

Baxi Partnership Limited

Directors' report and consolidated financial statements

1 April 1995

Registered number 367875



Report of the directors and consolidated financial statements

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Report of the directors

The directors present their Annual Report to shareholders together with the audited financial statements for the year ended 1 April 1995.

Statement of directors' responsibilities

United Kingdom 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for maintaining proper accounting records 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.

Corporate governance

The board fully supports the underlying principles contained in the recommendations of the committee on the Financial Aspects of Corporate Governance (The Cadbury Report) and complies with the code of best practice in its current state of development. Guidance on Internal Control was only issued in December 1994 and does not yet apply to the Group. This will be reviewed by the directors during the coming year.

The board of directors, currently comprising three executive and four non-executive directors, meets quarterly during the year. The board is responsible for overall Group strategy, approval of major capital expenditure projects and consideration of significant financial matters. Trading companies are managed by separate boards of directors.

The board has established a number of standing committees consisting of certain directors. Each committee operates within defined terms of reference. The principal committees are the Executive Directors' committee, which operates as a general management committee, the Audit Committee and the Remuneration and Appointments Committee. These latter committees are composed of the non-executive directors.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Report of the directors

Principal activities

The principal activities of the Group are structured into four divisions:

- Heating - Manufacture and distribution of domestic heating products in the UK and Europe.
- Air Management - Manufacture of air management products for the construction industry.
- Engineering Components - Manufacture of high quality cast iron, metal and die cast components.
- Employee Ownership - Investment in employee owned companies utilising the Company's financial strength and unique experience of managing an employee owned business.

In addition, the Company has focused its community involvement through the ownership of Preston North End Football Club.

Business review

The financial year just ended has been a difficult but necessary year of change. The year has seen increased expenditure on new product development, promotion of products and customer service in the UK Heating business. Internal efficiency measures have necessitated redundancies and further provision has been made to effect large scale cost reductions; a competitive cost base is the foundation to future business success.

During the year, HS Group in Denmark and France were effectively integrated into the Heating business following their acquisition in 1993. The remaining share capital of HS Perifal AB of Sweden was acquired in December 1994 and this company will play an important role in the future of the expanded HS Group.

Actionair Equipment Limited was acquired in April 1994 to expand the Air Management business. The operations in Ireland were closed in December 1994 and moved to Spartek Engineering Limited.

Other acquisitions are shown in note 12 to the financial statements.

Report of the directors

The profit and loss account of the Group is summarised as follows:

	1995	1994
	£000	£000
Turnover	86,709	76,997
Exceptional items	(3,534)	-
Operating (loss)/profit	(4,828)	3,904
(Loss)/profit before taxation	(2,577)	5,645
Retained (loss)/profit	(2,218)	2,944
Retained profit carried forward	63,557	67,834

Subsidiary undertakings

Particulars of the Company's principal subsidiary undertakings are given in note 29 to the financial statements.

Research and development

The Group's businesses commit resources to research and development to assist them in securing their competitive positions in their chosen markets. Expenditure for the current year amounted to £1.5m (1994 : £0.9m).

Dividends

The directors do not recommend the payment of a dividend.

Fixed assets

Information relating to the tangible fixed assets of the Company and the Group is given in note 11 to the financial statements.

The directors believe that the carrying value of the Group's land and buildings is not materially different from the open market value.

Report of the directors

Directors and directors' interests

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

S N Carter	Resigned 11 May 1994
B M Gray	
L King	
P R Johnson	Appointed 30 August 1994
P S Baxendale*	
T C Campbell*	
D E Erdal*	
A G Thomas*	Appointed 1 April 1995

* Non-executive director

With the exception of Mr L King, no director had any interest in the ordinary shares of the Company at the end of the financial year. Mr L King had a beneficial holding of 3,798 (1994 : 2,364) ordinary shares of 10p each at the year end.

Mr P R Johnson and Mr A G Thomas, having been appointed during the year, automatically retire at the forthcoming Annual General Meeting and being eligible submit themselves for re-election.

Remuneration and Appointments Committee

The Remuneration and Appointments Committee comprises all non-executive directors with an elected chairman. Its objective is to secure the legitimacy of awards given to directors and its purpose is to ensure fair rewards whilst demonstrating independence in setting them. The Committee also confirms appointments of senior executives within the Group.

Directors' remuneration is reviewed annually to ensure that it is competitive, fair and that any performance related element is justifiable and consistent with Company objectives.

Employees

The Group places considerable emphasis on the contribution of the workforce within the business, 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 business specific 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.

Report of the directors

Profit sharing

The Company operates an Inland Revenue approved profit sharing scheme for the Group. The profit and loss account includes a total profit sharing allocation of £7,255 (1994 : £1,226,930). The Baxi Partnership Limited Savings Related Share Option Scheme launched in 1992, allows employees periodically to apply for five or seven year share option contracts to purchase shares in the Company.

