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Baxi Partnership Limited
Annual Report and Financial Statements 1999



brand new in europe

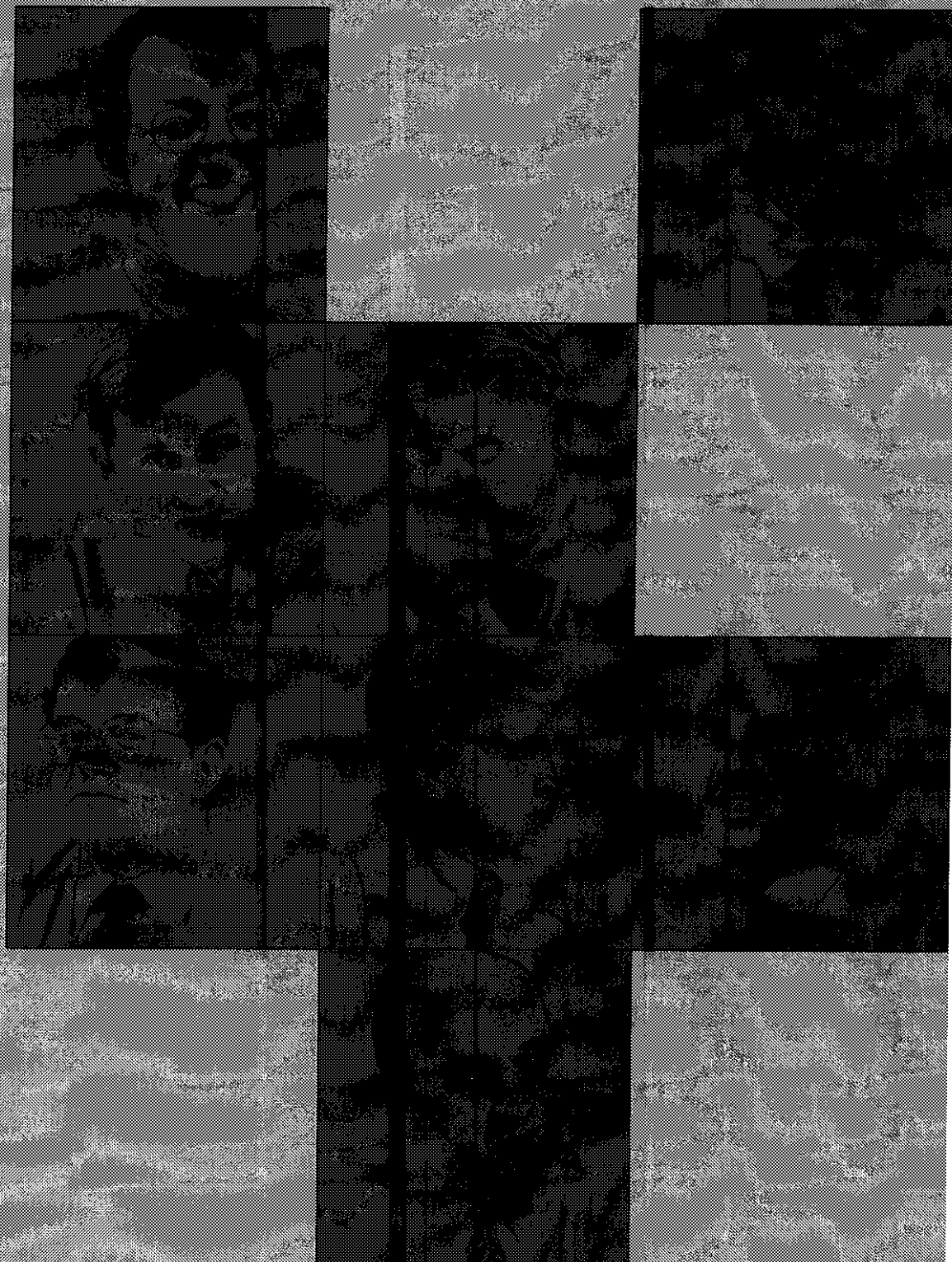
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Our aim is to make products which create a comfortable environment in the home. Heating is one component of home comfort.

Hot water available whenever needed is often taken for granted but is another component. Clean fresh air is essential for health and comfort.

Together warmth, hot water and clean fresh air create a comfortable environment. Baxi make products for your comfort.

Board of Directors



1. Bryan Gray,

age 45, Chief Executive. Chairman of the Central Heating Information Council and Vice President of the Society of British Gas Industries. He is also Chairman of the Central Lancashire Development Agency, and Preston North End plc.

2. John Acornley,

age 45, Group Finance Director. Joined Baxi in May 1997. He was previously Group Finance Director and Deputy Managing Director of Rainford Group plc.

3. David Erdai,*>

age 51, Non-executive Chairman. A trustee of the Baxi Partnership Limited Employee Trust and the Russell Trust, a Director of Tullis Russell Group Limited and the China Heartland Fund and Chairman of Tayburn Limited and Job Ownership Limited.

4. Andrew Thomas,*>

age 56, Non-executive Director. Chairman of Greenalls Group plc, and Non-executive Chairman of Somerfield plc and Limelight Group plc. He is also a Non-executive Director of JJB Sports plc and a number of non-quoted companies. Chairman of the Audit Committee.

5. Cairns Campbell,*>

age 54, Non-executive Director. A trustee of the Baxi Partnership Limited Employee Trust and a Director of Nobel Exhibition Trust.

6. Nick Kuenssberg,*>

age 56, Non-executive Director. Chairman of Stoddard International plc, GAP Group Limited, Canmore Partnership Limited and Bio-Logic Remediation Limited. He is also a Non-executive Director of Standard Life Assurance Company and other companies. Chairman of the Remuneration and Appointments Committee.

7. Trevor Eccleston,

age 39, Employee Director. He has been with Baxi for twenty years and is presently a production manager at Alfer Limited.

8. Peter Rothwell,

age 54, Company Secretary. Joined Baxi in September 1997. He was formerly Company Secretary/Solicitor to Norweb plc.

* Member of the Remuneration and Appointments Committee:

> Member of the Audit Committee

Chairman's Statement



Baxi aims to be forever a strong company, under direct and indirect employee ownership, and with a partnership culture. This year has seen further significant progress.

Firstly, the Group did well, especially in the UK heating business. Many specific achievements are highlighted in this report.

Secondly, we continued to develop the involvement of all who work in the Group, particularly through the council system. A year ago we appointed the first employee director to the Group Board, Trevor Eccleston, to bring the viewpoint of employees to our strategic discussions. This put the final building block in place to ensure that those who work in the Group are involved and represented at every level. The Board is grateful to Trevor and the council members for their hard work and contribution.

Thirdly, in pursuit of our strategy of focusing on the European heating market we took a very significant step in growing the business by acquiring the trade and assets of Ocean Idroclima SpA, an Italian gas boiler manufacturer. This has broadened our product range and will help us establish the Baxi name

strongly across Europe. In the few months since the acquisition we have already seen real business benefits. We welcome all new employees to the Group.

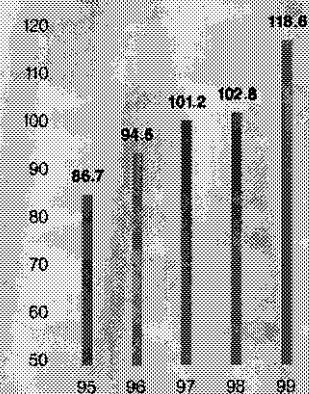
Fourthly, after full consultation with employees, the Company joined with the Baxi Partnership Trust to obtain alterations to the trust deed through a private Act of Parliament. This is expected to be passed later this year. The main effects are to make all employees of all subsidiaries beneficiaries of the trust; to enable the trust to last as long as Baxi does; and to clarify Baxi's aims, which are summarised in the first sentence of my statement.

Looking forward, Baxi is placed more strongly now to compete successfully in what is increasingly an international market. Our managers and employees have worked hard and shown considerable talent. I am grateful to, and admire, all who work in the Group for what has been achieved in the past year. We can look forward with confidence to success in the current year. With this kind of performance Baxi can be confident of achieving our long term goal: to be forever a strong company, under employee ownership, with a partnership culture.

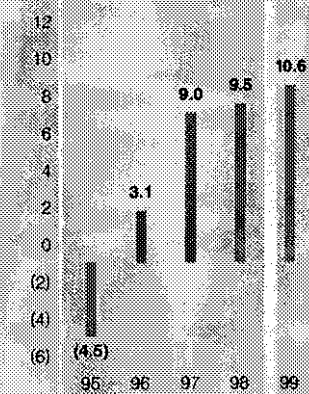
David Erdal Chairman

Financial Highlights

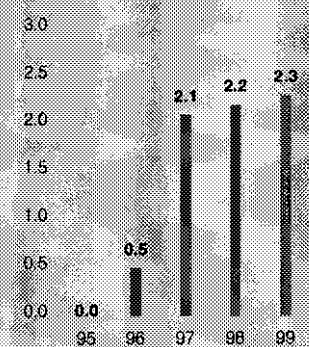
(£m) Turnover



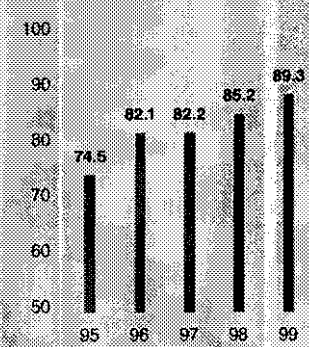
(£m) Group Operating Profit



(£m) Total Profit Sharing



(£m) Net Assets



Chief Executive's Report

I am pleased to report another year of significant progress.

Turnover this year reached £118.6M (1998: £102.8M), 15% ahead of last year, and Group operating profit at £10.6M (1998: £9.5M) has increased by 11%. Our strategic aim is to develop an integrated European heating and air management business with products promoted under the "Baxi" brand.

Review of the business

For the third consecutive year our UK heating business has performed extremely well. The Bahama combination boiler has been successfully launched, making a substantial contribution to turnover and profitability. This success results from the efforts of all departments, and follows consultation with both merchant customers and installers. This product launch has been an *important development for Baxi as combination boilers constitute a significant proportion of the UK boiler market.*

Our UK market share has increased in traditional cast iron wall mounted boilers. Additionally, sales of the Bermuda back boiler products have remained at a similar level to last year, despite increased competition.

Further afield, we have increased both turnover and profitability in Denmark. Competitive pressures in France and Sweden have led to a disappointing result in these markets.

In line with our strategy to increase Baxi's presence in the European heating market, in February this year we acquired the trade and assets of Ocean Idroclima SpA to form Baxi SpA. The company employs over 700 people and is based at two sites in Italy. Baxi SpA produces an excellent range of combination boilers, water heaters, radiators and steel baths. The company is of a similar size to our UK heating business and, following the acquisition, Baxi is now the fifth largest gas boiler manufacturer in Europe.

The size of our heating businesses will enable the Group to achieve operational synergies and provide a larger pool of knowledge to optimise research and development activities. The Group will also be better placed to exploit opportunities in emerging markets.



Elsewhere in the Group, further investment in the Baxi Clean Air System has been made during the year as we strive to develop the UK consumer market for this product.

The Group is focusing on its strategic objectives and, as a consequence, is in the process of divesting non-core engineering businesses, whilst retaining control of the supply of product and technology. To this end Spartek, the sheet metal and surface coating business, has now been reintegrated into our UK heating business. Landmark, the zinc diecasting business, has been sold to a management led team. Alfer's external business has diminished during the year and it is now managed more closely within the UK heating business, which is its principal customer.

