FUNDS FROM OTHER SOURCES

Loans taken over

60,990

Issue of ordinary shares

600

Issue of preferred ordinary shares

10,001

Long term loans

55,304

Provisions taken over

1,062

127,957

133,024

APPLICATION OF FUNDS

Purchase of subsidiary company

60,991

Expenses of share issue

101

Purchase of fixed assets

38,426

Goodwill

440

(99,958)

33,066

WORKING CAPITAL TAKEN OVER AND
SUBSEQUENT MOVEMENT

Increase in stocks

(24,921)

Increase in debtors

(27,121)

Increase in creditors

31,795

(20,247)

12,819

INCREASE IN NET LIQUID FUNDS

CARADON LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE PERIOD ENDED 30TH MARCH, 1986

Effect of acquisition of Reed Building Products Limited

	£000		£000
Tangible fixed assets	36,193	Cash paid	60,991
Stock	23,851		
Debtors	31,509		
Goodwill	440		
Creditors	(27,364)		
Overdrafts	(939)		
Taxation	(1,637)		
Provisions	(1,062)		
	<hr/>		
	60,991		<hr/>
	<hr/>		60,991
			<hr/>

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's accounts:

(a) Basis of accounting

The accounts have been prepared under the historical cost convention, adjusted for the revaluation of certain assets.

(b) Basis of consolidation

The consolidated accounts comprise the accounts of the company and its subsidiaries at 30th March, 1986. The results of subsidiaries are accounted for in the profit and loss account as from the date of acquisition, or up to the effective date of disposal.

The company was incorporated on 4th March, 1985. These accounts are in respect of the period since incorporation although the profit and loss account effectively relates to the period since 23rd October, 1985 when the company acquired Reed Building Products Limited and its subsidiaries from Reed International P.L.C.

(c) Depreciation and amortisation

Tangible fixed assets are stated at cost with the exception of land and buildings which are stated at valuation.

No depreciation has been provided on land. The revalued amounts of buildings are being written off over their estimated useful lives on a straight line basis. Short leasehold properties are depreciated over the period to the next rent review. For all other assets, depreciation is provided to write off the book amount of those assets over their expected useful lives at the following rates:

Freehold buildings	4%
Plant and machinery	5%-33%
Fixtures and fittings	7%-20%
Vehicles	20%-25%
Tools	33%-50%

(d) Stocks and work in progress

Stock and work in progress is stated at the lower of cost, including production overheads, and net realisable value.

(e) Research and development

All expenditure on research and development is written off in the year in which it is incurred.

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Pensions

During the period the group participated in a pension scheme administered on behalf of Reed International P.L.C. and independent of the finances of the group. The group's contributions are charged against profits in the period in which contributions are made. On 6th April, 1986 the group's share of the assets of that scheme was transferred to the Caradon Pension Scheme administered on behalf of Caradon Limited.

(g) Deferred taxation

Provision is calculated on the liability method for deferred tax resulting from short term timing differences between profits computed for tax purposes and profits as stated in the accounts. Provision is not made for other timing differences where liability is not expected to arise in the foreseeable future.

(h) Goodwill

Goodwill arising on the acquisition of subsidiaries is written off in the year of acquisition.

(i) Leases and hire purchase contracts

Assets held under finance leases are included as tangible assets at purchase price and depreciated over the asset life. The obligations relating to finance leases are included as appropriate under creditors due within or after one year. The rentals under operating leases are charged to profit, as incurred, over the lease term.

(j) Grants

The cost of buildings and plant is stated after deduction of grants receivable from Government and other bodies.

(k) Translation of foreign currencies

Trading items are translated at appropriate average exchange rates. Assets and liabilities are translated at the rate ruling on the balance sheet date. All foreign currency gains and losses are taken to the profit and loss account.

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

2. TURNOVER

Turnover represents the invoiced value of sales made to third parties, net of value added tax.

