

# A Sykes (Dorlux) Limited

## Annual report for the year ended 30 September 1997

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# A Sykes (Dorlux) Limited

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## Directors and advisers

### Non executive directors and officers

President A I Sykes  
Chairman R W Martin

### Executive directors

Managing director P G Hewitt  
Sales director - national accounts C M Williams  
Purchasing director R T Trueman  
Production director N G W Petty  
Finance director J W Whiteley

### Registered office

Club Lane  
Ovenden  
HALIFAX  
HX2 8DD

### Auditors

Coopers & Lybrand  
Benson House  
33 Wellington Street  
LEEDS  
LS1 4JP

### Bankers

Midland Bank plc  
2 Cloth Hall Court  
HUDDERSFIELD  
HD1 2ES



**Directors' report  
for the year ended 30 September 1997**

The directors present their report and the audited financial statements for the year ended 30 September 1997.

**Principal activities**

The profit and loss account for the year is set out on page 5.

The principal activities of the company remain that of the manufacture of divan beds and mattresses.

**Review of business and future developments**

The change in strategic direction during the year has had a positive effect and the results for the year are most satisfactory.

This has given the board the confidence to press ahead with its aggressive expenditure programme and significant reorganisation of its factory processes and distribution methods.

These changes will result in positive benefits in the coming year.

**Dividends**

The directors have declared a dividend on the preference shares as described in the articles of association. The directors do not recommend the payment of a dividend on the ordinary shares.

**Directors**

The directors of the company at 30 September 1997, all of whom have been directors for the whole of the year ended on that date, unless where stated, were:

A I Sykes	
R W Martin	(appointed 1 February 1997)
P G Hewitt	
C M Williams	
R T Trueman	
N G W Petty	
J W Whiteley	(appointed 2 January 1997)
J P Roberts	(resigned 10 October 1997)

In accordance with the articles of association, the directors are not required to retire by rotation.

## Directors' interests in shares of the company

The interests of the directors of the company at 30 September 1997 in the shares of the company, according to the register required to be kept by Section 325 of the Companies Act 1985, were as follows:

	Ordinary shares of £1 each		10% non-cumulative redeemable preference shares of £1 each	
	30 September 1997 Amount	30 September 1996 Amount	30 September 1997 Amount	30 September 1996 Amount
A I Sykes	-	-	£121,000	£242,000

No other director at 30 September 1997 had an interest in shares of the company.

## Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30 September 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board



J W Whiteley  
Secretary

15 April 1998

**Report of the auditors to the members of  
A Sykes (Dorlux) 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 at 30 September 1997 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Coopers & Lybrand*

Chartered Accountants and Registered Auditors  
Leeds

15 April 1998

## Profit and loss account for the year ended 30 September 1997

	Notes	Before exceptional re-organisation costs £'000	Exceptional re-organisation costs £'000	Total 1997 £'000	1996 £'000
Turnover	2	14,389	-	14,389	14,017
Cost of sales		10,354	119	10,473	10,432
Gross profit		4,035	(119)	3,916	3,585
Distribution costs		1,394	185	1,579	1,411
Administrative expenses		1,951	25	1,976	1,772
Operating profit		690	(329)	361	402
Interest payable and similar charges	5			22	28
Profit on ordinary activities before taxation	6			339	374
Tax on profit on ordinary activities	8			4	7
Profit for the year				335	367
Dividends on non-equity shares	9			16	28
Retained profit for the year	16			319	339

All of the trading during the year related to continuing operations.

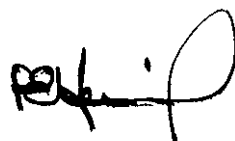
The company has no recognised gains and losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

**Balance sheet  
at 30 September 1997**

	Notes	1997 £'000	1996 £'000
<b>Fixed assets</b>			
Tangible assets	10	1,537	954
<b>Current assets</b>			
Stocks	11	738	719
Debtors	12	2,232	2,516
Cash at bank and in hand		3	5
		<u>2,973</u>	<u>3,240</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>3,471</u>	<u>3,353</u>
<b>Net current liabilities</b>		<u>(498)</u>	<u>(113)</u>
<b>Total assets less current liabilities</b>		<u>1,039</u>	<u>841</u>
<b>Capital and reserves</b>			
Called up share capital	15	139	260
Capital redemption reserve	16	241	120
Profit and loss account	16	659	461
Equity shareholders' funds		<u>918</u>	<u>599</u>
Non-equity shareholders' funds		<u>121</u>	<u>242</u>
<b>Total shareholders' funds</b>	17	<u>1,039</u>	<u>841</u>