Alloy Technologies ("ATL"), the Group's aluminium foundry, has started production of heat exchangers for the Barcelona high performance condensing boiler. However, converting external customer interest from the automotive sector into firm orders takes time. Though the financial performance of ATL has been disappointing this year, the business continues to show promise for the future.

During the year our UK market-leading damper business, trading under the "Actionair" brand, has performed well.

In February 1999 Baxi Partnership Limited moved to new premises at Sceptre Way, near Preston and located close to the motorway network. Our UK heating business now occupies the vacated office space at the Browndge Road site.

The Baxi brand

In the UK the Baxi brand has been a household name since the 1960s following the introduction of the Baxi Bermuda back boiler. In comparison, outside the UK the brand is relatively unknown. In recent months "Baxi" has been introduced alongside HS branded products with a view to phasing out the HS brand completely. It is our objective to use the Baxi brand in all markets for heating and domestic air management products. A strong international brand will promote greater customer loyalty and improve the growth of the business.

The environment

Baxi is making significant investment in long term applied academic research and has helped fund a consortium of forward thinking organisations, in the architectural and construction fields, committed to the development of low energy housing.

Community

The Group has continued to support community activities, most notably through its stewardship of Preston North End plc. In September 1998 the President of FIFA, Sepp Blatter, visited Deepdale to perform a ground-breaking ceremony to inaugurate The Football Museum. He was accompanied by the Secretary of State for the Department of Culture, Media and Sport, the Rt. Hon. Chris Smith.

During the year the Group has also established a UK Charity Committee to administer donations to local charities.

Employees

I would like to congratulate all employees on their contribution to this year's success and I am pleased to report total Group profit sharing of £2.3M this year.

The Baxi Partnership Limited Trusts Bill

At the Extraordinary General Meeting on 18 December 1998, the necessary special resolution was passed for the Company to join with the trustees in submitting the Baxi Partnership Limited Trusts Bill to Parliament. The proposal to promote the Bill was the subject of consultation with employees through the council system. When passed, the Bill will enable Baxi Partnership Limited Employee Trust to continue in perpetuity and will make all employees beneficiaries of the trust. This will benefit the Company because it will provide more flexibility in the running of the Company and additional motivation for all Group employees.

Future developments

The Group has produced another strong trading performance this year and has taken significant steps in the achievement of the strategy to focus on our heating businesses and expand our presence in Europe. In the forthcoming year a concerted effort will be made to consolidate our heating businesses and to promote the Baxi brand across Europe. Further growth opportunities will be pursued.



Bryan Gray Chief Executive

Group Finance Director's Report

For the fourth consecutive year the Group has increased operating profit, reflecting the strong performance of our heating businesses. The Group has a clear strategy to continue building a European heating and air management business and has the financial resources to further exploit organic and acquisitive growth opportunities

Trading results

This year Group turnover reached £118.6M (1998: £102.8M), a 15% increase on the previous year. This reflects an increase of £6.0M from existing operations and £13.0M from Baxi SpA, part of the Group since 1 February 1999. The Group's sales to overseas markets now accounts for 29% of total turnover (1998: 26%). In subsequent years the proportion of overseas sales will increase significantly when our results include a full year's contribution from Baxi SpA.

Although the gross profit margin has improved this year to 32.6% (1998: 30.5%), an increasing mix of combination boiler sales in the future is likely to reduce the reported margin. The reassessment of tooling useful lives has contributed to the improved margin, as explained in note 11 to the financial statements.

Administrative and distribution overheads totalled £28.1M in the year (1998: £21.9M). The increase is due to a number of factors. Baxi SpA overheads of £2.4M and goodwill amortisation of £0.3M were incurred in the two months following acquisition. In addition, selling expenses have increased by £1.5M due to investment in customer services to improve after-sales support. Accounting for ATL as a subsidiary for all of this year has increased overheads by £1.4M.

Group operating profit for the year of £10.6M (1998: £9.5M) has increased by 11%.

The Group's share of associate's losses, £0.6M, represents our share of PNE's result for the year.



Operating cash flow for the year was £14.2M (1998: £14.5M), which is a good performance, continuing the trend of strong cash flow generated by the heating business.

Acquisition

On 1 February 1999, the Group acquired the trade and assets of Ocean Idroclima SpA for a total of £84.1M including £67.5M of cash consideration, £11.4M of acquired debt and £5.2M of costs and acquisition taxes. Goodwill of £39.5M has been capitalised and is being amortised over twenty years from the date of acquisition. Details of the fair value of net assets acquired are given in note 12 to the financial statements.

Disposals

On 15 December 1998, Landmark Components Limited was sold to a management led team. Landmark was originally acquired by the Group to secure the supply of zinc diecast components to the heating business. The business was sold for a consideration of £0.2M together with the repayment of £0.5M of Group debt. The sale resulted in a loss on disposal of £0.9M.

During the year the Company sold its minority shareholding in the Chessington Partnership Limited for £0.8M. The only remaining investment in the Employee Buyout Equity Fund is a minority shareholding in Tinsley Foods Limited.

Treasury

This year the Group has adopted FRS13 which formalises disclosure on financial instruments. Information on significant treasury risks is dealt with below, and more detail is provided in note 19 to the financial statements.

Funding and liquidity

At the end of the year the Group had net debt of £25.8M, including cash of £25.3M and debt of £51.5M. This represents gearing to tangible net worth (net assets excluding goodwill) of 49%.

The Group's principal debt facility is a £45.0M syndicated loan facility led and arranged by The Royal Bank of Scotland plc, of which £38.5M had been drawn down at the year end. The term of loan is to December 2003, the facilities available reduce to £40.0M in September 2001 and by £5.0M biannually thereafter until December 2003.

Interest rate

In previous years, when the Group was in a net funds position, cash not required by the business was managed by professional fund managers. All cash is now held on short-term deposit at floating interest rates, 86% of which is denominated in sterling and currently attracts interest at an average rate of 5.0%. This is higher than the weighted average interest rate incurred on the Group's borrowing.

The Group uses interest rate swaps to convert a proportion of floating rate debt to a fixed rate. At the end of the year 66% of total debt was held at fixed interest rates of 4.8%.

Currency risk

The Group's principal currency exposure is to the euro-sterling exchange rate arising from the translation of the results and net assets of the Group's overseas subsidiaries.

The Group has a policy to hedge its tangible net worth denominated in foreign currency. At 27 March 1999 the Group had hedged 98% of its tangible net worth. The Group does not hedge goodwill denominated in foreign currencies. Currently this hedging requirement is satisfied by denominating UK debt in euros; of the total Group debt, 86% is denominated in euro related currencies.

Profit sharing

Profit sharing of £2.3M (1998: £2.2M) has been provided to reward employees' achievements in the year. This is the third consecutive year that profit sharing has exceeded £2.0M.

Taxation

The effective rate of taxation for the Group was 39.4% (1998: 39.8%). The tax rate is higher than the prevailing UK rate due to higher corporate tax rates overseas and unrelieved losses on disposals and our associated undertaking.

Earnings per share

Basic earnings per share is 104.8p (1998: 99.2p). Headline earnings per share, calculated in accordance with the recommendations of the IIMR, increased to 123.7p (1998: 118.9p).

Year 2000

A Year 2000 Steering Committee has met monthly since November 1997 to address the issue of compliance. The risks faced by the business from main operating systems, desktop pcs, embedded systems and suppliers' systems have been considered.

Action plans for mitigation of these risks are being executed and the Board believes that the Group will achieve full millennium compliance by mid-year. However, given the complexity of the millennium problem, no action plan can provide absolute assurance of Year 2000 compliance.

The costs incurred on millennium compliance have not been material to the Group.

Summary

For the fourth consecutive year the Group has increased operating profit, reflecting the strong performance of our heating businesses. The Group has a clear strategy to continue building a European heating and air management business and has the financial resources to further exploit organic and acquisitive growth opportunities.



John Acornley Group Finance Director



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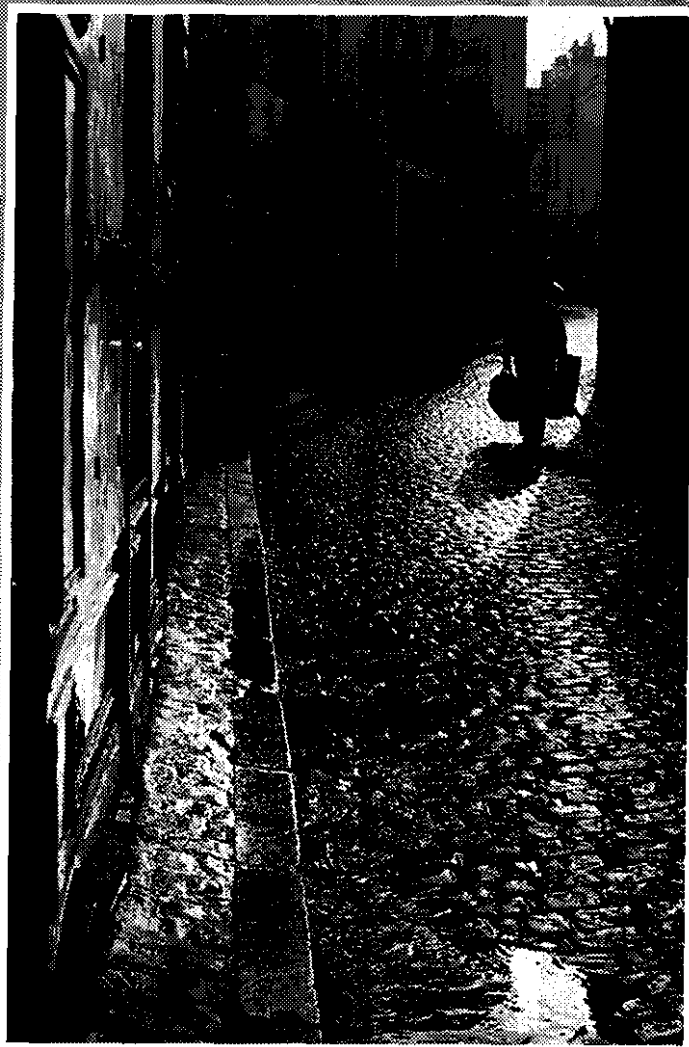
A. M. 1877





In many European countries including Sweden, Denmark and the UK, gas fires and stoves are a focal point in the home.

Pictured opposite is the Baxi Windermere stove.