Set out below is an analysis of the group turnover by geographical area:

	£000
U.K.	52,843
Europe	3,680
North America	612
Other	4,488
	<u>61,623</u>

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging the following:

	<u>Group</u> £000
Auditors' remuneration and expenses (including the company: £5,000)	101 307
Research and development expenditure	
Rentals payable under operating leases	360 739
Hire of plant and machinery	1,902
Depreciation of assets owned by the group	
Depreciation of assets held under finance leases	23

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

4. STAFF NUMBERS AND COSTS

The average number of persons employed by the group (including directors) during the period, analysed by division, was as follows:

	<u>Group Number</u>
Bathroom and showers division	2,417
Building plastics division	945
Plastics division	758
Central administration	19
	<u>4,139</u>

The aggregate payroll costs of these persons were as follows:

	<u>Group £000</u>
Wages and salaries:	15,391
- U.K.	303
- Overseas	1,249
Social security costs	1,114
Pension costs	<u>18,057</u>

5. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

The aggregate remuneration (including pension contributions) of the directors was:

	£000
Fees	19
Management remuneration	87
	<u>106</u>

Excluding pension contributions, the emoluments of the chairman were £10,994 and the emoluments of the highest paid director were £70,824. The emoluments of the other directors were within the following ranges:

	<u>Number</u>
£ 0 - £ 5,000	3
£15,001 - £20,000	1
	<u>4</u>

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

6. INTEREST PAYABLE

On bank loans, overdrafts and other loans
wholly repayable within five years
On other loans

Group
£000

909
2,541
3,450

7. OTHER OPERATING INCOME

Interest receivable
Other income

Group
£000

400
115
515

8. TAXATION

Taxation based on the profit for the period:
United Kingdom corporation tax at 40%
Overseas taxation

Group
£000

1,098
22
1,120

9. PROFIT AFTER TAXATION

Profits of £2,382,000 have been dealt with in the accounts of the company.

10. PROPOSED DIVIDENDS

9% Cumulative Redeemable Preference Shares
Convertible Cumulative Participating Preferred
Ordinary Shares

Company
£000

196
180
376

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

11. TANGIBLE FIXED ASSETS

	<u>Land and buildings</u>				<u>Plant and machinery</u>	<u>Group total</u>
	<u>Freehold</u>	<u>Freehold</u>	<u>Long leasehold</u>	<u>Short leasehold</u>	<u>£000</u>	<u>£000</u>
	<u>At valuation</u>	<u>At cost</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Cost:						
At 23rd October, 1985	6,566	1,786	25	159	52,564	61,100
Additions	-	-	-	4	2,229	2,233
Disposals	-	(3)	-	-	(649)	(652)
Exchange differences	-	-	-	-	20	20
At 30th March, 1986	<u>6,566</u>	<u>1,783</u>	<u>25</u>	<u>163</u>	<u>54,164</u>	<u>62,701</u>
Depreciation:						
At 23rd October, 1985	81	107	-	114	24,605	24,907
Charged in the period	59	29	-	2	1,835	1,925
Disposals	-	(3)	-	-	(587)	(590)
Exchange differences	-	-	-	-	14	14
At 30th March, 1986	<u>140</u>	<u>133</u>	<u>-</u>	<u>116</u>	<u>25,867</u>	<u>26,256</u>
Net book value:						
At 30th March, 1986	<u>6,426</u>	<u>1,650</u>	<u>25</u>	<u>47</u>	<u>28,297</u>	<u>36,445</u>

Assets with a net book value of £145,000 were held under finance leases.

Valuation of land and buildings
The freehold properties were valued as at 30th March, 1985 on the basis of open market values by professionally qualified surveyors of the previous owner of the subsidiaries.

