

Erco Lighting Limited

Directors' report and financial statements

31 December 1998

Registered number 1408064



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

Principal activities

The principal activity of the company is the sale of lighting equipment.

Business review

The company increased its turnover during 1998 by 25.7% and its gross profit margin by 2.9%.

Year 2000

Our parent company in Germany has, for a considerable time, assessed the potential impact of the Year 2000 issue in connection with our business.

As a result, Erco Lighting Limited in London has:

- (a) evaluated in house technology and, where necessary, replaced equipment to accommodate Year 2000, and
- (b) contacted our local suppliers who have in turn provided, in our belief, acceptable responses for dealing with the Year 2000 issue in relation to their products.

In assessing the potential impact of the Year 2000 issue at an early stage, the company has been able to upgrade Year 2000 considerations into its normal business and investment plan. For this reason, no explicit expense figures relating to the Year 2000 issue have been separately quantified.

Proposed dividend and transfer to reserves

The profit before dividends for the year was £356,641 (1997: £17,324).

No dividend was paid or proposed during 1998 (1997: £nil).

Directors and directors' interests

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

K Hertzum
KJ Maack
POS Schwarzfischer
M Rowling
GW Teichert (appointed 1 April 1998)

None of the directors who held office at the end of the financial year had any disclosable interest in the issued share capital of the company.

Directors' report

Auditors

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

By order of the board



K Hertzum
Director

38 Dover Street
London W1X 3RB

24/3 - 1999

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, 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 financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



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Auditors' report to the members of Erco Lighting Limited

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, 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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

26 March 1999

Profit and loss account

for the year ended 31 December 1998

| | <i>Note</i> | 1998 £ | 1997 £ |
|--|-------------|-------------|-------------|
| Turnover | 2 | 8,615,547 | 6,851,744 |
| Cost of sales | | (5,057,901) | (4,222,899) |
| | | <hr/> | <hr/> |
| Gross profit | | 3,557,646 | 2,628,845 |
| Distribution costs | | (175,187) | (130,923) |
| Administrative expenses | | (2,798,312) | (2,450,407) |
| | | <hr/> | <hr/> |
| Operating profit | | 584,147 | 47,515 |
| Interest receivable and similar income | | 18,141 | 32,247 |
| Interest payable and similar charges | 4 | (8,185) | (15,836) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before taxation | 2-6 | 594,103 | 63,926 |
| Tax on profit on ordinary activities | 7 | (237,462) | (46,602) |
| | | <hr/> | <hr/> |
| Profit for the financial year | | 356,641 | 17,324 |
| Retained profit brought forward | | 1,356,921 | 1,339,597 |
| | | <hr/> | <hr/> |
| Retained profit carried forward | | 1,713,562 | 1,356,921 |
| | | <hr/> <hr/> | <hr/> <hr/> |

The results arise wholly from continuing operations.

All recognised gains and losses are included in the above profit and loss account.

There is no difference between the result as disclosed in the profit and loss account and the result on an historic cost basis.

A statement of movements in shareholders' funds is given in note 17 to these financial statements.

Balance sheet

at 31 December 1998

| | Note | 1998 | | 1997 | |
|---|------|--------------------|------------------|--------------------|------------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Tangible assets | 8 | | 1,117,587 | | 1,175,331 |
| Current assets | | | | | |
| Stocks | 9 | 199,844 | | 145,084 | |
| Debtors | 10 | 1,076,941 | | 1,061,470 | |
| Cash at bank and in hand | | 1,362,144 | | 1,323,263 | |
| | | <u>2,638,929</u> | | <u>2,529,817</u> | |
| Creditors: amounts falling due within one year | 11 | <u>(1,492,954)</u> | | <u>(1,789,002)</u> | |
| Net current assets | | | <u>1,145,975</u> | | <u>740,815</u> |
| Total assets less current liabilities | | | <u>2,263,562</u> | | <u>1,916,146</u> |
| Provisions for liabilities and charges | 12 | | - | | (9,225) |
| Net assets | | | <u>2,263,562</u> | | <u>1,906,921</u> |
| Capital and reserves | | | | | |
| Called up share capital - equity | 16 | | 550,000 | | 550,000 |
| Profit and loss account | 17 | | 1,713,562 | | 1,356,921 |
| | | | <u>2,263,562</u> | | <u>1,906,921</u> |