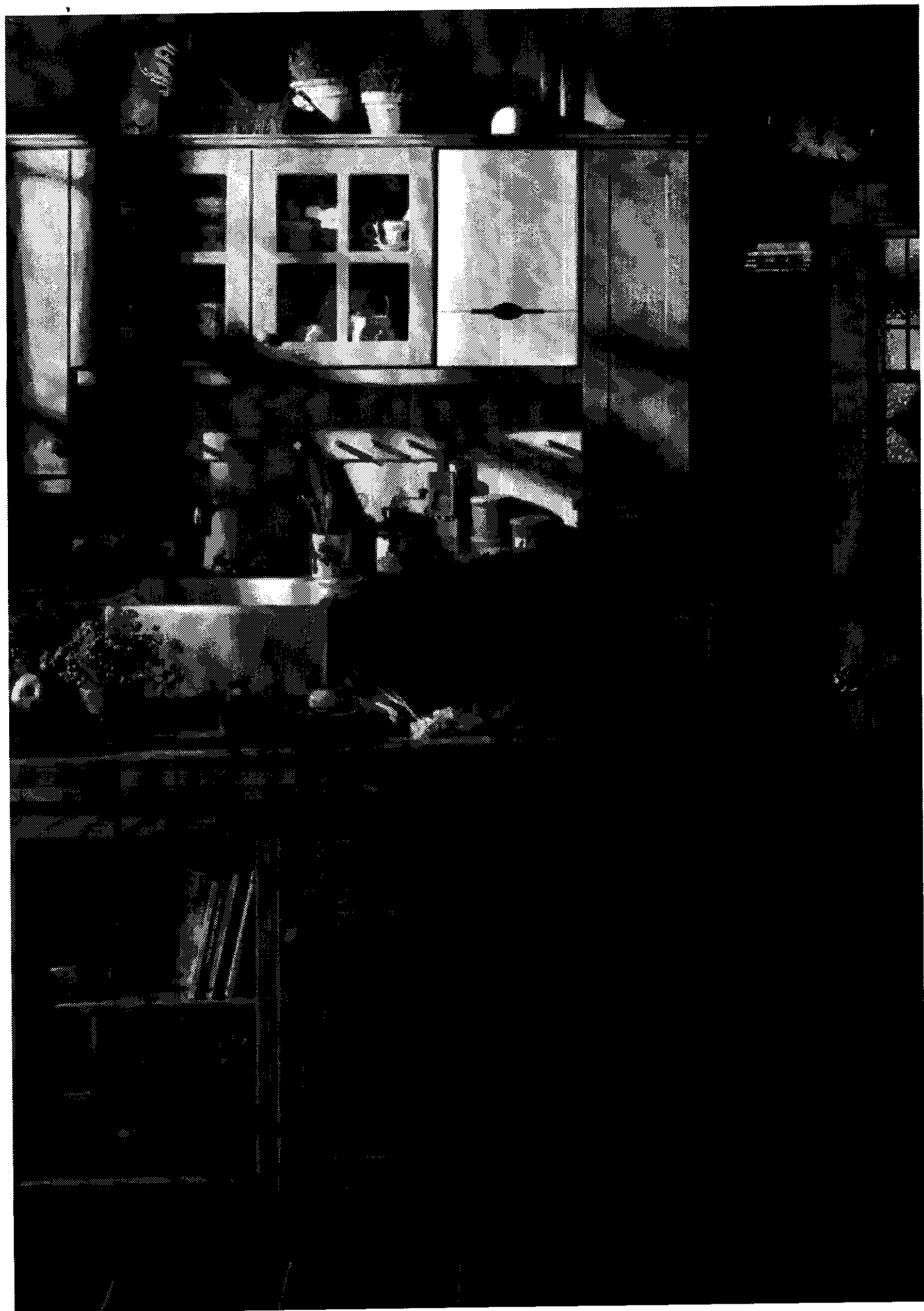


Space is at a premium in many homes. Baxi's range of wall mounted boilers provide solutions for every situation.

Pictured opposite is a Baxi combination boiler.









The Luna boiler, a Baxi SpA product is installed into the exterior wall of the building.

This year has been significant in the development of Baxi. In addition to the excellent results produced by the heating businesses a major step was taken in meeting the Group's strategic plan to expand into Europe with the acquisition of the trade and assets of Ocean Idroclima SpA ("Baxi SpA"). Baxi is currently the fifth largest gas boiler manufacturer in Europe.

The Group now manufactures in Preston and Whitstable in the UK, Tarm in Denmark, and at Bassano del Grappa and Sambuceto in Italy. The product range has also expanded as Baxi SpA produces radiators, water heaters and steel baths in addition to its core business of boiler manufacturing.

In the UK back boiler market, which Baxi pioneered in the 1960's, the Group accounts for over 70% of all UK sales.

UK

The strong performance of the heating businesses reflects an excellent year in the UK market, where record profit before interest has been achieved. This result is principally due to: maintaining Bermuda back boiler sales at 1998 levels despite increased competition; successfully launching the Bahama combination boiler; increasing market share in the cast iron wall mounted boiler sector and the launch of the Barcelona condensing boiler.

The UK market for boilers in 1998/99 was 1,024,000 boilers. Baxi's share of the overall market increased significantly in the year.

The combination boiler market represents approximately half of the total UK market. Baxi's share of this sector has more than doubled following the successful Bahama launch. Our market share has increased further as Baxi SpA sells a range of combination boilers through a UK distributor.

The back boiler market in the UK represents almost 10% of the total market with Baxi retaining the dominant share.

The Barcelona energy efficient condensing boiler was launched in December 1998 and sales levels are currently exceeding expectations.

With sales in over 40 countries worldwide, and one in seven homes in the UK having a Baxi product installed, the Group is a major provider of home comfort products.

This is a relatively new but important market, which is benefiting from Government incentives to promote energy efficient boilers.

Space heating products have performed in line with expectations, however the performance of the gas fire range has been disappointing. A new range of gas fires is being developed and is due to be launched in the summer.

In July 1998, our UK heating business was awarded "World Class" status, a quality award bestowed by a panel of independent experts. This achievement followed stringent assessment and benchmarking of every aspect of the business against both its competitors and leading companies from different sectors.

Sales of Baxi Clean Air Systems rose to £2.8M (1998: £2.3M). The product has now been launched in the UK consumer market, a sector with significant growth potential. However it is a new product for a new market and it will take some time to achieve significant turnover.

Alfer, the cast iron foundry, has lost external business due to the continued strength of sterling. Redundancies were necessary to realign the business's cost base to its sales volumes. Alfer is now being managed more closely as part of the UK heating business.

In the UK alone, residential dwellings emit around 15 million tonnes of carbon dioxide every year. Emphasis will, over time, have to change from traditional home heating as we know it to a combination of energy efficient home heating and air movement systems.

Italy

The acquisition of the Ocean business has enabled the Group to enter the Italian gas boiler market which is the largest in Western Europe. Italy is Baxi's second most significant market.

Major product development is being undertaken in Bassano del Grappa. The LUNA 2000 range of combination boilers is being developed. These boilers are more compact, have better aesthetics, and have a better performance than their predecessors and they will be launched in late 1999. In addition a condensing combination boiler will be launched in 1999.

Denmark

Group turnover in the Danish market of £7.8M increased 4% in local currency terms during the year. Market conditions were favourable, as Government subsidies were available to people converting from electric to gas central heating. Solid fuel boiler sales also increased in the year in anticipation of Government plans to *abolish tax benefits on their purchase in 1999.*

Rest of Europe

The Group's presence in France and Sweden is principally through oil and biomass boilers manufactured in Denmark. The boiler market in France has proved very competitive throughout the year. Market prices generally have fallen significantly as manufacturers strive to maintain their sales volumes. In future the Group will have a greater presence in the French heating market through Baxi SpA's sales of combination boilers and water heaters. Recessionary conditions in Sweden contributed to a disappointing trading performance in the year. Baxi SpA is the market leader in the Turkish combination boiler market and exports radiators, electric water heaters and steel baths to Germany.

Environmental policy

Energy efficiency and low carbon dioxide emissions are increasingly influencing product development. In Kyoto in December 1997 many of the world's governments agreed that *reductions in emissions of gases should be implemented by 2012.* The UK Government pledged to reduce carbon dioxide emissions beyond the Kyoto consensus. The target in the UK is a 20% reduction in carbon dioxide emissions by 2010.

Baxi is the only ventilation manufacturer to have been awarded the prestigious Seal of Approval from The British Allergy Foundation.

The 1990's have seen the Group expand outside its traditional base through a strategic programme of acquisition to become an integrated heating and air management business in Europe employing over 1,800 people.

The UK Government's policy is to ensure diverse, secure and sustainable energy supplies at competitive prices. Given these pressures, future developments by companies such as Baxi will need to be environmentally friendly and make positive contributions to this global issue.

Baxi is playing an important role in the development of integrated energy efficient systems that will provide heating, cooling, hot water and heat recovery ventilation for homes of the future.

Other activities

Baxi is market leader in the UK damper market and one of the leading damper producers in Europe. The damper market is mature and continues to provide consistently strong returns. Comprehensive testing and validation have been undertaken on our fan coil range and the continuing product re-engineering is enabling market share and gross margin to grow.

The Group supports many community projects. The biggest, by far, is the stewardship of Preston North End FC, a founder member of the Football League.

ATL has commenced production of heat exchangers for the Barcelona condensing boiler. These orders are not sufficient to fully utilise available capacity and further orders are being secured, primarily from the automotive industry. Given the investment made in ATL it remains vital to commercially exploit the technology by volume production of high quality castings.

Landmark was sold to the company's management in December 1998. Although still an important supplier to Baxi Heating, Landmark's zinc diecasting business was considered to be a non-core activity and not central to Baxi's long-term strategy.

The future

The Group will continue to invest in a wide range of product development projects, both in the boiler and other market sectors. Further operational efficiencies within the UK and the Italian heating businesses will be developed and increasingly our products will be promoted under the Baxi brand. Acquisitions will be pursued where these can increase our ability to serve our chosen markets.

Partnership and Employee Ownership

The Baxi Partnership Limited Trusts Bill

At the Extraordinary General Meeting on 18 December 1998 the Company committed to join the Trustees of the Baxi Partnership Limited Employee Trust in promoting a Bill in Parliament. The purposes of the Bill are to restate with modifications the terms of the Trust, to ensure that the Trust can continue indefinitely and to make all employees of the Baxi Group beneficiaries of the Trust.

Presently the Bill awaits its Committee stage in the House of Lords. Once it has completed its stages in the House of Lords it will be passed to the House of Commons for consideration.

Employee ownership

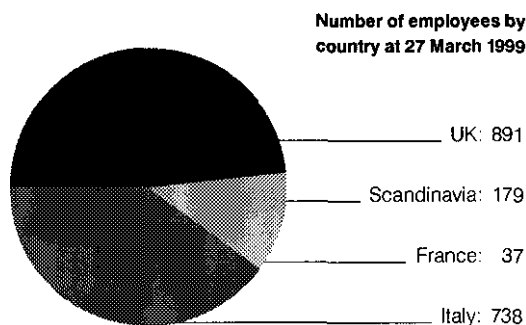
In his budget speech on 9 March 1999, the Chancellor stated his objective of doubling the number of companies with employee share schemes. Baxi will closely observe the development of the Chancellor's proposals.

In January 1999 Baxi representatives attended the Seventh International Employee Ownership Conference and met staff from many other organisations that follow the principle and cultural values of employee ownership. Our representatives reported that Baxi is well advanced in developing the culture of employee ownership. The contribution of Philip Baxendale OBE was recognised by the presentation of the Philip Mayo Award for outstanding contributions to employee ownership throughout the world.

At the end of the year 14.1% of the ordinary shares (1998: 10.5%) were held by, or on behalf of, 1,049 employees and former employees (1998: 996).

Employee director

At the Annual General Meeting in July 1998, Trevor Eccleston was appointed the first Group Employee Director and, as such, is a Non-executive Director of the Group. This appointment reflects the Group's policy of employee involvement and means that there are now employee directors at all levels within the organisation. The Group Employee Director brings the benefit of a clear employee perspective to the Board which has proved to be invaluable.



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Corporate Governance

Compliance statement

The Board's policy is to comply with the corporate governance requirements applicable to a company listed on the London Stock Exchange.

In June 1998, the London Stock Exchange published the Principles of Good Corporate Governance and Code of Best Practice ("the Combined Code") which embraces the work of the Cadbury, Greenbury and Hampel Committees and became effective for listed companies in respect of all accounting periods ending on or after 31 December 1998.

