

Erco Lighting Limited

**Directors' report and financial
statements**

Registered number 1408064

31 December 1999



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

Principal activities

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

Business review

The company suffered a decrease in its turnover during 1999 by 3.7% and its gross profit margin by 1.7%.

Year 2000

As a result of extensive preparation the Year 2000 issue represented no practical problems in Erco Lighting Limited, or any of our suppliers.

We have no reason to expect any future problems in this regard, but will continue to monitor the situation.

Proposed dividend and transfer to reserves

The profit before dividends for the year was £48,234 (1998: £356,641).

A dividend was paid during 1999 of £1,000,000 (1998: £nil).

Directors and directors' interests

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

K Hertzum	(resigned 31 December 1999)
KJ Maack	
POS Schwarzfischer	
M Rowling	
GW Teichert	

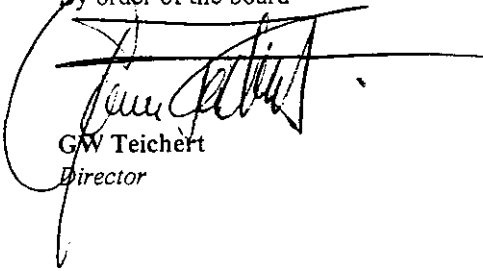
None of the directors who held office at the end of the financial year had any disclosable interest in the issued share capital of the company.

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



GW Teichert
Director

38 Dover Street
London W1X 3RB

14 March 2000

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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 1999 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

14 March 2000

Profit and loss account

for the year ended 31 December 1999

	<i>Note</i>	1999 £	1998 £
Turnover	2	8,295,129	8,615,547
Cost of sales		(5,013,165)	(5,057,901)
		<hr/>	<hr/>
Gross profit		3,281,964	3,557,646
Distribution costs		(142,777)	(175,187)
Administrative expenses		(2,944,234)	(2,798,312)
		<hr/>	<hr/>
Operating profit		194,953	584,147
Interest receivable and similar income		16,158	18,141
Interest payable and similar charges	4	(7,964)	(8,185)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	2-6	203,147	594,103
Tax on profit on ordinary activities	7	(154,913)	(237,462)
		<hr/>	<hr/>
Profit for the financial year		48,234	356,641
Retained profit brought forward		1,713,562	1,356,921
Dividend paid		(1,000,000)	-
		<hr/>	<hr/>
Retained profit carried forward		761,796	1,713,562
		<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.

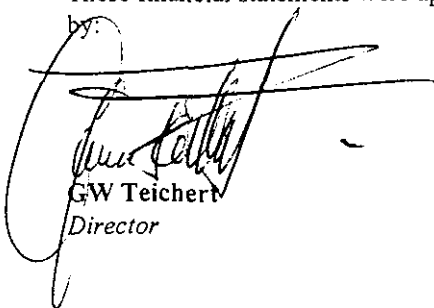
A statement of movements in shareholders' funds is given in note 17 to these financial statements.

Balance sheet

at 31 December 1999

	Note	1999		1998	
		£	£	£	£
Fixed assets					
Tangible assets	8		859,652		1,117,587
Current assets					
Stocks	9	281,782		199,844	
Debtors	10	1,115,767		1,076,941	
Cash at bank and in hand		301,478		1,362,144	
			<u>1,699,027</u>		<u>2,638,929</u>
Creditors: amounts falling due within one year	11	(1,215,692)		(1,492,954)	
Net current assets			<u>483,335</u>		<u>1,145,975</u>
Total assets less current liabilities			<u>1,342,987</u>		<u>2,263,562</u>
Provisions for liabilities and charges	12		(31,191)		-
Net assets			<u><u>1,311,796</u></u>		<u><u>2,263,562</u></u>
Capital and reserves					
Called up share capital - equity	16	550,000		550,000	
Profit and loss account	17	761,796		1,713,562	
			<u><u>1,311,796</u></u>		<u><u>2,263,562</u></u>

These financial statements were approved by the board of directors on 14 March 2000 and were signed on its behalf by:


G.W. Teichert
Director

Cash flow statement

for the year ended 31 December 1999

	Note	1999	1998
		£	£
Net cash inflow from operating activities	13	304,274	1,060,808
Return on investments and servicing of finance			
Interest received		16,158	17,341
Interest paid		(7,964)	(8,185)
		<hr/>	<hr/>
Net cash inflow from return on investment and servicing of finance		8,194	9,156
Taxation		(224,263)	(35,806)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(176,859)	(337,948)
Sale of tangible fixed assets		28,823	66,250
		<hr/>	<hr/>
Net cash outflow from investing activities		(148,036)	(271,698)
Equity dividends paid		(1,000,000)	-
		<hr/>	<hr/>
(Decrease)/increase in cash	14	(1,059,831)	762,460
		<hr/> <hr/>	<hr/> <hr/>

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	-	33 1/3% per annum (25% in 1998)

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.

Post-retirement benefits

The company 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.

£8,039,454 (1998: £8,367,849) represents sales in the UK and the remaining £255,675 (1998: £247,698) overseas sales.