These financial statements were approved by the board of directors on 18 March 1999 and were signed on its behalf by K Hertzum (Director) on



24/3/99

Cash flow statement

for the year ended 31 December 1998

| | <i>Note</i> | 1998 | 19967 |
|--|-------------|---------------------|-------------------------|
| | | £ | £ |
| Net cash inflow from operating activities | 13 | 1,060,808 | 82,046 |
| Return on investments and servicing of finance | | | |
| Interest received | | 17,341 | 17,655 |
| Interest paid | | (8,185) | - |
| | | <hr/> | <hr/> |
| | | 9,156 | 17,655 |
| Taxation | | (35,806) | (118,119) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (337,948) | (1,217,300) |
| Sale of tangible fixed assets | | 66,250 | 66,082 |
| | | <hr/> | <hr/> |
| Net cash outflow from investing activities | | (271,698) | (1,151,218) |
| Increase/(decrease) in cash and cash equivalents | 14 | <hr/> <hr/> 762,460 | <hr/> <hr/> (1,169,636) |

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

| | | |
|---|---|---|
| Leasehold improvements | - | over remaining period of lease (or economic life where shorter) |
| Plant and machinery | - | 33 1/3% per annum |
| Fixtures, fittings, tools and equipment | - | 20% per annum |
| Motor vehicles | - | 25% per annum |

Foreign exchange

Transactions denominated in foreign currencies are translated at average exchange rates. Assets and liabilities denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date.

Stock

Stock is valued at the lower of cost or net realisable value.

Leased assets

Expenditure on operating leases is charged to the profit and loss account on a basis representative of the benefit derived from the asset.

Pension costs

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amounts charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual asset or liability will crystallise.

Notes (continued)

2 Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

£8,367,849 (1997: £6,779,416) represents sales in the UK and the remaining £247,698 (1997: £72,328) overseas sales.

3 Profit on ordinary activities before taxation

| | 1998 | 1997 |
|---|-------------------|-------------------|
| | £ | £ |
| <i>Profit on ordinary activities before taxation is stated after charging</i> | | |
| Auditors' remuneration: | | |
| Audit | 16,600 | 17,000 |
| Depreciation of tangible fixed assets | 330,179 | 302,712 |
| Rentals payable under operating leases: | | |
| Other assets | 173,675 | 165,090 |
| | <u> </u> | <u> </u> |

4 Interest payable and similar charges

| | 1998 | 1997 |
|------------------------------|-------------------|-------------------|
| | £ | £ |
| On bank loans and overdrafts | 8,185 | 15,836 |
| | <u> </u> | <u> </u> |

5 Remuneration of directors

The remuneration of the directors, part of which was paid by Erco Leuchten GmbH and then recharged to the company in respect of management services, is as follows:

| | 1998 | 1997 |
|-----------------------|-------------------|-------------------|
| | £ | £ |
| Directors' emoluments | 321,603 | 217,808 |
| Pension contributions | 52,426 | 36,350 |
| | <u> </u> | <u> </u> |

The aggregate emoluments of the highest paid director was £135,402 (1997: £127,416), and pension contributions of £26,211 (1997: £25,915) were made to a defined contribution scheme on his behalf.

Notes (continued)

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was 42 (1997: 41).