The Company has complied, throughout the financial year, with the provisions of the Combined Code except in the following instances:

- the Combined Code requires the Board to review the effectiveness of internal control but this was limited to a review of internal *financial* control pending formal guidance currently being developed by the Institute of Chartered Accountants in England and Wales;
- a senior independent non-executive director has not been appointed as there are four independent non-executive directors, one of whom is Chairman and two of whom also have responsibilities as trustees holding shares for the benefit of employees. Consequently the Board does not consider it necessary to appoint a senior non-executive director;
- the executive directors' notice period is at present two years. All future contracts will stipulate a notice period of one year or less.

The Board of directors

The Board of directors currently comprises two executive directors, a non-executive employee director and four independent non-executive directors. Presently *two of these non-executive directors are trustees of the Baxi Partnership Limited Employee Trust ("ETI")*. The Board considers these directors to be independent as they are precluded from deriving any personal advantage from their trusteeship. With the appointment of an employee director at the last Annual General Meeting, the composition of the Board reflects a balance between executive management, external experience and employee interests.

The Board meets at least every two months during the year and conducts its business on the basis of detailed papers distributed in advance of meetings. There is a

schedule of matters reserved for the Board's attention. The Board's primary responsibilities are to determine overall Group strategy, consider major capital expenditure projects and decide any issues with significant financial implications. The Board has delegated specific matters to appointed sub-committees of the Board, each of which is listed below. The Company Secretary is available to advise all Board members and attends Board meetings.

Audit Committee

The Committee consists of the independent non-executive directors and is chaired by Andrew Thomas. The Committee meets at least three times a year, with the Group Finance Director and external auditors in attendance, but meets the auditors at least once a year without the executive directors being present. The Committee is responsible for agreeing internal and external audit plans, reviewing the nature and extent of non-audit services and for reviewing and reporting to the Board on the interim and annual financial statements.

Remuneration and Appointments Committee

The role of the Committee is to make recommendations to the Board, or when so delegated by the Board, to determine the emoluments of the executive directors and senior managers and to make recommendations on their appointment. The Committee consists entirely of independent non-executive directors and is chaired by Nick Kuenssberg. The remuneration policy is outlined in detail in the Board's Remuneration Report to Shareholders on pages 24 to 27.

Relations with shareholders

The Company's only shareholders are past and present employees of Group companies and trusts holding shares on behalf of those people. The Councils, on which elected employee representatives serve and which operate in each Group subsidiary, receive regular reports on the performance of the Group and its individual trading subsidiaries. Consequently shareholder representatives have frequent opportunities to question management on matters of interest and concern.

Internal financial control

The Combined Code has extended, to all internal controls, the previous requirement that the directors review the effectiveness of the Group's internal *financial* controls. Formal guidance for directors on the review of non-financial internal controls is currently being developed by the Task Force established by the Institute of Chartered Accountants in England and Wales and, when published, this will be incorporated into future reviews of internal controls. Consequently, the Board is not in a position to undertake a review of non-financial controls and, as in previous years, has focused on compliance with the Cadbury requirement to report on internal financial controls.

The Board has overall responsibility for the Group's systems of internal financial control and has reviewed their effectiveness. This review consisted of:

- a formal business risk review exercise;
- internal audit visits to selected trading subsidiaries;
- the completion of a self-certification questionnaire by all trading subsidiaries; and
- review and verification of subsidiaries' replies to the questionnaire.

The systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The internal controls include:

- annual budgets and periodic financial forecasts;
- monthly reporting of financial performance by trading subsidiaries;
- monthly meetings of senior executives to review business performance and key operational issues across the Group; and
- clearly defined capital and revenue expenditure authorisation procedures.

Going concern

The directors consider that the Company and the Group have adequate resources for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements. In forming this opinion the directors have reviewed the budget for the year ending March 2000 and projections for the period to March 2003.

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 the Group and of the profit or loss 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 Group and to prevent and detect fraud and other irregularities.

The Board's Remuneration Report to Shareholders

Remuneration policy

During the year the Remuneration and Appointments Committee reviewed and revised the Group's remuneration policy with the assistance of independent consultants. The Committee's policy is to remunerate executive directors and senior managers with a basic salary referable to the median for comparable executives in similar private companies, to offer profit sharing on the same basis as for other employees, to pay a cash bonus dependent on personal and profit performance and to offer participation in a Long Term Incentive Plan ("LTIP"). The remuneration package is designed to provide upper quartile rewards if Baxi achieves upper quartile performance, measured by the improvement in the Group's headline earnings per share relative to comparable companies listed on the London Stock Exchange. This change in the remuneration package took effect from 1 April 1999, the LTIP scheme being subject to approval by shareholders at the Annual General Meeting.

The individual components of directors' remuneration packages are detailed below:

(a) Executive Directors – existing policy

- (i) A basic salary, together with use of a car and fuel (or an allowance in lieu) and private health insurance for the director and his family.
- (ii) Both the equal and the company-specific allocations of shares made under the Group's Inland Revenue approved profit sharing arrangements.
- (iii) Membership of the Baxi Partnership Pension Scheme ("the Pension Scheme") or a contribution to a private pension.
- (iv) Participation in share option schemes on the same basis as all other employees.
- (v) An annual bonus dependent on the degree to which individual objectives and profit targets are met.
- (vi) Participation in a Long Term Share Bonus Plan ("LTSBP"). Each year, the Committee make a provisional award of shares with a value of up to 30% of the director's basic salary. Three years later the Committee considers Group and individual performance during the period against the strategic plan. In the light of its assessment, it makes a final award of shares which, after

payment of the tax in respect of them, are then held in trust for a further three years before the director can convert them into cash.

During the year Bryan Gray received a final award of £17,224 (1998: £13,324) in cash and £25,830 (1998: £19,987) in shares in respect of the provisional award made on 1 April 1995 covering the three year period ending in March 1998.

Although it is not certain that any further final awards may be made under the LTSBP, at the present share price of £4.20, the potential payments which may be made range from £nil-£106,247 for Bryan Gray (1998: £nil-£110,120) and £nil-£15,397 for John Acornley (1998: £nil).

(b) Executive Directors – revised policy

From 1 April 1999 the executive directors' remuneration packages are structured as follows:

- (i) A basic salary and benefits package as outlined in (i) to (iv) above but with the basic salary being set at a market median level as advised by external remuneration consultants.
- (ii) An annual cash bonus with a maximum for Bryan Gray of 50% of basic salary and for John Acornley of 40%. The amount payable is dependent on performance against demanding criteria which include achievement of budgeted profit and cash flow, and personal objectives.
- (iii) Subject to approval at the Annual General Meeting, an LTIP will be introduced to replace the current LTSBP. On 1 April each year a provisional award of notional shares will be made, payment of some or all of which is dependent on the Group's financial performance over a three year period relative to selected engineering and building materials companies listed on the London Stock Exchange ("the Comparators"). The provisional award of notional shares is a fixed proportion of basic salary, 60% for Bryan Gray and 50% for John Acornley.

At the end of the three year period, the increase in the Group's headline earnings per share is compared with the performance of the Comparators over the same period. If the increase is at, or above, the level achieved by

75% of the Comparators, the full value of the package is payable. Proportionately less is payable for a lower level of performance. Half way down the table of Comparators 50% of the package is payable. Nothing is payable for performance in the bottom half of the table.

The award is payable in cash based on the value of the notional shares at the end of the three year period. The notional share price is calculated by multiplying the Group's headline earnings per share and the average price earnings ratio of the Comparator companies.

The first award will take effect from 1 April 1999 and is payable half in the summer after the end of the three year period and the balance a year later. Except in a case of retirement, redundancy or death whilst employed by Baxi, those benefiting from the scheme will not receive any payment unless still employed at the date a payment is due.

(c) Non-executive Directors

The fees payable to independent non-executive directors are determined by the Board within the total limit set by the Company's Articles of Association. Independent non-executive directors derive no other benefits from their office, are not eligible to participate in the Company's pension scheme and do not participate in any of the Company's share schemes.

The employee director is a non-executive director and receives no remuneration for his services as a director.

(d) Service Contracts

Presently the executive directors are serving under contracts providing for two years notice. The Committee has under review whether to amend these contracts to one year rolling contracts. The Committee has considered the introduction of explicit conditions for termination payments in the current directors' service contracts, but concluded that each individual case should be treated on its merits.

All non-executive directors serve for terms of 3 years. The independent non-executive directors do not otherwise have service contracts with the Company.

The Board's Remuneration Report to Shareholders (continued)

Directors' emoluments

Directors' emoluments, excluding pension contributions and payments made under the LTSBP, were as follows:

	Salary and fees	Benefits	Annual bonus	Profit share	Total 1999	Total 1998
	£	£	£	£	£	£
Executive directors						
Bryan Gray	141,594	13,196	58,080	15,591	228,461	204,230
John Acornley	85,667	13,077	27,061	8,845	134,650	80,302
Non-executive directors						
David Erdal	25,000	-	-	-	25,000	25,000
Cairns Campbell	16,000	-	-	-	16,000	14,000
Nick Kuenssberg	18,000	-	-	-	18,000	17,667
Andrew Thomas ⁽¹⁾	18,000	-	-	-	18,000	17,667
Trevor Eccleston ⁽²⁾	19,297	-	-	500	19,797	-
	323,558	26,273	85,141	24,936	459,908	358,866

⁽¹⁾ The fees were paid as consultancy fees to a company under his control.

⁽²⁾ Trevor Eccleston was appointed as a director on 11 July 1998. His salary included in the above table is from this date.

⁽³⁾ On 16 March 1998 Peter Johnson, Chris Droogan and David Cook resigned from the Group Board. Their aggregate emoluments for the year ended 28 March 1998 of £290,911 are excluded from the above table. Total directors' emoluments for 1998 were £649,777.

Directors' pension information

The Group operates a contributory defined benefit pension scheme, membership of which is open to all employees in the UK between the ages of 18 and 62. The Pension Scheme is fully funded and the subject of an independent trust. Subject to Inland Revenue limits, it provides a maximum pension of two thirds of final basic salary on retirement at normal retirement age. The pension payable to an individual depends upon the number of years membership of the scheme and the rate at which pension rights accrue (expressed as a proportion of pensionable salary). Neither bonuses nor benefits in kind are pensionable.

Bryan Gray and Trevor Eccleston are members of the Pension Scheme. The Company pays 10% of John Acornley's basic salary (less the cost of life assurance cover) into his personal pension plan. Executive directors have the benefit of life assurance cover amounting to four times basic salary.

The following table sets out the increase during the year ended 27 March 1999 and the accumulated total amount as at the year end, of the accrued pension to which each director belonging to the scheme would be entitled on leaving service (over and above any general increase to compensate for inflation). The transfer value of the relevant increase in accrued pension is also detailed below:

	Age of director as at 27 March 1999	Years of pensionable service	Additional annual pension earned during year excluding inflation £000	Accrued annual entitlement year end		Estimated transfer value of additional pension earned £000
				1999 £000	1998 £000	
BM Gray	45	6	4	32	27	41
T Eccleston	39	18	1	6	5	3

The basic salary payable to Bryan Gray is in excess of the limit set by the Inland Revenue on contributions to an Inland Revenue approved pension scheme. The Company therefore pays contributions into a Funded Unapproved Retirement Benefit Scheme ("FURB"). When the FURB was established, the Company's contributions were set, on actuarial advice, at a level expected to enable the FURB and the Pension Scheme, taken together, to provide benefits comparable with those which would have been provided by the Pension Scheme if there were no applicable limits. The gross amount of contributions payable by the Company each year is 72% of that part of basic salary in excess of the Inland Revenue limit. The amount paid into the FURB of £16,114 is that gross amount less income tax of £7,594 which is disclosed in directors' emoluments.