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 to suppliers

The Group supports the CBI initiative to address the problem of delayed payments to suppliers, consequently the Group always endeavours to meet agreed customer payment terms. This is consistent with our Vendor Improvement Programme which continues to support a total quality approach with suppliers.

Political and charitable contributions

The Group made no political contributions during the year. Donations to UK charities amounted to £9,817.

Liability insurance

During the year the Company purchased and maintained liability insurance for its directors and officers.

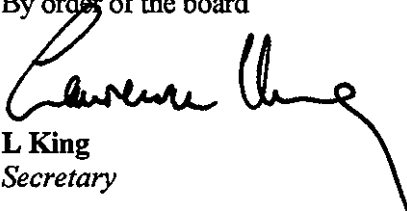
Report of the directors

Auditors

On 6 February 1995 the Company's auditors changed the name under which they practice to KPMG and accordingly, have signed their report in their new name.

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



L King
Secretary

Brownedge Road
Bamber Bridge
Preston
PR5 6SN

18 May 1995



Edward VII
Navigation Way
Ashton-on-Ribble
Preston
Lancashire PR2 2YF

Auditors' report to the members of Baxi Partnership Limited

We have audited the financial statements on pages 8 to 37.

Respective responsibilities of directors and auditors

As described on page 1 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 1 April 1995 and of the loss 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

18 May 1995
Preston

Consolidated profit and loss account
for the year ended 1 April 1995

	Note	Before Exceptional items £000	1995 Exceptional items (note 4) £000	£000	1994 (As restated) £000
Turnover	2				
Continuing operations		77,459	-	77,459	76,997
Acquisitions		9,250	-	9,250	-
		<u>86,709</u>	<u>-</u>	<u>86,709</u>	<u>76,997</u>
Cost of sales		(59,067)	(1,821)	(60,888)	(52,431)
		<u>27,642</u>	<u>(1,821)</u>	<u>25,821</u>	<u>24,566</u>
Gross profit					
Distribution expenses		(10,529)	(156)	(10,685)	(8,520)
Administrative expenses		(18,407)	(1,557)	(19,964)	(12,142)
		<u>(1,294)</u>	<u>(3,534)</u>	<u>(4,828)</u>	<u>3,904</u>
Operating (loss)/profit	3				
		<u>(1,294)</u>	<u>(3,534)</u>	<u>(4,828)</u>	<u>3,904</u>
Existing operations		(1,084)	(3,232)	(4,316)	3,904
Acquisitions		(210)	(302)	(512)	-
Profit/(loss) on disposal of fixed assets				111	(67)
Interest receivable and similar income	8			2,220	3,116
Interest payable and similar charges	9			(73)	(81)
				<u>(2,570)</u>	<u>6,872</u>
(Loss)/profit before profit sharing	2-9				
Profit sharing				(7)	(1,227)
				<u>(2,577)</u>	<u>5,645</u>
(Loss)/profit on ordinary activities before taxation					
Tax on profit on ordinary activities	10			273	(2,701)
				<u>(2,304)</u>	<u>2,944</u>
(Loss)/profit on ordinary activities after taxation					
Minority interests	22			86	-
				<u>(2,218)</u>	<u>2,944</u>
Retained (loss)/profit for the financial year transferred to reserves	21				
				<u>(2,218)</u>	<u>2,944</u>

Consolidated balance sheet
at 1 April 1995

	Note	1995 £000	1994 £000
Fixed assets			
Tangible assets	11	24,585	20,060
Investments	12	243	159
		<u>24,828</u>	<u>20,219</u>
Current assets			
Stocks	13	10,672	11,916
Debtors	14	23,680	18,201
Investments	15	37,270	39,253
Cash at bank and in hand		1,718	6,817
		<u>73,340</u>	<u>76,187</u>
Creditors: amounts falling due within one year	16	<u>(22,171)</u>	<u>(16,243)</u>
Net current assets due within one year		51,169	59,944
Debtors due after more than one year	14	<u>-</u>	<u>150</u>
Total net current assets		<u>51,169</u>	<u>60,094</u>
Total assets less current liabilities		75,997	80,313
Creditors: amounts falling due after more than one year	17	(585)	(314)
Provisions for liabilities and charges	18	(1,053)	(1,779)
Accruals and deferred income	19	(515)	(82)
Net assets		<u><u>73,844</u></u>	<u><u>78,138</u></u>
Capital and reserves			
Called up share capital	20	1,031	1,025
Share premium account	21	3,566	3,377
Revaluation reserve	21	5,906	5,902
Profit and loss account	21	63,557	67,834
Shareholders' funds		<u>74,060</u>	<u>78,138</u>
Minority interest	22	<u>(216)</u>	<u>-</u>
		<u><u>73,844</u></u>	<u><u>78,138</u></u>

Included within shareholders' funds is £450,000 (1994 : £450,000) of non-equity preference shares.