Assets included at a valuation would have been included on an historical cost basis at:

	<u>Freehold land and buildings</u>
	<u>£000</u>
Cost	8,701
Accumulated depreciation	3,521
Net book amount	<u>5,180</u>

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

12. INVESTMENTS (HELD AS FIXED ASSETS)

	<u>Company</u> £000
Loan to subsidiary	60,990
Shares in subsidiary	1
	<u>60,991</u>

13. STOCKS

	<u>Group</u> £000
Raw materials and consumables	5,649
Work in progress	5,100
Finished goods and goods for resale	12,897
Maintenance stock	1,275
	<u>24,921</u>

The estimated replacement cost of stocks does not materially exceed the balance sheet amounts.

Work in progress is stated after deduction of progress payments totalling £9,000.

14. DEBTORS

	<u>Company</u> £000	<u>Group</u> £000
Trade debtors	-	25,553
Amounts owed by subsidiary companies	5,481	-
Other debtors	168	945
Prepayments and accrued income	-	623
Advance corporation tax recoverable	154	-
	<u>5,803</u>	<u>27,121</u>

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

15. CREDITORS FALLING DUE WITHIN ONE YEAR

	<u>Company</u>		<u>Group</u>	
	£000	£000	£000	£000
Bank loans and overdrafts		227		1,125
Trade creditors		-		14,959
Amounts owed to subsidiary company		126		-
Other creditors:				
Corporation tax	95		2,757	
Social security and other taxes	-		2,972	
Other	<u>1,484</u>		<u>4,603</u>	
		1,579		10,332
Accruals and deferred income		-		7,567
Proposed dividends		376		376
Advance corporation tax		154		154
Obligations under finance leases and hire purchase contracts		-		56
		<u>2,462</u>		<u>34,569</u>

16. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>Company</u>	<u>Group</u>
	£000	£000
12% subordinated unsecured loan stock	6,000	6,000
Bank loans (secured)	34,000	34,000
Other loan (secured)	15,000	15,000
Debenture loan due 1997	-	206
Obligations under finance leases	-	83
Other debenture due 1987-1988	-	15
	<u>55,000</u>	<u>55,304</u>

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

16. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

The repayments of the above loan stock and loans are as follows:

	<u>Date of instalment</u>	<u>Company and group £000</u>
12% subordinated unsecured loan stock	31.3.93	1,200
	31.3.94	1,200
	31.3.95	1,200
	31.3.96	1,200
	31.3.97	1,200
		<u>6,000</u>
Bank loans	23.10.87	14,000
	23.10.88	2,000
	23.10.89	3,000
	23.10.90	3,000
	23.10.91	3,000
	23.10.92	9,000
		<u>34,000</u>
Other loan	23.10.92	3,750
	23.10.93	3,750
	23.10.94	3,750
	23.10.95	3,750
		<u>15,000</u>

The interest payable on bank loans is charged at varying rates, linked to the London Inter-Bank Offer Rate. The interest payable on the other loan is 15% per annum.

The bank loans and other loan are secured by a composite guarantee and debenture over the assets of certain group companies by a fixed charge on all tangible fixed assets, investments, debtors and claims and the benefit of all patents, trademarks, designs, copyrights and licences and by a floating charge on all other assets.

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

16. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

Finance leases

The group has entered into leasing arrangements in respect of plant and machinery, the maximum rentals for which extend over the next 3 years. The leases provide that the group will be responsible for all insurance, maintenance and repairs.

The minimum annual rentals under the leases are:

	<u>Group</u> £000
1986/87	44
1987/88	36
1988/89	5
	<hr/>
Total rentals due	85
Less: Finance charges therein	2
	<hr/>
Obligations under finance leases	<u>83</u>

17. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>Pensions</u> £000	<u>Deferred</u> <u>taxation</u> £000	<u>Total</u> £000
Balance at 23rd October, 1985	75	987	1,062
Reduction for the period	-	(154)	(154)
	<hr/>	<hr/>	<hr/>
Balance at 30th March, 1986	75	833	908
	<hr/>	<hr/>	<hr/>