Directors' interests in shares and share options

The interests of the directors who held office at the end of the year are as follows:

Shares

	1999	1998
Bryan Gray	38,347	20,911
John Acornley	9,784	-
Trevor Eccleston	293	174

Share options

	Date of grant	Number of shares	Option price per share
Bryan Gray ⁽¹⁾	17/12/96	4,721	£3.47
Bryan Gray ⁽²⁾	22/4/98	7,407	£4.05
John Acornley ⁽²⁾	22/4/98	7,407	£4.05

Notes:

- (1) Details of the SAYE scheme share options are provided in note 17 to the financial statements.
- (2) Details of the Company Share Option Plan ("CSOP") are outlined in note 17 to the financial statements.

In addition to the individual interests disclosed above the executive and employee directors are, for Companies Act purposes, regarded as interested in the shares in the Company which are held by the Group's Employee Share Ownership Trusts and which have not been allocated to individuals. At the end of the financial year such Employee Trusts held 4,987,525 ordinary shares and 450,000 preference shares of the Company. As a trustee of ET1 Cairns Campbell is deemed to have non-beneficial interests in 4,595,329 ordinary shares and 450,000 preference shares in the Company. David Erdal is deemed to have non-beneficial interests in 4,987,525 ordinary shares and 450,000 preference shares in his capacity as a trustee of ET1 and as a director of Baxi Partnership Corporate Trustee Limited.

None of the other directors who held office at the end of the financial year had any interest in the shares of any Group undertaking. Except as disclosed above, no directors have the right to subscribe for shares or debentures in any Group undertaking.

Report of the Directors

The directors present their annual report and the audited financial statements for the year ended 27 March 1999.

Principal activities

The principal activity of the Group is the manufacture and distribution of domestic heating and air management products in Europe. The Group also produces high quality aluminium components. In addition, the Group has focused its community involvement through its investment in Preston North End plc.

Review of the business

A review of the Group's operating performance during the year and an indication of likely future developments are set out in the Chief Executive's report on pages 6 and 7 and the Operating Review on pages 16 to 19.

Details of acquisitions and disposals are set out in the Group Finance Director's report on pages 8 and 9 and in note 12 to the financial statements.

Share capital

As at 27 March 1999, ETI held 79.1% (1998: 79.1%) of the Company's issued ordinary share capital together with all the Company's issued preference share capital, for the long term benefit of employees. Of the remaining issued ordinary share capital 14.1% (1998: 10.5%) was held by, or on behalf of past and present employees. Shares in employee share ownership trusts which are not specifically allocated to employees totalled 6.8% (1998: 10.4%) of the issued ordinary share capital and are accounted for on the Group's balance sheet, as set out in note 12 to the financial statements.

Transfers to reserves

The profit for the year retained in the Group was £5,585,000 (1998: £5,145,000). The directors do not recommend the payment of a dividend.

Profit sharing

The Company operates an Inland Revenue approved profit sharing scheme for itself and for Baxi Heating Limited. Other UK Group companies operate similar schemes for their own employees. For overseas subsidiaries, excluding Baxi SpA, employees receive a cash bonus based on company profitability levels. The profit and loss account includes a total profit sharing allocation of £2,344,000 (1998: £2,214,000).

Directors and directors' interests

The directors who held office during the year are detailed on page 26. Details of directors' interests in shares of the Company are disclosed in the Board's Remuneration Report to Shareholders on pages 24 to 27. Cairns Campbell and John Acornley retire by rotation and offer themselves

for re-election. The unexpired term of John Acornley's service contract at the time of the 1999 AGM will be 2 years.

Employees

The Group places considerable emphasis on the contribution of the people within its businesses, supporting the view that its continued prosperity is dependent on the involvement and participation of every employee.

The Group believes in a structured approach to the training and development of employees. Links with further education institutions and a commitment to self-development through open learning education programmes are maintained.

Disabled people are employed and trained whenever their aptitudes and abilities allow and suitable vacancies are available. Where an employee becomes disabled an attempt is made to continue his or her employment and to arrange appropriate retraining or transfer if necessary. The Group's disabled employees are treated equally in every respect and are constantly encouraged to develop their skills in accordance with their abilities.

Health and safety

The Group's policy is to ensure that there is a working environment which will minimise the risk to the health and safety of employees. It is considered that health and safety is an integral part of good business management and accordingly high standards are required.

Payment of suppliers

The Company's policy, which is also applied to the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment. The Company does not follow any specific code or standard on payment practice. At 27 March 1999 the Company did not have any trade creditors.

In the current year the number of days purchases outstanding for payment by the Group in the UK was 63 days (1998: 71 days).

Charitable contributions

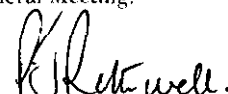
Donations to UK charities amounted to £40,000 (1998: £35,000). The Group made no political contributions during the year.

Auditors

In accordance with Section 385 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.

P J Rothwell Secretary



Sceptre Way, Bamber Bridge, Preston PR5 6AW

1 June 1999

Report of the Auditors to the Members of Baxi Partnership Limited

We have audited the financial statements on pages 30 to 54.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including, as described on page 23, the financial statements. Our responsibilities, as independent auditors, are established 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 required for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

In addition to our audit of the financial statements, the directors have instructed us to review their corporate governance statement as if the Company were required to comply with the Listing Rules of the London Stock Exchange in relation to these matters. We review whether the statement on page 22 reflects the Company's compliance with those provisions of the Combined Code specified for review by the auditors, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

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 Group'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 affairs of the Company and the Group as at 27 March 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors
Preston

KPMG

1 June 1999



Consolidated Profit and Loss Account
for the year ended 27 March 1999

	Note	1999 £000	1998 £000
Turnover			
Existing operations		104,259	98,253
Acquisitions		13,007	-
Continuing operations		117,266	98,253
Discontinued operations		1,337	4,514
	2	118,603	102,767
Cost of sales		(79,912)	(71,385)
Gross profit		38,691	31,382
Other operating expenses	3	(28,105)	(21,875)
Group operating profit	3	10,586	9,507
Existing operations		10,182	9,850
Acquisitions		508	-
Continuing operations		10,690	9,850
Discontinued operations		(104)	(343)
Share of associate losses		(577)	(723)
Total operating profit		10,009	8,784
Profit on disposal of fixed asset investments		82	450
Loss on disposal of subsidiary undertakings		(868)	(1,335)
Net interest receivable and similar income	7	2,343	2,858
Profit before profit sharing		11,566	10,757
Profit sharing		(2,344)	(2,214)
Profit on ordinary activities before taxation	2	9,222	8,543
Tax on profit on ordinary activities	8	(3,637)	(3,398)
Retained profit for the financial year		5,585	5,145
Basic earnings per share (FRS3)	9	104.8p	99.2p
Headline earnings per share (IIMR)	9	123.7p	118.9p
Diluted earnings per share (FRS3)	9	99.3p	93.5p
Diluted headline earnings per share (IIMR)	9	117.3p	112.1p

Consolidated and Company Balance Sheets
as at 27 March 1999

	Note	Group		Company	
		1999	1998	1999	1998
		As restated			
		£000	£000	£000	£000
Fixed assets					
Goodwill	10	37,133	-	-	-
Tangible assets	11	59,179	29,818	3,286	1,342
Investments	12	3,606	4,583	95,984	40,034
		99,918	34,401	99,270	41,376
Current assets					
Stocks	13	24,006	9,516	-	-
Debtors	14	52,045	21,785	2,984	900
Investments		-	3,038	-	3,038
Cash		25,337	48,579	10,527	31,927
		101,388	82,918	13,511	35,865
Creditors: amounts falling due within one year	15	(62,196)	(26,350)	(2,682)	(2,446)
Net current assets		39,192	56,568	10,829	33,419
Total assets less current liabilities		139,110	90,969	110,099	74,795
Creditors: amounts falling due after one year	15	(44,575)	(4,016)	(38,483)	-
Provisions for liabilities and charges	16	(5,203)	(1,711)	(58)	(72)
Net assets		89,332	85,242	71,558	74,723
Capital and reserves					
Called up share capital – equity	17	581	581	581	581
Called up share capital – non equity	17	450	450	450	450
Reserves – equity	18	88,301	84,211	70,527	73,692
Shareholders' funds		89,332	85,242	71,558	74,723

These financial statements were approved by the Board of directors on 1 June 1999 and were signed on its behalf by:

Bryan Gray
DIRECTOR

Bryan Gray

John Acornley
DIRECTOR

John Acornley

Consolidated Cash Flow Statement
for the year ended 27 March 1999

	Note	1999	1998
			As restated
		£000	£000
Cash flow from operating activities	20	14,233	14,498
Returns on investments and servicing of finance	21	2,410	2,902
Taxation	21	(2,938)	(3,918)
Capital expenditure and financial investment	21	(7,445)	(7,754)
Acquisitions and disposals	21	(80,001)	(2,746)
Cash flow before use of liquid resources			
and financing		(73,741)	2,982
Management of liquid resources	22	3,038	(3,038)
Financing	21	42,175	(429)
Decrease in cash		(28,528)	(485)

Reconciliation of Net Cash Flow to Movements in Net Debt
for the year ended 27 March 1999

	Note	1999	1998
		£000	£000
Decrease in cash		(28,528)	(485)
Cash (inflow)/outflow from (increase)/decrease in debt and hire purchase contracts	21	(42,175)	429
Cash (inflow)/outflow from (decrease)/increase in liquid funds	22	(3,038)	3,038
Movement in net (debt)/funds resulting from cash flows		(73,741)	2,982
Hire purchase obligations acquired with subsidiary		-	(4,811)
New hire purchase obligations	22	(250)	-
Currency translation difference	22	2,256	(87)
Movement in net (debt)/funds	22	(71,735)	(1,916)
Opening net funds	22	45,951	47,867
Closing net (debt)/funds	22	(25,784)	45,951

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 27 March 1999

	1999	1998
	£000	£000
Profit for the financial year	5,585	5,145
Surplus on revaluation of own shares	89	131
Net exchange loss on currency translation	(1,698)	(574)
Total recognised gains relating to the financial year	3,976	4,702

Note of Consolidated Historical Cost Profits and Losses

for the year ended 27 March 1999

	1999	1998
	£000	£000
Profit on ordinary activities before taxation	9,222	8,543
Realisation of fixed asset revaluation gains	545	1,575
Difference between actual and historical cost depreciation	122	122
Historical cost profit on ordinary activities before taxation	9,889	10,240
Historical cost profit for the year retained after taxation	6,252	6,842

Reconciliation of Movements in Shareholders' Funds

for the year ended 27 March 1999

	Group		Company	
	1999	1998	1999	1998
	£000	£000	£000	£000
Retained profit/(loss) for the year	5,585	5,145	(1,367)	(742)
Net exchange loss on currency translation	(1,698)	(574)	(1,887)	(279)
Surplus on revaluation of own shares	89	131	89	131
Goodwill on disposals previously written off	27	1,041	-	-
Goodwill on prior year acquisitions	87	(2,901)	-	-
Movement in shareholders' funds	4,090	2,842	(3,165)	(890)
Shareholders' funds at beginning of year	85,242	82,400	74,723	75,613
Shareholders' funds at end of year	89,332	85,242	71,558	74,723

Shareholders' funds includes £450,000 of non-equity interests.

Notes to the Accounts

1. Accounting policies

The principal Group accounting policies are set out below and have been applied consistently throughout the current and preceding year.