The financial statements on pages 5 to 17 were approved by the board of directors on 15 April 1998 and were signed on its behalf by:



**P G Hewitt**  
Director

**Cash flow statement  
for the year ended 30 September 1997**

	Notes	1997 £'000	1996 £'000
<b>Net cash inflow from operating activities</b>	18	<u>516</u>	<u>469</u>
<b>Returns on investments and servicing of finance</b>			
Non-equity dividends paid		(28)	(36)
Interest paid		<u>(22)</u>	<u>(28)</u>
<b>Net cash outflow from returns on investments and servicing of finance</b>		<u>(50)</u>	<u>(64)</u>
<b>Taxation</b>			
Corporation tax paid		<u>(7)</u>	<u>(9)</u>
<b>Net cash outflow from taxation</b>		<u>(7)</u>	<u>(9)</u>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(746)	(244)
Sale of tangible fixed assets		<u>30</u>	<u>-</u>
<b>Net cash outflow from investing activities</b>		<u>(716)</u>	<u>(244)</u>
<b>Net cash (outflow)/inflow before financing</b>		<u>(257)</u>	<u>152</u>
<b>Financing</b>			
Redemption of preference shares		<u>(121)</u>	<u>(120)</u>
<b>Net cash outflow from financing</b>		<u>(121)</u>	<u>(120)</u>
<b>(Decrease)/increase in cash in the period</b>	19	<u><u>(378)</u></u>	<u><u>32</u></u>



**Notes to the financial statements  
for the year ended 30 September 1997**

**1 Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

**Basis of accounting**

The financial statements are prepared in accordance with the historical cost convention.

**Tangible fixed assets**

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold buildings	2
Plant and equipment	10-20

Leasehold property is written off over the period of the lease.

**Turnover**

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

**Stocks and work in progress**

Stocks and work in progress are stated at the lower of cost and net realisable value. Provision is made where necessary for obsolete, slow moving and defective stocks.

**Deferred taxation**

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that an asset or liability will crystallise.

## Foreign currency translation

Transactions denominated in a foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated into sterling at the year end exchange rates. Exchange gains and losses are dealt with in the profit and loss account.

## Pension scheme

The company operates three defined contribution pension schemes. The company's contributions to these schemes are as specified by the rules of the schemes and are charged to the profit and loss account as incurred.

The company also operates a defined benefit scheme which provides benefits based on final pensionable salaries. The company's pension expense for this scheme is charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company. The contribution rate is determined by an independent qualified actuary at intervals not exceeding three years using the projected unit method.

The assets of all four schemes are held separately from those of the company in independently administered funds.

The company provides no other post retirement benefits to its employees.

## Operating leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

## 2 Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied and consists entirely of sales made in the United Kingdom.

## 3 Directors' emoluments

	1997 £	1996 £
Fees paid to a company for the services of the non-executive Chairman	12,000	-
Fees and other emoluments (including benefits in kind)	362,628	289,877
Pension contributions	31,192	26,949
	<u>405,820</u>	<u>316,826</u>

Retirement benefits are accruing to 6 of the directors under the company's defined contribution schemes.

Fees and other emoluments (excluding pension contributions) include amounts paid to:

	1997 £	1996 £
The highest paid director	<u>77,301</u>	<u>70,176</u>

## 4 Employee information

The average weekly number of persons employed by the company during the year, including executive directors, is analysed below:

	1997 Number	1996 Number
Production	183	174
Selling and distribution	33	35
Administration	19	16
	<u>235</u>	<u>225</u>
	<u>1997</u>	<u>1996</u>
	£'000	£'000
Staff costs (for the above persons)		
Wages and salaries	3,492	3,321
Social security costs	322	310
Other pension costs (see note 22)	73	83
	<u>3,887</u>	<u>3,714</u>

## 5 Interest payable and similar charges

Interest payable on sums wholly repayable within 5 years:

	1997 £'000	1996 £'000
Bank overdraft	<u>22</u>	<u>28</u>

## 6 Profit on ordinary activities before taxation

	1997 £'000	1996 £'000
Profit on ordinary activities before taxation is stated after crediting:		
Rent receivable	44	48
Profit on sale of fixed assets	30	-
	<u>      </u>	<u>      </u>
And after charging:		
Auditors' remuneration - in respect of the audit	14	13
- fees for other services	60	37
Operating lease rentals - plant and machinery	18	22
- vehicles	824	821
- land and buildings	180	180
Depreciation of tangible owned fixed assets	163	121
	<u>      </u>	<u>      </u>

## 7 Exceptional reorganisation costs

During the year the company has significantly reorganised its production and administration systems, and has also negotiated a new distribution contract.