The amounts provided for deferred taxation and the amounts unprovided are set out below:

	<u>Company</u>		<u>Group</u>	
	<u>Provided</u> £000	<u>Unprovided</u> £000	<u>Provided</u> £000	<u>Unprovided</u> £000
Accelerated capital allowances	-	-	1,787	7,004
Losses	-	-	(167)	(475)
Short term timing differences	-	(482)	(633)	11
	<hr/>	<hr/>	<hr/>	<hr/>
		(482)	987	6,540
Advance corporation tax				
recoverable	-	-	(154)	-
Other	-	7	-	(277)
	<hr/>	<hr/>	<hr/>	<hr/>
		(475)	833	6,263
	<hr/>	<hr/>	<hr/>	<hr/>

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

18. SHARE CAPITAL

	<u>Number</u>	<u>£000</u>
Authorised:		
9% Cumulative Redeemable Preference Shares of £1 each	5,000,000	5,000
Convertible Cumulative Participating Preferred Ordinary Shares of £1 each	4,059,520	4,059
Ordinary shares of £1 each	553,571	554
		<u>9,613</u>
Allotted, called up and fully paid:		
9% Cumulative Redeemable Preference Shares of £1 each	5,000,000	5,000
Convertible Cumulative Participating Preferred Ordinary Shares of £1 each	4,059,520	4,059
Ordinary shares of £1 each	428,571	429
		<u>9,488</u>

Each class of share was issued on 23rd October, 1985 to provide funds for the acquisition of Caradon (U.K.) Limited (formerly Reed Building Products Limited).

The following amounts were received on each class of share capital:

	<u>£</u>
9% Cumulative Redeemable Preference Shares	5,000,000
Convertible Cumulative Participating Preferred Ordinary Shares	5,001,329
Ordinary shares	<u>599,999</u>

19. SHARE PREMIUM

	<u>£000</u>
Arising on the above issue at 23rd October, 1985	1,113
Less: Expenses of issue	(101)
	<u>1,012</u>

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

20. PROFIT AND LOSS ACCOUNT

	<u>Company</u> £000	<u>Group</u> £000
Retained profits for the period	342	1,590
Less: Goodwill arising on acquisition of Reed Building Products Limited	-	(440)
	<u>342</u>	<u>1,150</u>

21. COMMITMENTS

- (a) Capital commitments at 30th March, 1986, for which no provision has been made in these accounts, were as follows:

	<u>Company</u> £000	<u>Group</u> £000
Contracted	-	859
Authorised but not contracted	-	248
	<u>-</u>	<u>1,107</u>

- (b) At 30th March, 1986 the group had annual commitments under non-cancellable operating leases as follows:

	£000
1986/7	84
1987/91	<u>123</u>

CARADON LIMITED
AND SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS

22. SUBSIDIARY COMPANIES

The major trading subsidiary companies are noted below:

<u>Company</u>	<u>Proportion of equity held</u>
Elliott Moulders (Electronics) Limited	100%
The British Optical Lens Co. (1983) Limited	100%
Storm Doors Limited	100%
Celuflex Limited	100%
Edward Curran Limited	100%
Key Terrain Limited	100%
L&P Plastics Limited	100%
Twyford Holdings Limited	100%
Twyford Limited	100%
Walker Crossweller & Company Limited	100%
- Rada SA	100%
- Walker Crossweller GmbH	100%
Westwood Tools Limited	100%
Gilflex Key Limited	100%
Fieldhurst Southern Limited	100%
Starit Limited	100%
Rolinx Limited	100%
Trisave Boilers Limited	62%

All the above companies are incorporated in Great Britain other than the subsidiaries of Walker Crossweller & Company Limited which are incorporated in France and Germany respectively.

CARADON LIMITEDDIRECTORS' REPORT

The directors present their report with the audited accounts for the period ended 30th March, 1986.

PRINCIPAL ACTIVITIES

The company acts as the ultimate holding company of a group of building product companies.