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the *revaluation of certain fixed assets and in accordance with applicable United Kingdom accounting standards*. As permitted by the Companies Act the directors have amended the prescribed format of the profit and loss account to present the separate cost of the Group's profit sharing charge. During the year the Group has adopted new accounting standards FRS10 to FRS14.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary and associated undertakings. Subsidiary undertakings sold or acquired during the year are accounted for under the acquisition method of accounting. Under this method, the results of subsidiary undertakings are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

On the acquisition of a business, associate or subsidiary, the assets and liabilities acquired are included in the balance sheet at fair value. In respect of acquisitions prior to 28 March 1998, the date from which FRS10 was adopted, purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) was written off directly to reserves. Where the value of such goodwill is impaired it is transferred to the profit and loss account.

Purchased goodwill in respect of acquisitions made after 28 March 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. Negative goodwill is released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased are recovered, whether through depreciation or sale. On disposal of a business, any goodwill not already transferred to the profit and loss account is included in determining the profit or loss on disposal.

Company financial statements

In the Company's financial statements, investments in subsidiary and associated undertakings are stated at cost less provisions for diminution in value. Dividends received and receivable are credited to the Company's profit and loss account to the extent that they represent a realised profit for the Company.

As permitted by Section 230(4) of the Companies Act 1985, the Company has not presented its own profit and loss account.

Tangible fixed assets and depreciation

Land and buildings are reviewed each year by the directors and revalued, where appropriate, to their estimate of depreciated replacement cost or existing use value. Plant and machinery is stated at cost.

Depreciation is provided to write off the cost or valuation of the assets over their estimated useful economic lives as follows:

Leasehold land	- over the life of the lease
Leasehold buildings	- over the lower of the life of the lease or 50 years
Freehold land	- not depreciated
Freehold buildings	- 50 years
Plant and machinery	- 3 to 15 years
Tooling	- lower of product life and 3 years

Impairment reviews are undertaken if there are indications that fixed asset carrying values may not be recoverable.

Current asset investments

Current asset investments are stated at the lower of cost and market value net of accrued interest.

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods manufactured by the Group, cost is taken as production cost, which includes an appropriate proportion of attributable overheads. Provision is made for obsolete and slow moving stock where appropriate.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction or contract rate if appropriate. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Exchange differences on translating long term Group loans are taken directly to reserves where the loans are substitutes for equity investments. In the Company's financial statements the cost of investments in subsidiary undertakings denominated in foreign currencies are translated at the exchange rate ruling at the balance date and the gains or losses taken directly to reserves.

In the Group the results and cash flows of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of operations and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are dealt with through reserves.

Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Pensions and other post retirement benefits

The Group operates a contributory defined benefit pension scheme in the United Kingdom with regular pension costs assessed as a substantially level percentage of pensionable payroll and charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives. Actuarial surpluses and deficits result in variations from the regular pension costs, and these are spread forward over the average expected remaining service lives of employees. In certain circumstances, subsidiaries may operate defined contribution pension schemes. In these cases the assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Employee Share Ownership Trusts

Company shares acquired and the associated borrowings of Employee Share Ownership Trusts which are controlled by the Company are recognised in the Company and Group balance sheets. The shares are revalued to their market value and differences taken to the revaluation reserve. Shares distributed to employees under the profit sharing arrangements are charged to the profit and loss account in the year in which the profit distribution arises. The carrying value of own shares included in fixed assets is correspondingly reduced to reflect the allocation to employees.

Taxation

The charge for taxation is based on the profit 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 if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

Financial instruments

The Group uses financial instruments to reduce exposure to foreign currency exchange risk and interest rate movements. The Group does not hold financial instruments for speculative purposes.

For a forward foreign currency exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities, or to a probable commitment. It must involve the same currency or similar currencies as the hedged item, and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying value of fixed assets, only when the hedged transaction has itself been reflected in the Group's accounts.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities, or to a probable commitment, and must change the nature of the interest rate by converting a fixed rate to a floating rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contract.

If an instrument ceases to be accounted for as a hedge, for example, because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

2. Segmental information

	1999				1998		
	Existing	Acquisitions	Discontinued	Total	Existing	Discontinued	Total
	£000	£000	£000	£000	£000	£000	£000
Turnover							
By market							
Heating	95,012	13,007	-	108,019	89,777	-	89,777
Other activities	9,247	-	1,337	10,584	8,476	4,514	12,990
	104,259	13,007	1,337	118,603	98,253	4,514	102,767
By origin							
United Kingdom	87,393	-	1,337	88,730	81,566	4,514	86,080
Italy	-	13,007	-	13,007	-	-	-
France	5,577	-	-	5,577	5,335	-	5,335
Scandinavia	11,289	-	-	11,289	11,352	-	11,352
	104,259	13,007	1,337	118,603	98,253	4,514	102,767
By destination							
United Kingdom	81,979	1,248	1,337	84,564	71,962	4,514	76,476
Italy	1,080	5,822	-	6,902	4,492	-	4,492
France	5,512	1,506	-	7,018	5,253	-	5,253
Scandinavia	10,401	13	-	10,414	11,192	-	11,192
Other European	4,608	3,676	-	8,284	3,959	-	3,959
Rest of world	679	742	-	1,421	1,395	-	1,395
	104,259	13,007	1,337	118,603	98,253	4,514	102,767
Profit before interest and tax							
By market							
Heating	10,019	508	-	10,527	8,646	-	8,646
Other activities	(2,676)	-	(972)	(3,648)	(1,247)	(1,714)	(2,961)
	7,343	508	(972)	6,879	7,399	(1,714)	5,685
By origin							
United Kingdom	7,204	-	(972)	6,232	6,436	(1,714)	4,722
Italy	-	508	-	508	-	-	-
France	(365)	-	-	(365)	(26)	-	(26)
Scandinavia	504	-	-	504	989	-	989
	7,343	508	(972)	6,879	7,399	(1,714)	5,685
Net interest receivable				2,343			2,858
Profit before tax				9,222			8,543

The segmental analysis has been restated to reflect the new Group structure. Other activities comprise the results of the Group's aluminium foundry, Alloy Technologies Limited, the damper and fan coil business traded under the Actionair brand, and the Group's associated undertaking, Preston North End plc.

Discontinued activities comprise the results of Landmark Components Limited, Gradwood Limited and Barrhead Sanitary Ware Limited, which were disposed of in the current and prior years.

2. Segmental information (continued)

	1999				1998		
	Existing	Acquisitions	Discontinued	Total	Existing	Discontinued	Total
	£000	£000	£000	£000	£000	£000	£000
Operating net assets							
By market							
Heating	28,379	80,380	-	108,759	26,242	-	26,242
Other activities	8,357	-	-	8,357	8,763	1,251	10,014
	36,736	80,380	-	117,116	35,005	1,251	36,256
By origin							
United Kingdom	30,910	-	-	30,910	28,927	1,251	30,178
Italy	-	80,380	-	80,380	-	-	-
France	1,640	-	-	1,640	907	-	907
Scandinavia	4,186	-	-	4,186	5,171	-	5,171
	36,736	80,380	-	117,116	35,005	1,251	36,256

Operating net assets excludes: investments £3,606,000 (1998: £4,583,000), net borrowings £25,784,000 (1998: funds £45,951,000), corporation and deferred tax £2,905,000 (1998: £2,221,000) and other net current liabilities of £2,701,000 (1998: assets £673,000).

3. Analysis of operating results

The Group's operating results are analysed more fully below:

	1999				1998		
	Existing	Acquisitions	Discontinued	Total	Existing	Discontinued	Total
	£000	£000	£000	£000	£000	£000	£000
Turnover	104,259	13,007	1,337	118,603	98,253	4,514	102,767
Cost of sales	(68,860)	(9,806)	(1,246)	(79,912)	(67,858)	(3,527)	(71,385)
Gross profit	35,399	3,201	91	38,691	30,395	987	31,382
Distribution costs	(14,097)	(1,397)	(28)	(15,522)	(13,075)	(172)	(13,247)
Administrative expenses	(11,120)	(1,296)	(167)	(12,583)	(7,470)	(1,158)	(8,628)
Group operating profit	10,182	508	(104)	10,586	9,850	(343)	9,507

4. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1999	1998
	£000	£000
Audit fees	103	87
Depreciation of tangible fixed assets:		
- owned assets	4,435	2,934
- assets held under hire purchase contracts	486	22
Amortisation of goodwill	329	-
Operating lease rentals: - plant and machinery	78	50
- land and buildings	203	123
Research and development expenditure	1,371	1,049
Currency translation losses	282	57

The auditors' fees in respect of non-audit services were £628,000 (1998: £259,000) for the Group and £332,000 (1998: £211,000) for the Company. Non-audit fees include £398,000 capitalised in respect of acquisitions. The audit fee for the Company was £15,000 (1998: £14,000).

5. Remuneration of directors

The Board's Remuneration Report to Shareholders on pages 24 to 27 sets out details of directors' remuneration.

6. Staff numbers and costs

The average number of employees in the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1999	1998
Production	930	814
Sales and administration	397	484
	1,327	1,298

The aggregate payroll costs of these employees were as follows:

	1999	1998
	£000	£000
Wages and salaries	27,339	24,033
Social security costs	2,504	1,821
Other pension costs	1,326	1,349
	31,169	27,203

7. Net interest receivable and similar income

	1999	1998
	£000	£000
Interest receivable and similar income		
Bank interest	3,390	3,181
Income from listed investments	-	60
	3,390	3,241
Interest payable		
On bank loans and overdrafts	(623)	(58)
Hire purchase interest	(424)	(185)
Share of associate's interest	-	(140)
	2,343	2,858

8. Taxation

	1999	1998
	£000	£000
UK corporation tax at 30% (1998: 31%)	2,491	3,392
Overseas tax	462	415
Deferred taxation	684	(234)
Share of associate's taxation	-	(175)
	3,637	3,398

In both the current and prior year the tax charge is higher than the applicable corporate tax rate primarily due to unrelieved losses of the associated company and losses on the disposal of subsidiary undertakings.

9. Earnings per share

Earnings per share is based on the profit attributable to ordinary shareholders and on the weighted average number of ordinary shares in issue during the year excluding the unallocated shares within the ESOP trusts which are recognised as assets on the Group balance sheet. Earnings per share for the year ending 28 March 1998 have been restated to comply with FRS14.

Headline earnings per ordinary share is based on the recommendations of the Institute of Investment Management and Research ("IIMR"). The directors believe that this gives a more meaningful indication of the Group's underlying performance.

9. Earnings per share (continued)

Headline earnings are calculated as set out below:

	1999	1998
		As restated
	£000	£000
Basic earnings (profit for the financial year)	5,585	5,145
Loss on sale of business	868	1,335
Profit on sale of investments (net of tax)	(82)	(310)
Goodwill written off (net of tax)	224	-
Headline earnings	6,595	6,170

The weighted average number of shares used to calculate basic earnings per share is 5,331,000 (1998: 5,187,000). The weighted average number of shares used to calculate diluted earnings per share is 5,622,000 (1998: 5,505,000) which includes the dilutive effects of outstanding options and shares expected to be allocated by profit sharing.