These exceptional reorganisation costs have been declared separately from the normal trading costs and consist of the following elements:

	Redundancy and severance £'000	Factory reorganisation £'000	Distribution reorganisation £'000	Total £'000
Cost of sales	83	36	-	119
Distribution costs	-	-	185	185
Administrative expenses	25	-	-	25
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>
	108	36	185	329
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>

## 8 Tax on profit on ordinary activities

	1997 £'000	1996 £'000
Corporation tax at 33% (1996: 33%)	-	-
Advance corporation tax not recoverable	4	7
	<u>      </u>	<u>      </u>
	4	7
	<u>      </u>	<u>      </u>

The company has substantial tax losses available to carry forward against future taxable profits.

## 9 Dividends

	1997 £'000	1996 £'000
Non-equity shares:		
10% preference dividend proposed	<u>16</u>	<u>28</u>

## 10 Tangible fixed assets

	Freehold buildings £'000	Leasehold property £'000	Plant and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 October 1996	191	50	3,470	27	3,738
Additions	-	-	746	-	746
Disposals	-	-	(58)	(27)	(85)
	<u>191</u>	<u>50</u>	<u>4,158</u>	<u>-</u>	<u>4,399</u>
<b>At 30 September 1997</b>					
<b>Depreciation</b>					
At 1 October 1996	10	12	2,735	27	2,784
Charge for year	3	2	158	-	163
Disposals	-	-	(58)	(27)	(85)
	<u>13</u>	<u>14</u>	<u>2,835</u>	<u>-</u>	<u>2,862</u>
<b>At 30 September 1997</b>					
<b>Net book value</b>					
At 30 September 1997	<u>178</u>	<u>36</u>	<u>1,323</u>	<u>-</u>	<u>1,537</u>
Net book value					
At 30 September 1996	<u>181</u>	<u>38</u>	<u>735</u>	<u>-</u>	<u>954</u>

At the year end the company had fixed assets with a cost of approximately £2.4 million (1996: £2.5 million) which had been written down to a nominal amount, although they were still in use.

## 11 Stocks

	1997 £'000	1996 £'000
Raw materials and consumables	428	525
Work in progress	224	119
Finished goods and goods for resale	86	75
	<u>738</u>	<u>719</u>

**12 Debtors**

	1997 £'000	1996 £'000
<b>Amounts falling due within one year</b>		
Trade debtors	2,098	2,397
Prepayments and accrued income	134	119
	<u>2,232</u>	<u>2,516</u>

**13 Creditors: amounts falling due within one year**

	1997 £'000	1996 £'000
Bank overdraft	600	224
Trade creditors (see below)	1,744	2,252
Advance corporation tax	4	7
Other taxation and social security	539	477
Accruals and deferred income	568	365
Dividends payable	16	28
	<u>3,471</u>	<u>3,353</u>

Part of the amounts owing to trade creditors is or may be protected by suppliers by the reservation of legal title to the goods supplied and to the proceeds of their sale. The amount protected in this way depends on the legal interpretation of individual contracts and cannot readily be determined. In the opinion of the directors the amount concerned does not exceed £174,000.

**14 Deferred taxation**

There is no provision for deferred taxation. A deferred tax asset in respect of trading losses carried forward has not been recognised in the financial statements.

**15 Called up share capital**

	10% non-cumulative redeemable preference shares of £1 each		Ordinary shares of £1 each 1997 and 1996
	1997	1996	
Authorised - value	<u>£362,000</u>	<u>£362,000</u>	<u>£20,000</u>
- number	<u>362,000</u>	<u>362,000</u>	<u>20,000</u>
Allotted, called up and fully paid			
- value	<u>£121,000</u>	<u>£242,000</u>	<u>£18,333</u>
- number	<u>121,000</u>	<u>242,000</u>	<u>18,333</u>

The redemption dates of the 10% non-cumulative redeemable preference shares, which are redeemable at par, were as follows:

Date	No of shares
31 January 1992	120,000
31 January 1993	121,000
31 January 1994	121,000

Redemptions were not made on the due dates because the company had insufficient reserves available for this purpose at the time. The company now has sufficient reserves to continue redemption of the preference shares. The first tranche of 120,000 shares was redeemed on 31 January 1996 and the second tranche of 121,000 shares was redeemed on 31 January 1997. It is intended to redeem the final tranche of 121,000 shares during January 1998 out of cash flows being generated within the business.