BUSINESS REVIEW

The company was incorporated on 4th March, 1985 as Precis (400) Limited and on 24th October, 1985 changed its name to Caradon Limited. The company commenced to trade on 23rd October, 1985 when it acquired the building products division of Reed International P.L.C.; through the acquisition of Reed Building Products Limited.

PROPOSED DIVIDEND

The directors of Caradon Limited propose that a dividend of £196,000 be paid to the holders of the 9% Cumulative Redeemable Preference Shares of the Company and that a dividend of £180,000 be paid to the holders of the Convertible Cumulative Participating Preferred Ordinary Shares. The directors do not recommend payment of a dividend on the Ordinary Shares.

TRANSFER TO RESERVES

The profit after taxation and extraordinary items for the period is £718,000. The remaining profit after providing for dividends is £342,000, which has been transferred to reserves.

DIRECTORS AND DIRECTORS' INTERESTS

The directors of the company and their interests in the share capital during the period are as follows:

		<u>Ordinary shares of £1</u>	
		<u>At 4.3.85</u>	<u>At 30.3.86</u>
Mr. A.P. Hichens (Chairman)	(appointed 25.9.85)	-	35,714
Mr. P.J. Jansen	(appointed 25.9.85)	-	107,143
Mr. M.K. Collins	(appointed 29.8.85)	-	71,429
Mr. S.W. Curran	(appointed 23.10.85)	-	-
Mr. L. Neal	(resigned 25.9.85)	1	-
Mr. B. Ratzke	(resigned 25.9.85)	1	-

Mr. A.P. Hichens has a non-beneficial interest in a further 35,715 ordinary shares.

Messrs. A.D. Heeks and D.C. Cohen have been appointed as directors since 30th March, 1986.

CARADON LIMITED

DIRECTORS' REPORT

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Peat, Marwick, Mitchell & Co. as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board,

J.J. ROE

Secretary

Jeremy J. Roe

3rd June, 1986.

REPORT OF THE AUDITORS TO THE MEMBERS OF
CARADON LIMITED

We have audited the accounts set out on pages 4 to 12 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared on the basis of the accounting policies set out on page 7, give a true and fair view of the state of the company's affairs at 30th March, 1986 and of its profit and source and application of funds for the period then ended and comply with the Companies Act 1985.

Peat Marwick Mitchell & Co

PEAT, MARWICK, MITCHELL & CO.

LONDON

Chartered Accountants

3rd June, 1986.

CARADON LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 30TH MARCH, 1986

	<u>Note</u>	Period ended 30th March, 1986 £000
Other external charges		(24)
Staff costs	4	(119)
Income from shares in group companies		3,600
Interest receivable and similar income	5	2,338
Interest payable and similar charges	6	(3,413)
		<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	2,382
		<hr/>
Tax on profit on ordinary activities	7	-
		<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,382
		<hr/>
Extraordinary items	8	(1,664)
		<hr/>
PROFIT FOR THE PERIOD		718
		<hr/>
Proposed dividends	9	376
		<hr/>
RETAINED PROFIT FOR THE PERIOD		<u>342</u>

The notes on pages 7 to 12 form part of these accounts.

CARADON LIMITEDBALANCE SHEET AT 30TH MARCH, 1986

	<u>Note</u>	<u>1986</u>	
		£000	£000
FIXED ASSETS			
Investments	10		60,991
CURRENT ASSETS			
Debtors	11	5,803	
Cash at bank and in hand		<u>1,510</u>	
		<u>7,313</u>	
CREDITORS FALLING DUE WITHIN ONE YEAR	12	<u>2,462</u>	
NET CURRENT ASSETS			4,851
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>65,842</u>
CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR	13		55,000
NET ASSETS			<u><u>10,842</u></u>
CAPITAL AND RESERVES			
Called up share capital	14		9,488
Share premium account	15		1,012
Profit and loss account	16		342
			<u><u>10,842</u></u>

These accounts were approved by the board of directors on 3rd June, 1986.