10. Intangible fixed assets

Group	Goodwill
	£000
Cost	
Arising on acquisition	39,498
Currency translation differences	(2,041)
At end of year	37,457
Amortisation	
Charge for year	329
Currency translation differences	(5)
At end of year	324
Net book value	
At 27 March 1999	37,133

11. Tangible fixed assets

	Group			Company		
	Land and	Plant and	Total	Land and	Plant and	Total
	buildings	machinery		buildings	machinery	
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At beginning of year	14,735	50,292	65,027	-	3,158	3,158
Acquisitions	15,904	12,572	28,476	-	-	-
Additions	1,428	7,008	8,436	1,387	1,252	2,639
Transfer from Group companies	-	-	-	-	71	71
Disposals	(497)	(3,754)	(4,251)	-	(58)	(58)
Currency translation differences	(715)	(414)	(1,129)	-	-	-
At end of year	30,855	65,704	96,559	1,387	4,423	5,810
Depreciation and diminution in value						
At beginning of year	1,451	33,758	35,209	-	1,816	1,816
Transfer from Group companies	-	-	-	-	33	33
Charge for year	421	4,500	4,921	4	705	709
Disposals	(24)	(2,910)	(2,934)	-	(34)	(34)
Currency translation differences	23	161	184	-	-	-
At end of year	1,871	35,509	37,380	4	2,520	2,524
Net book value						
At 27 March 1999	28,984	30,195	59,179	1,383	1,903	3,286
At 28 March 1998	13,284	16,534	29,818	-	1,342	1,342

Land and buildings were professionally valued on an existing use basis in 1996 and subsequent additions are stated at cost. The depreciated historical cost of land and buildings is £24,372,000 (1998: £7,967,000). The net book value of land, which is not depreciated, is £10,962,000 (1998: £3,443,000). The net book value of the Group's land and buildings comprises freehold £27,560,000 (1998: £13,284,000) and leasehold property interest of £1,424,000 (1998: £43,000). The Company's land and buildings are long leasehold.

Included in the total net book value of plant and machinery is £5,430,000 (1998: £5,341,000) in respect of assets held under hire purchase contract. Depreciation for the year on these assets was £486,000 (1998: £22,000). The Company had no assets held under hire purchase contracts.

During the year the Group has reassessed the useful economic life of tooling to the shorter of product life or three years. Previously tooling was assigned a useful life of less than one year. The increase to Group operating profit in the year as a result of this reassessment is £1,188,000.

12. Fixed asset investments

Group	Interest in			
	associated	Other	Own	
	undertaking	investments	shares	Total
	£000	£000	£000	£000
Cost or valuation				
At beginning of year	3,187	1,450	2,448	7,085
Additions	-	-	430	430
Revaluation	-	-	89	89
Disposals	-	(798)	(1,320)	(2,118)
At end of year	3,187	652	1,647	5,486
Share of reserves and provisions				
At beginning of year	65	-	2,437	2,502
Utilised during the year	-	-	(1,265)	(1,265)
Created/(released)	-	140	(74)	66
Share of current year losses	577	-	-	577
At end of year	642	140	1,098	1,880
Net book value				
At 27 March 1999	2,545	512	549	3,606
At 28 March 1998	3,122	1,450	11	4,583

The interest in associated undertaking represents 39% of the ordinary share capital of Preston North End plc, a company listed on the Alternative Investment Market. The principal activity of Preston North End plc, a company registered in England and Wales, is the operation of a football club. At 27 March 1999 the market value of this investment was £2,658,000.

Own shares comprise the market value of Company shares held by Employee Share Ownership Trusts sponsored by the Company. At the year end 392,196 (1998: 604,483) shares were so held. Provision has been made for the share element of bonuses and profit share distribution in respect of the year ended 27 March 1999.

12. Fixed asset investments (continued)

Company	Shares in Group undertakings £000	Loans to Group undertakings £000	Shares in associated undertaking £000	Other Investments £000	Own shares £000	Total £000
Cost or valuation						
At beginning of year	19,962	15,534	3,186	1,422	2,448	42,552
Additions	74,500	-	-	-	430	74,930
Revaluation	-	-	-	-	89	89
Disposals/repayments	(1,026)	(5,906)	-	(770)	(1,320)	(9,022)
Currency translation differences	(3,884)	159	-	-	-	(3,725)
At end of year	89,552	9,787	3,186	652	1,647	104,824
Provisions						
At beginning of year	1,050	1,186	-	-	282	2,518
Utilised	(26)	(313)	-	-	(235)	(574)
Created	6,005	-	641	140	110	6,896
At end of year	7,029	873	641	140	157	8,840
Net book value						
At 27 March 1999	82,523	8,914	2,545	512	1,490	95,984
At 28 March 1998	18,912	14,348	3,186	1,422	2,166	40,034

On 15 December 1998 the Group sold its entire ordinary shareholding in Landmark Components Limited to its management for £194,000. The loss on disposal of £868,000 includes £27,000 of goodwill previously written off to reserves.

On 1 February 1999 the Group acquired the trade and assets of Ocean Idroclima SpA for lire 186,500 million (£67,492,000) in cash plus costs of £5,201,000. Goodwill arising on the acquisition of £39,498,000 is to be amortised over its estimated useful economic life of 20 years.

12. Fixed asset investments (continued)

The fair value of assets acquired in the current year acquisition is as follows:

	Accounting		Fair	
	Book	policy	value	Fair
	value	alignment	adjustments	value
	£000	£000	£000	£000
Tangible fixed assets	10,657	-	17,819	28,476
Stocks	13,449	266	(55)	13,660
Trade debtors	27,412	-	(217)	27,195
Other debtors	1,560	-	-	1,560
Bank overdraft	(11,440)	-	-	(11,440)
Trade creditors	(21,721)	-	45	(21,676)
Other creditors	(1,906)	-	-	(1,906)
Provisions	(4,866)	448	1,744	(2,674)
	13,145	714	19,336	33,195
Goodwill capitalised				39,498
Consideration including costs				72,693
Total consideration including costs				
and bank overdraft acquired				84,133

The accounting policy alignments state stock on a first in first out basis and account for provisions in accordance with FRS12.

Fair value adjustments represent a provisional estimate of the fair value of the assets and liabilities acquired. Tangible fixed assets were valued by external valuers, American Appraisal, on the basis of existing use which has been adjusted to estimated recoverable amount where appropriate. Adjustments of £55,000 and £217,000 have been made to stock and debtors respectively to reflect their realisable value. The adjustments to provisions reflect discounting of the employees' retirement provision to its net present value, £1,835,000; less an additional warranty provision, £91,000.

Ocean Idroclima SpA's most recent statutory year end was 31 December 1998. From this date to acquisition on 1 February 1999 its summarised profit and loss account was as follows:

	£000
Turnover	5,870
Operating profit	552
Profit before tax	466
Taxation	(235)
Retained profit	231

There were no gains in the period other than those recognised above. In the year to December 1998 Ocean Idroclima SpA reported a profit after tax of £3,211,000.

13. Stocks

Group	1999	1998
	£000	£000
Raw materials and consumables	6,030	3,658
Work in progress	2,967	1,245
Finished goods and goods for resale	15,009	4,613
	24,006	9,516

14. Debtors

	Group		Company	
	1999	1998	1999	1998
		As restated		
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	47,307	19,224	-	-
Amounts owed by subsidiary undertakings	-	-	1,979	349
Amounts owed by associated undertaking	357	-	357	-
Taxation recoverable	-	65	-	74
Other debtors	970	63	-	-
Prepayments and accrued income	2,523	2,266	393	310
	51,157	21,618	2,729	733
Amounts falling due after more than one year				
Other debtors	888	167	255	167
Total debtors	52,045	21,785	2,984	900

15. Creditors

	Group		Company	
	1999	1998	1999	1998
		As restated		
	£000	£000	£000	£000
Amounts falling due within one year				
Bank overdraft	6,058	1,142	-	-
Obligations under hire purchase contracts	838	739	-	-
Other loans	-	66	-	30
Trade creditors	33,784	12,370	-	-
Amounts owed to subsidiary undertakings	-	-	-	1,757
United Kingdom corporation tax	2,347	2,633	1,004	-
Overseas tax	103	231	-	-
Other taxes and social security	2,088	1,416	-	-
Other creditors	7,285	1,045	626	-
Accruals and deferred income	9,693	6,708	1,052	659
	62,196	26,350	2,682	2,446
Amounts falling due after one year				
Obligations under hire purchase contracts	3,092	3,683	-	-
Bank loans	41,483	-	38,483	-
Other loans	-	36	-	-
Accruals and deferred income	-	297	-	-
	44,575	4,016	38,483	-
Total creditors	106,771	30,366	41,165	2,446

Bank loans of £3,000,000 (1998: bank overdraft £1,142,000) together with hire purchase liabilities of £3,930,000 (1998: £4,422,000) are secured by a fixed and floating charge. The maturity profile of the Group's debt is set out in note 19.

16. Provision for liabilities and charges

Group	Deferred tax	Warranty	Employee retirement	Total
	£000	£000	£000	£000
At beginning of year (as restated)	(578)	2,289	-	1,711
Arising on acquisition	-	839	1,835	2,674
Utilised	-	(1,779)	(214)	(1,993)
Charge for the year	684	1,789	117	2,590
Disposals	(44)	-	-	(44)
Transferred to corporation tax creditor	386	-	-	386
Currency translation difference	7	(33)	(95)	(121)
At end of year	455	3,105	1,643	5,203

The warranty provision relates to expected claims on products sold to date. The Group's Italian employees are entitled to receive a lump sum payment upon leaving employment, dependent on their length of service and salary. Provision is made for the present value of the accumulated liability at the year end.

The amounts provided for deferred taxation and the amounts unprovided, calculated on the liability method, are set out below:

Group	1999 Amount provided	1999 Amount unprovided	1998 Amount provided	1998 Amount unprovided
	£000	£000	£000	£000
Difference between accumulated depreciation and capital allowances	787	853	446	544
Revaluation of properties	-	775	-	870
Other timing differences	(332)	-	(1,024)	-
	455	1,628	(578)	1,414

The potential liability to capital gains tax on revalued assets is not provided as, in the opinion of the directors, the likelihood of any material liability arising is remote. The accumulated reserves of certain overseas subsidiary undertakings would be subject to additional taxation if remitted. In the opinion of the directors, these accumulated reserves are required to finance the continuing operations of these undertakings and, accordingly, no provision for additional taxation has been made. The Company made full provision for deferred tax of £58,000 (1998: £72,000).

17. Called up share capital

	1999 £000	1998 £000
Authorised		
Ordinary shares of 10 pence each – equity	750	750
Preference shares of £1 each – non equity	450	450
	1,200	1,200
Allotted, called up and fully paid		
Ordinary shares of 10 pence each – equity	581	581
Preference shares of £1 each – non equity	450	450
	1,031	1,031

The preference shares are irredeemable, carry no rights to a dividend, to vote, or to participate in any surplus on winding up.

17. Called up share capital (continued)

The number of options to subscribe for the Company's shares are summarised below:

	SAYE 1992	SAYE 1996	SAYE 1996	CSOP	Total
		(3 year)	(5 year)		
At beginning of year	131,869	69,501	97,829	-	299,199
Granted	-	-	-	217,521	217,521
Exercised	(989)	-	(1,021)	-	(2,010)
Lapsed	(136)	(8,810)	(20,392)	(2,781)	(32,119)
At end of year	130,744	60,691	76,416	214,740	482,591
Option price per share	£4.00	£3.47	£3.47	£4.05	
Period exercisable	1999	2000	2002	(1)	

(1) CSOP options are exercisable from the date of announcement of Group results in 2001 until 2008. The number of options exercisable depends upon the cumulative operating profits of the Group for the three years ending March 2001. Below operating profit of £29,500,000 no options are exercisable; half the options are exercisable for operating profit of £29,500,000; proportionately more are exercisable upto £36,500,000, at which point all of the options are exercisable.