The rights of the preference shareholders are as follows:

- (a) a 10% non-cumulative dividend, subject to sufficient reserves;
- (b) preferential return of capital and dividend arrears on a winding up;
- (c) no voting rights.

## 16 Reserves

	Capital redemption reserve £'000	Profit and loss £'000
At 1 October 1996	120	461
Retained profit for the year	-	319
Redemption of preference shares	121	(121)
	<u>241</u>	<u>659</u>
At 30 September 1997	<u>241</u>	<u>659</u>

## 17 Reconciliation of movement in shareholders' funds

	1997 £'000	1996 £'000
Profit for the financial year	319	339
Redemption of preference shares	(121)	(120)
	<u>198</u>	<u>219</u>
Net addition to shareholders' funds	198	219
Opening shareholders' funds	841	622
	<u>1,039</u>	<u>841</u>
Closing shareholders' funds	<u>1,039</u>	<u>841</u>

## 18 Reconciliation of operating profit to net cash inflow from operating activities

	1997 £'000	1996 £'000
Operating profit	361	402
Depreciation of tangible fixed assets	163	121
Profit on sale of tangible fixed assets	(30)	-
Increase in stocks	(19)	(27)
Decrease/(increase) in trade debtors	299	(584)
Increase in prepayments and accrued income	(15)	(30)
(Decrease)/increase in trade creditors	(508)	430
Increase in other taxation and social security	62	116
Increase in accruals and deferred income	203	41
	<u>516</u>	<u>469</u>
Net cash inflow from operating activities	<u>516</u>	<u>469</u>



**19 Reconciliation of net cash flow to movement in net debt**

	1997 £'000	1996 £'000
<b>Changes during the year</b>		
At 1 October	(219)	(251)
Net cash (outflow)/inflow	(378)	32
<b>At 30 September</b>	<u>(597)</u>	<u>(219)</u>

	1997 £'000	1997 Change in year £'000	1996 £'000	1996 Change in year £'000	1995 £'000
<b>Analysis of net debt</b>					
Cash at bank and in hand	3	(2)	5	1	4
Bank overdrafts	(600)	(376)	(224)	31	(255)
<b>At 30 September</b>	<u>(597)</u>	<u>(378)</u>	<u>(219)</u>	<u>32</u>	<u>(251)</u>

**20 Capital commitments**

The company had contracted for capital commitments at 30 September 1997 of £257,500 (1996: £180,000).

**21 Financial commitments**

At 30 September 1997 the company had annual commitments under non-cancellable operating leases as follows:

	1997		1996	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
<b>Date of lease termination</b>				
Within one year	-	12	-	32
More than one year but within five years	-	78	-	735
After five years	180	-	180	28
	<u>180</u>	<u>90</u>	<u>180</u>	<u>795</u>

**22 Contingent liabilities**

There is a contingent liability of £25,000 in respect of a guarantee given by the company's bankers to H M Customs and Excise in respect of VAT payable.

## 23 Pensions

The total pension cost for the company was £73,023 (1996: £83,370) arising from its participation in three defined contribution schemes and a defined benefits scheme. The assets of these schemes are held separately from those of the company. The pension cost of the defined benefits scheme is assessed in accordance with advice of an independent qualified actuary using the projected unit method.

The latest actuarial valuation of the defined benefit scheme was dated 1 April 1995 and related to service by members up to 30 June 1995. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment returns would be 8.5% per annum compound and that salary increases would average 7% per annum compound.

The actuarial valuation showed that the market value of the defined benefit scheme's assets was £1,010,083 at 1 April 1995 and that the actuarial value of those assets represented 100% of the benefits that had accrued to members who have retired and 146% for other members after allowing for expected future increases in earnings. The actuary has recommended that in view of the proposed pension funds legislation changes, no decrease be made to the contribution rate to reduce the surplus.

## 24 Ultimate controlling party

Having regard to the disposition of the trusts which own the ordinary shares of the company, in the opinion of the directors, the company has no ultimate controlling party.