The aggregate payroll costs of these persons were as follows:

| | 1998 | 1997 |
|-------------------------------|------------------|------------------|
| | £ | £ |
| Wages and salaries | 1,331,343 | 1,118,738 |
| Social security costs | 142,550 | 111,763 |
| Company pension contributions | 113,252 | 79,109 |
| | <u>1,587,146</u> | <u>1,309,610</u> |

7 Taxation

Taxation based on the profit for the year is as follows:

| | 1998 | 1997 |
|---|----------------|---------------|
| | £ | £ |
| UK corporation tax at 31.5% (1997: 33%) on the profit for the year on ordinary activities | 228,775 | 17,894 |
| Adjustment relating to prior years | 17,912 | 19,483 |
| Deferred tax | (9,225) | 9,225 |
| | <u>237,462</u> | <u>46,602</u> |

Notes (continued)

8 Tangible fixed assets

| | Leasehold improvements | Plant and machinery | Fixtures fittings tools and equipment | Motor vehicles | Total |
|---|---------------------------|------------------------|--|-------------------|-----------|
| | £ | £ | £ | £ | £ |
| <i>Cost</i> | | | | | |
| At beginning of year | 581,404 | 167,436 | 844,066 | 327,126 | 1,920,032 |
| Additions | - | 33,478 | 46,599 | 240,295 | 320,372 |
| Disposals | - | 10,965 | 75,324 | 146,631 | 232,920 |
| At end of year | 581,404 | 189,949 | 815,341 | 420,790 | 2,007,484 |
| <i>Depreciation and diminution in value</i> | | | | | |
| At beginning of year | 80,196 | 138,544 | 384,938 | 141,023 | 744,701 |
| Charge for year | 80,194 | 27,211 | 132,645 | 90,129 | 330,179 |
| On disposals | - | 10,965 | 75,324 | 98,694 | 184,983 |
| At end of year | 160,390 | 154,790 | 442,259 | 132,458 | 889,897 |
| <i>Net book value</i> | | | | | |
| At 31 December 1998 | 421,014 | 35,159 | 373,082 | 288,332 | 1,117,587 |
| At 31 December 1997 | 501,208 | 28,892 | 459,128 | 186,103 | 1,175,331 |

9 Stocks

| | 1998 | 1997 |
|-------------------------------------|---------|---------|
| | £ | £ |
| Finished goods and goods for resale | 199,844 | 145,084 |

Notes (continued)

10 Debtors

| | 1998 | 1997 |
|------------------------------------|------------------|------------------|
| | £ | £ |
| Trade debtors | 966,896 | 959,143 |
| Amounts owed by parent undertaking | 10,032 | - |
| Other debtors | 7,468 | 7,746 |
| Prepayments | 91,183 | 88,432 |
| Amount owed by related company | 1,362 | 6,149 |
| | <u>1,076,941</u> | <u>1,061,470</u> |

11 Creditors: amounts falling due within one year

| | 1998 | 1997 |
|---|------------------|------------------|
| | £ | £ |
| Bank loans and overdrafts | 835 | 724,415 |
| Trade creditors | 246,889 | 241,517 |
| Amounts owed to parent undertaking | 269,316 | 201,259 |
| Other creditors including taxation and social security: | | |
| Corporation tax | 228,775 | 17,894 |
| Other taxes and social security | 349,970 | 300,755 |
| | <u>578,745</u> | <u>318,649</u> |
| Accruals | 397,169 | 303,162 |
| | <u>1,492,954</u> | <u>1,789,002</u> |

Notes (continued)

12 Provisions for liabilities and charges

| | Deferred taxation £ |
|----------------------|---------------------------|
| At beginning of year | 9,225 |
| Released in the year | (9,225) |
| | <hr/> |
| At end of year | - |
| | <hr/> <hr/> |

The amounts provided for deferred taxation and the amounts of the full potential liability are set out below:

| | Amount provided | | Full potential liability | |
|---|-----------------|-------------|--------------------------|-------------|
| | 1998 | 1997 | 1998 | 1997 |
| | £ | £ | £ | £ |
| Excess of tax allowances received over the related depreciation | - | (9,225) | 699 | (9,225) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