18. Reserves

Group	Share premium account	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000
At beginning of year	3,566	6,341	74,304	84,211
Retained profit for year	-	-	5,585	5,585
Surplus on revaluation of own shares	-	89	-	89
Realisation of revaluation reserve	-	(667)	667	-
Goodwill	-	-	114	114
Currency translation difference	-	-	(1,698)	(1,698)
At end of year	3,566	5,763	78,972	88,301

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off to the profit and loss account reserve is £10,216,000 (1998: £10,330,000). Currency translation differences include an associated tax charge of £48,000. The profit and loss account reserve includes the cumulative share of net losses retained by the Group's associated undertaking of £964,000 (1998: £387,000).

Company	Share premium account	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000
At beginning of year	3,566	456	69,670	73,692
Retained loss for the year	-	-	(1,367)	(1,367)
Surplus on revaluation of own shares	-	89	-	89
Realisation of revaluation reserve	-	(545)	545	-
Currency translation difference	-	-	(1,887)	(1,887)
At end of year	3,566	-	66,961	70,527

19. Financial instruments

The treasury section of the Group Finance Director's Report on page 9 explains the role that financial instruments have had in changing the risks faced by the Group during the year. The numerical disclosures in this note deal with financial assets and liabilities as defined by FRS13. As permitted by FRS13, short term debtors and creditors have been excluded from all numerical disclosures except for the analysis of net currency exposures. The Group's assets and liabilities denominated in Italian lire and French francs are disclosed in euros.

a. Interest rate risk

Financial assets

At 27 March 1999 the Group's financial assets consisted of short term cash deposits, which bear interest at floating rates based on local base rates and non-interest bearing receivables due, on average, in three years.

Currency	Floating rate	Non-interest
	financial assets	bearing receivables
	£000	£000
Sterling	21,913	255
Euro	2,208	633
Danish Kroner	1,082	-
Swedish Kronor	134	-
	25,337	888

Financial liabilities

After taking account of interest rate swaps the interest rate profile of the Group's financial liabilities as at 27 March 1999 was as follows:

Currency	Floating rate	Fixed rate	Interest free	Total
	£000	£000	£000	£000
Sterling	3,320	3,930	450	7,700
Euro	14,305	29,858	-	44,163
US Dollar	58	-	-	58
	17,683	33,788	450	51,921

The weighted average interest rate on fixed rate sterling financial liabilities is 8.8% over 4.2 years and on euro debt it is 4.3% over 4.75 years.

Floating rate borrowings comprise bank overdraft and loans bearing interest at rates based on the local base rate.

b. Maturity of financial liabilities

The maturity profile of the Group's financial liabilities as at 27 March 1999 was as follows:

	Non-equity		Hire		1999	1998
	shares	Overdraft	purchase	Loans	Total	Total
	£000	£000	£000	£000	£000	£000
Less than one year	-	6,058	838	-	6,896	1,983
Between one and two years	-	-	903	-	903	809
Between two and five years	-	-	2,055	41,483	43,538	2,874
Over five years	450	-	134	-	584	450
	450	6,058	3,930	41,483	51,921	6,116

19. Financial instruments (continued)

b. Maturity of financial liabilities (continued)

The maturity profile of the Group's undrawn committed borrowing facilities at 27 March 1999, in respect of which all conditions precedent have been met, was as follows:

	Overdraft	Hire purchase	Loans	Total
	£000	£000	£000	£000
Less than one year	7,442	-	-	7,442
Between two and five years	-	500	6,517	7,017
	7,442	500	6,517	14,459

c. Fair values

Set out below is a comparison, by category, of the book and fair values of the Group's financial assets and liabilities at 27 March 1999:

	Book value	Fair value
	£000	£000
Principal financial instruments held to finance the Group's operations		
Short term cash deposits	25,337	25,337
Non-interest bearing receivables	888	834
Short term borrowings	(6,058)	(6,058)
Long term borrowings	(41,483)	(41,483)
Hire purchase	(3,930)	(4,122)
Preference shares	(450)	-
Derivative financial instruments held to manage interest rate profile		
Interest rate swap	-	(495)
	(25,696)	(25,987)

Fair value has been derived by discounting future cash flows at prevailing interest rates.

d. Currency exposure - profit and loss account

The analysis below summarises the Group's net monetary assets and liabilities that are not denominated in their functional (local) currency and therefore give rise to exchange gains and losses in the profit and loss account. The amounts shown in the table take into account the effect of hedging instruments used to manage these exposures.

	Net foreign currency monetary assets/(liabilities)			
Functional currency of Group operation	Sterling	Euro	US Dollar	Total
	£000	£000	£000	£000
Sterling	-	521	-	521
Euro	(216)	-	182	(34)
Danish Kroner	(40)	810	-	770
	(256)	1,331	182	1,257

The Group had no material unrecognised gains or losses on hedges at 27 March 1999.

19. Financial instruments (continued)

e. Currency exposure – reserves

Detailed below is the Group's net investment in overseas subsidiaries, together with associated currency translation differences which arose during the year:

	Currency	
	Group net	translation
	investment	differences
	£000	£000
Operating currency net assets		
Euro	70,604	(3,743)
Danish Kroner	5,574	212
Swedish Kronor	389	(5)
	76,567	(3,536)
Euro borrowings	(38,483)	1,886
	38,084	(1,650)

Of the net currency exposure above, £37,133,000 relates to euro denominated goodwill which the Group does not hedge as a matter of policy. The net currency translation difference of £1,650,000, together with associated taxation of £48,000, is dealt with through reserves, see note 18.

20. Reconciliation of operating profit to net cash inflow from operating activities

	1999	1998
		As restated
	£000	£000
Group operating profit	10,586	9,507
Profit sharing paid	(1,130)	(1,055)
Depreciation and amortisation	5,250	4,587
(Profit)/loss on disposal of fixed assets	(60)	65
(Increase)/decrease in stocks	(1,604)	1,731
Increase in debtors	(2,929)	(2,167)
Increase in creditors	4,120	2,496
Exceptional items	-	(666)
Net cash inflow from operating activities	14,233	14,498

The prior year's comparative has been restated to include within depreciation and amortisation tooling which is now classified as capital expenditure.

21. Analysis of cash flows for headings netted in the cash flow statement

	1999	1998
		<i>As restated</i>
	£000	£000
Returns on investments and servicing of finance		
Interest received	3,262	3,176
Interest paid	(428)	(79)
Interest element of hire purchase payments	(424)	(195)
	2,410	2,902
Taxation		
UK corporation tax	(2,429)	(3,284)
Overseas tax	(509)	(634)
	(2,938)	(3,918)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(8,259)	(8,048)
Disposal of tangible fixed assets	393	1,890
Disposal of other fixed asset investment	851	-
Purchase of own shares	(430)	(1,020)
Purchase of other fixed asset investments	-	(576)
	(7,445)	(7,754)
Acquisitions and disposals		
Purchase of subsidiary undertakings	(69,064)	(2,877)
Net (overdraft)/cash acquired with subsidiary undertaking	(11,440)	228
Disposal of shares in subsidiary undertaking	(28)	(99)
Overdraft disposed of with subsidiary undertaking	531	2
	(80,001)	(2,746)
Financing		
New loans received	43,369	-
Loan to associated undertaking	(350)	-
Loan repayments	(102)	(10)
Capital element of hire purchase contracts	(742)	(419)
	42,175	(429)

Cash flows of acquisitions and discontinued operations were as follows:

	Acquisition	Discontinued	
	1999	1999	1998
	£000	£000	£000
Operating activities	648	(253)	119
Returns on investment and servicing of finance	(44)	(141)	(23)
Taxation	-	103	(48)
Capital expenditure and financial investment	(68)	(33)	(484)

22. Movement in net funds

	At 28 March		Non-cash	Exchange	At 27 March
	1998	Cash flow	changes	movement	1999
	£000	£000	£000	£000	£000
Cash	48,579	(23,256)	-	14	25,337
Current asset investments	3,038	(3,038)	-	-	-
Bank overdraft	(1,142)	(5,272)	-	356	(6,058)
Bank loans	-	(43,369)	-	1,886	(41,483)
Loan to associated undertaking	-	350	-	-	350
Other loans	(102)	102	-	-	-
Hire purchase contracts	(4,422)	742	(250)	-	(3,930)
	45,951	(73,741)	(250)	2,256	(25,784)

23. Commitments

Group	1999	1998
	£000	£000
Tangible fixed assets:		
Contracted	23	98
Authorised but not contracted	578	1,206

Neither the Group or Company have any significant operating lease commitments. The Company has no outstanding capital commitments.

24. Contingent liabilities

The Company has guaranteed the borrowings of Alloy Technologies Limited. The outstanding liabilities under this guarantee is £6,930,000 (1998: £5,526,000). The Company also guarantees the borrowings of the Employee Share Ownership Trust. The outstanding liability under this guarantee is £1,268,000 (1998: £2,000,000).

25. Pension Scheme

The Company operates a contributory defined benefit pension scheme in the UK. The scheme funds are administered by trustees and are independent of the Company's finances. The latest actuarial valuation of the scheme was carried out by independent actuaries as at 1 February 1998 using the projected unit funding method. The principal financial assumptions adopted in that valuation were that the annual rate of return on new investments would be 7.75%, the average annual increases in pensionable salaries would be 6%, the average annual increase in pension payments would be 4% and the average annual increases in equity dividends would be 4.75%.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £83,044,000. The actuarial value of the assets was sufficient to cover 111% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions. For the purpose of assessing pensions costs this excess of assets is being spread evenly over the weighted average expected future working lifetime of scheme members. The charge in the profit and loss account is £1,155,000 (1998: £1,181,000) for the year and the existing prepayment is £1,065,000 at 27 March 1999. The charge in respect of other schemes is £171,000 (1998: £168,000).



26. Related party disclosures

On 22 April 1998 and 30 April 1998 the Group loaned Preston North End plc £250,000 and £350,000 respectively at a market interest rate. Of this amount £357,000 including accrued interest was outstanding at the year end.

Baxi Partnership Limited acts as guarantor of a bank loan to one of the Employee Share Ownership Trusts. The loan facility available to this trust is £2,000,000 (1998: £2,000,000) and their present borrowings are £1,268,000 (1998: £2,000,000). During the year Baxi Partnership Limited made a gift of £80,000 (1998: £66,000) to this trust, which was utilised by the trust towards meeting its interest costs.

In accordance with FRS8 transactions with subsidiary undertakings are not disclosed where the Group controls 90% or more of the voting rights of those undertakings.

27. Subsidiary undertakings

The following is a list of principal subsidiary undertakings in the Group.

	Country of incorporation	Holding	Year end
Baxi Heating Limited	England	100%	27 March
Alfer Limited	England	100%	27 March
Baxi SpA	Italy	100%	*31 December
HS Group A/S	Denmark	100%	* 7 April
HS Kedler-Tarm A/S	Denmark	100%	* 7 April
HS Perifa! AB	Sweden	100%	27 March
HS France SA	France	100%	27 March
Thermitec Sari	France	95%	27 March
Application Des Energies Nouvelles SA	France	100%	27 March
Baxi Air Management Limited	England	100%	27 March
Alloy Technologies Limited	England	100%	27 March

* Due to the local statutory reporting requirements of these companies they have different accounting reference dates.

The principal activity of all companies is the manufacture and sale of heating and heating related products; except for Baxi Air Management Limited which also manufactures dampers and fan coils; and Alloy Technologies Limited, which produces aluminium castings.

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