A.P. HICHENS)
) Directors
P.J. JANSEN)

The notes on pages 7 to 12 form part of these accounts.

CARADON LIMITEDSTATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE PERIOD ENDED 30TH MARCH, 1986

	1986	
	£000	£000
SOURCE OF FUNDS		
Profit on ordinary activities before taxation		2,382
Extraordinary loss before taxation		1,664
FUNDS GENERATED FROM OPERATIONS		<u>718</u>
FUNDS FROM OTHER SOURCES		
Issue of ordinary shares	600	
Issue of convertible cumulative preferred ordinary shares	5,001	
Issue of cumulative redeemable preference shares	5,000	
Issue of subordinated unsecured loan stock	6,000	
Long term loans	<u>49,000</u>	
		65,601
		<u>66,319</u>
APPLICATION OF FUNDS		
Purchase of subsidiary company	60,991	
Expenses of share issue	<u>101</u>	
		61,092
		<u>5,227</u>
INCREASE IN WORKING CAPITAL		
COMPONENTS OF INCREASE IN WORKING CAPITAL		
Debtors		5,649
Creditors falling due within one year		(1,932)
Increase in net liquid funds		1,510
		<u>5,227</u>

CARADON LIMITEDNOTES TO THE ACCOUNTS1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's accounts:

(a) Basis of accounting

The accounts have been prepared under the historical cost convention.

(b) Pensions

During the period the company participated in a pension scheme administered on behalf of Reed International plc and independent of the finances of the company. The company's contributions are charged against profits in the period in which contributions are made. On 6th April, 1986 the company's share of the assets of that scheme was transferred to the Caradon Pension Scheme administered on behalf of Caradon Limited.

(c) Deferred taxation

Provision is calculated on the liability method for deferred taxation resulting from short term timing differences between profits computed for tax purposes and profits as stated in the accounts. Provision is not made for other timing differences where liability is not expected to arise in the foreseeable future.

2. PROFIT BEFORE TAXATION

Profit before taxation is after charging:

Auditors' remuneration

1986
£000

5

CARADON LIMITEDNOTES TO THE ACCOUNTS3. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

Excluding pension contributions, the emoluments of the chairman, were £10,994; the emoluments of the highest paid director were £70,824; the emoluments of the other directors were within the following ranges:

	<u>1986</u> <u>Numbers</u>
£ 0 - £ 5,000	3
£15,001 - £20,000	1
	<u>4</u>

The aggregate remuneration (including pension contributions) of the directors were:

	<u>1986</u> <u>£000</u>
Fees	19
Management remuneration	87
	<u>106</u>

4. STAFF NUMBERS AND COSTS

The average number of persons employed by the company (including directors) during the period, analysed by category, was as follows:

	<u>1986</u>
Administration	<u>4</u>

The aggregate payroll costs of these persons were as follows:

	<u>1986</u> <u>£000</u>
Wages and salaries	108
Social security costs	11
	<u>119</u>

CARADON LIMITEDNOTES TO THE ACCOUNTS5. INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>1986</u> <u>£000</u>
Income from group companies	2,256
Other interest receivable	82
	<u>2,338</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>1986</u> <u>£000</u>
On bank loans, overdrafts and other loans wholly repayable within five years	872
On other loans	2,541
	<u>3,413</u>

7. TAXATION

Taxation based on the profit for the
period:
United Kingdom corporation tax at 40%

The amount of unprovided deferred tax in
respect of the period is as follows:

Other timing differences

1986
£000

—

489

Tax losses arising in the period of £2,749,019 have been surrendered to
other group companies for £nil consideration.