13 Reconciliation of operating profit to net cash inflow from operating activities

| | 1998 £ | 1997 £ |
|---|-------------|-------------|
| Operating profit | 584,147 | 47,515 |
| Depreciation charge | 330,179 | 302,712 |
| Profit on sale of tangible fixed assets | (18,313) | (17,341) |
| Increase in stocks | (54,760) | (11,501) |
| Increase in debtors | (14,671) | (441,049) |
| Increase in creditors | 234,226 | 201,710 |
| | <hr/> | <hr/> |
| Net cash inflow from operating activities | 1,060,808 | 82,046 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes (continued)

14 Reconciliation of net cash flow to movement in net funds

| | 1998 £ |
|----------------------------------|-------------|
| Increase in cash in the period | 762,460 |
| Net funds as at 31 December 1997 | 598,849 |
| | <hr/> |
| Net funds as at 31 December 1998 | 1,361,309 |
| | <hr/> <hr/> |

15 Analysis of net funds

| | 1997 £ | Cash flows £ | 1998 £ |
|------------|-------------|-----------------|-------------|
| Cash | 1,323,264 | 38,880 | 1,362,144 |
| Overdrafts | (724,415) | 723,580 | (835) |
| | <hr/> | <hr/> | <hr/> |
| Net funds | 598,849 | 762,460 | 1,361,309 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

16 Called up share capital

| | 1998 £ | 1997 £ |
|---|-------------|-------------|
| <i>Authorised</i> | | |
| Ordinary shares of £1 each | 1,000,000 | 1,000,000 |
| | <hr/> | <hr/> |
| <i>Allotted, called up and fully paid</i> | | |
| Ordinary shares of £1 each | 550,000 | 550,000 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes (continued)

17 Movement in shareholders' funds

| | Share capital £ | Profit and loss account £ | Shareholders' funds £ |
|-------------------------------|-----------------------|---------------------------------|-----------------------------|
| At the beginning of the year | 550,000 | 1,356,921 | 1,906,921 |
| Profit for the financial year | - | 356,641 | 356,641 |
| | <hr/> | <hr/> | <hr/> |
| At the end of the year | 550,000 | 1,713,562 | 2,263,562 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

18 Commitments

(i) Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

| | 1998 £ | 1997 £ |
|--|-------------|-------------|
| Land and building: | | |
| Operating leases expiring in over 5 years | 176,250 | 165,090 |
| | <hr/> <hr/> | <hr/> <hr/> |

(ii) Capital commitments

There were no material capital commitments undertaken as at the year end.

Notes (continued)

19 Related party transactions

The company purchases goods for resale from its immediate parent company. In addition it is charged freight and handling fees on these goods. The company also earns commission on sales income from export projects undertaken by its immediate parent company. It had the following transactions with this related party during the year.

| | £ |
|--|-----------|
| Revenue transactions: | |
| Sales of finished goods | 17,872 |
| Purchases of goods for resale | 4,373,006 |
| Freight and handling fees | 87,460 |
| | <hr/> |
| Balances outstanding at the year end were: | |
| Amounts owed to parent undertaking | 269,316 |
| Amounts owed by parent undertaking | 10,032 |
| | <hr/> |

Premises occupied by the company are owned by Maack Gbr. The entity of Maack Gbr is wholly constituted by close family members of Klaus Jurgen Maack who is a director of both the company and its parent company. Accordingly, Maack Gbr falls within the definition of related party as laid down by Financial Reporting Standard 8. The company had the following transactions with Maack Gbr during the year.

| | £ |
|---|---------|
| Revenue transactions: | |
| Service charges and rental for the year to 31 December 1998 | 119,080 |
| Amounts included in debtors: | |
| Prepayment rental | 26,827 |
| | <hr/> |

All of the above transactions were carried out at arm's length.

Notes *(continued)*

20 **Ultimate parent company**

The ultimate parent company is Erco Leuchten GmbH, a company incorporated in Germany. The accounts of this company are not publicly available.

This is also the company which heads the smallest higher group of undertakings for which group accounts are drawn up and of which the company is a member.