3 Profit on ordinary activities before taxation

	1999 £	1998 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Audit	17,650	16,600
Depreciation of tangible fixed assets	386,079	330,179
Rentals payable under operating leases:		
Other assets	187,944	173,675
	<u> </u>	<u> </u>

4 Interest payable and similar charges

	1999 £	1998 £
On bank loans and overdrafts	7,964	8,185
	<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:

	1999 £	1998 £
Directors' emoluments	320,650	321,603
Pension contributions	56,182	52,426
	<u> </u>	<u> </u>

The aggregate emoluments of the highest paid director was £138,771 (1998: £135,402), and pension contributions of £26,145 (1998: £26,211) 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 43 (1998: 42).

The aggregate payroll costs of these persons were as follows:

	1999 £	1998 £
Wages and salaries	1,329,805	1,331,343
Social security costs	141,776	142,550
Company pension contributions	115,970	113,252
	<hr/>	<hr/>
	1,587,551	1,587,146
	<hr/> <hr/>	<hr/> <hr/>

7 Taxation

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

	1999 £	1998 £
UK corporation tax at 30.25% (1998: 31.5%) on the profit for the year on ordinary activities	127,675	228,775
Adjustment relating to prior years	(3,953)	17,912
Deferred tax	31,191	(9,225)
	<hr/>	<hr/>
	154,913	237,462
	<hr/> <hr/>	<hr/> <hr/>

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	189,949	815,341	420,790	2,007,484
Additions	-	39,850	13,430	99,066	152,346
Disposals	-	99,952	100,985	94,243	295,180
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	581,404	129,847	727,786	425,613	1,864,650
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation and diminution in value</i>					
At beginning of year	160,390	154,790	442,259	132,458	889,897
Charge for year	80,194	37,183	126,526	142,176	386,079
On disposals	-	99,952	100,985	70,041	270,978
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	240,584	92,021	467,800	204,593	1,004,998
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 1999	340,820	37,826	259,986	221,020	859,652
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	421,014	35,159	373,082	288,332	1,117,587
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

9 Stocks

	1999 £	1998 £
Finished goods and goods for resale	281,782	199,844
	<hr/>	<hr/>

Notes (continued)

10 Debtors

	1999 £	1998 £
Trade debtors	1,054,340	966,896
Amounts owed by parent undertaking	1,996	10,032
Other debtors	8,773	7,468
Prepayments	50,658	91,183
Amount owed by related company	-	1,362
	<u>1,115,767</u>	<u>1,076,941</u>

11 Creditors: amounts falling due within one year

	1999 £	1998 £
Bank loans and overdrafts	-	835
Trade creditors	227,789	246,889
Amounts owed to parent undertaking	169,607	269,316
Other creditors including taxation and social security:		
Corporation tax	128,235	228,775
Other taxes and social security	378,872	349,970
	<u>507,107</u>	<u>578,745</u>
Accruals	311,189	397,169
	<u>1,215,692</u>	<u>1,492,954</u>

Notes (continued)

12 Provisions for liabilities and charges

	Deferred taxation £
At beginning of year	-
Amount provided	31,191
At end of year	31,191

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

	Amount provided		Full potential liability	
	1999	1998	1999	1998
	£	£	£	£
Excess of tax allowances received over the related depreciation	31,191	-	31,191	699

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

	1999 £	1998 £
Operating profit	194,953	584,147
Depreciation charge	386,079	330,179
Profit on sale of tangible fixed assets	(4,621)	(18,313)
Increase in stocks	(81,938)	(54,760)
Increase in debtors	(38,826)	(14,671)
Decrease in creditors	(151,373)	234,226
Net cash inflow from operating activities	304,274	1,060,808

Notes (continued)

14 Reconciliation of net cash flow to movement in net funds

	1999 £
Decrease in cash in the period	(1,059,831)
Net funds as at 31 December 1998	1,361,309
	<hr/>
Net funds as at 31 December 1999	301,478
	<hr/> <hr/>

15 Analysis of net funds

	1998 £	Cash flows £	1999 £
Cash	1,362,144	(1,060,666)	301,478
Overdrafts	(835)	835	-
	<hr/>	<hr/>	<hr/>
Net funds	1,361,309	(1,059,831)	301,478
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16 Called up share capital

	1999 £	1998 £
<i>Authorised</i>		
Ordinary shares of £1 each	1,000,000	1,000,000
	<hr/> <hr/>	<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 shareholder's funds

	Share capital £	Profit and loss account £	Shareholder's funds £
At the beginning of the year	550,000	1,713,562	2,263,562
Profit for the financial year	-	48,234	48,234
Dividend paid	-	(1,000,000)	(1,000,000)
	<hr/>	<hr/>	<hr/>
At the end of the year	550,000	761,796	1,311,796
	<hr/>	<hr/>	<hr/>

18 Commitments

(i) Financial commitments

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

	1999 £	1998 £
Land and building:		
Operating leases expiring in over 5 years	187,800	176,250
	<hr/>	<hr/>

(ii) Capital commitments

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

19 Pension scheme

The company operates a defined contribution scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £115,970 (1998: £113,255).

Contributions amounting to £19,231 (1998: £7,500) were payable to the fund and included in creditors.

Notes (continued)

20 Related party transactions

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

	£
Revenue transactions:	
Sales of finished goods	19,792
Purchases of goods for resale	3,690,716
Freight and handling fees	64,842
Expenses chargeable to parent company	25,578
	<hr/>
Balances outstanding at the year end were:	
Amounts owed to parent undertaking	169,607
Amounts owed by parent undertaking	1,996
	<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 1999	139,156
Amounts included in debtors:	
Prepayment rental	28,846
	<hr/>

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

Notes *(continued)*

21 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.