8. EXTRAORDINARY ITEMS

	<u>1986</u> <u>£000</u>
Costs of raising loan finance and other preliminary expenses	<u>1,664</u>

CARADON LIMITEDNOTES TO THE ACCOUNTS9. PROPOSED DIVIDENDS

	£000
9% Cumulative Redeemable Preference Shares	196
Convertible Cumulative Participating Preferred Ordinary Shares	180
	<u>376</u>

10. INVESTMENTS (HELD AS FIXED ASSETS)

	Shares in subsidiary company £000	Loan to subsidiary company £000	Total £000
Addition at 23rd October, 1985 and as at 30th March, 1986	<u>1</u>	<u>60,990</u>	<u>60,991</u>

The company owns all of the issued ordinary share capital of Caradon (UK) Limited, which is a holding company for a group of building products companies.

11. DEBTORS

	1986 £000
Amounts owed by subsidiary companies	5,481
Other debtors	168
Advance corporation tax recoverable	154
	<u>5,803</u>

12. CREDITORS FALLING DUE WITHIN ONE YEAR

	1986 £000
Bank loans and overdrafts	227
Amounts owed to subsidiary companies	126
Corporation tax	95
Other creditors	1,484
Proposed dividend	376
Advance corporation tax	154
	<u>2,462</u>

CARADON LIMITEDNOTES TO THE ACCOUNTS13. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1986</u> <u>£000</u>
12% Subordinated unsecured loan stock	6,000
Bank loans (secured)	34,000
Other loan (secured)	15,000
	<u>55,000</u>

The repayments of the above loans are as follows:

		<u>1986</u> <u>£000</u>
12% Subordinated unsecured loan stock	31.3.93	1,200
	31.3.94	1,200
	31.3.95	1,200
	31.3.96	1,200
	31.3.97	1,200
		<u>6,000</u>
Bank loans	23.10.87	14,000
	23.10.88	2,000
	23.10.89	3,000
	23.10.90	3,000
	23.10.91	3,000
	23.10.92	9,000
		<u>34,000</u>
Other loan	23.10.92	3,750
	23.10.93	3,750
	23.10.94	3,750
	23.10.95	3,750
		<u>15,000</u>

The interest payable on bank loans is charged at varying rates, linked to the London Inter Bank Offer Rate. The interest payable on the other loan is 15% per annum.

The bank loans and other loan are secured by a composite guarantee and debenture over the assets of certain group companies by a fixed charge on all tangible fixed assets, investments, debtors and claims and the benefit of all patents, trademarks, designs, copyrights and licences and by a floating charge on all other assets.

NOTES TO THE ACCOUNTS14. SHARE CAPITAL

Authorised:

9% Cumulative Redeemable Preference
Shares of £1 each
Convertible Cumulative Participating
Preferred Ordinary Shares of £1 each
Ordinary Shares of £1 each

<u>Number</u>	<u>1986</u> <u>£000</u>
5,000,000	5,000
4,059,520	4,059
553,571	554
	<u>9,613</u>

Allotted, called up and fully paid:

9% Cumulative Redeemable Preference
Shares of £1 each
Convertible Cumulative Participating
Preferred Ordinary Shares of £1 each
Ordinary Shares of £1 each

5,000,000	5,000
4,059,520	4,059
428,571	429
	<u>9,488</u>

Each class of share was issued on 23rd October, 1985 to provide funds for the acquisition of Caradon (UK) Limited (formerly Reed Building Products Limited).

The following amounts were received on each class of share capital:

9% Cumulative Redeemable Preference Shares
Convertible Cumulative Participating Preferred
Ordinary Shares
Ordinary Shares

<u>£</u>
5,000,000
5,001,329
599,999
<u></u>

15. SHARE PREMIUM

Premium arising on shares issued at
23rd October, 1985
Less: Expenses of issue

<u>1986</u> <u>£000</u>
1,113
101
<u>1,012</u>

16. PROFIT AND LOSS ACCOUNT

Retained profit for the period

<u>1986</u> <u>£000</u>
342
<u></u>