These financial statements were approved by the board of directors on 18 May 1995 and were signed on its behalf by:

B M Gray
Director

Bryan Gray

Company balance sheet
at 1 April 1995

	Note	1995 £000	1994 £000
Fixed assets			
Tangible assets	11	83	65
Investments	12	33,389	24,377
		<u>33,472</u>	<u>24,442</u>
Current assets			
Debtors	14	2,394	3,315
Investments	15	34,270	39,014
Cash at bank and in hand		27	1,477
		<u>36,691</u>	<u>43,806</u>
Creditors: amounts falling due within one year	16	<u>(1,467)</u>	<u>(796)</u>
Net current assets due within one year		35,224	43,010
Debtors due after more than one year	14	<u>7,182</u>	<u>6,338</u>
Total net current assets		<u>42,406</u>	<u>49,348</u>
Total assets less current liabilities		75,878	73,790
Creditors: amounts falling due after more than one year	17	(80)	(110)
Provisions for liabilities and charges	18	(666)	(736)
Net assets		<u><u>75,132</u></u>	<u><u>72,944</u></u>
Capital and reserves			
Called up share capital	20	1,031	1,025
Share premium account	21	3,566	3,377
Profit and loss account	21	70,535	68,542
Shareholders' funds		<u><u>75,132</u></u>	<u><u>72,944</u></u>

Included within shareholders' funds is £450,000 (1994 : £450,000) of non-equity preference shares.

These financial statements were approved by the board of directors on 18 May 1995 and were signed on its behalf by:



B M Gray
Director

Consolidated cash flow statement
for the year ended 1 April 1995

	<i>Note</i>	1995	1994
		£000	£000
Net cash inflow from operating activities	25	5,431	3,515
Return on investments and servicing of finance			
Interest received		1,769	3,299
Interest paid		(78)	(53)
Interest element of finance lease rental payments		(14)	-
Dividends received		3	-
		<hr/>	<hr/>
Net cash inflow from returns on investment and servicing of finance		1,680	3,246
Taxation			
UK corporation tax		(4,337)	(1,697)
Overseas tax		(123)	(24)
		<hr/>	<hr/>
Tax paid		(4,460)	(1,721)
Investing activities			
Purchase of tangible fixed assets		(2,406)	(1,331)
Purchase of subsidiary undertakings (net of cash and cash equivalents acquired)	26	(8,779)	(7,542)
Sale of tangible fixed assets		939	186
Movement in current asset investments		10,300	(6,991)
Purchase of long term investments		(216)	-
		<hr/>	<hr/>
Net cash outflow from investing activities		(162)	(15,678)
Net cash inflow/(outflow) before financing		2,489	(10,638)
Financing			
Issue of ordinary share capital		195	287
Repayment of loans		(66)	(77)
Capital element of finance lease payments		(102)	-
Issue of loan to subsidiary undertaking prior to acquisition		(300)	(150)
		<hr/>	<hr/>
Net cash (outflow)/inflow from financing		(273)	60
Increase/(decrease) in cash and cash equivalents	27	<u>2,216</u>	<u>(10,578)</u>

Consolidated statement of total recognised gains and losses
for the year ended 1 April 1995

	1995	1994
	£000	£000
(Loss)/profit for the financial year	(2,218)	2,944
Unrealised surplus on revaluation of fixed assets	774	745
Unrealised exchange gain on currency translations	666	35
Total recognised (losses)/gains relating to the financial year	(778)	3,724

Note of consolidated historical cost profits and losses
for the year ended 1 April 1995

	1995	1994
	£000	£000
(Loss)/profit on ordinary activities before taxation	(2,577)	5,645
Realisation of fixed assets revaluation gains of previous years	-	11
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	770	672
Historical cost (loss)/profit on ordinary activities before taxation	(1,807)	6,328
Historical cost (loss)/profit for the year retained after taxation	(1,448)	3,627

Reconciliation of movement in shareholders' funds
for the year ended 1 April 1995

	Group		Company	
	1995	1994	1995	1994
	£000	£000	£000	£000
(Loss)/profit for the financial year	(2,218)	2,944	1,446	1,352
New share capital issued	195	287	195	287
Unrealised exchange gain on currency translation	666	35	547	-
Unrealised surplus on revaluation of fixed assets	774	745	-	-
Goodwill arising on acquisitions	(3,495)	(571)	-	-
Movement in shareholders' funds	(4,078)	3,440	2,188	1,639
Opening shareholders' funds	78,138	74,698	72,944	71,305
Closing shareholders' funds	74,060	78,138	75,132	72,944

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of certain fixed assets. Certain 1994 comparatives have been restated for disclosure purposes.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. Where a subsidiary undertaking has a year end which is not coterminous with that of the parent, interim financial statements to 1 April 1995 have been prepared.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the year are included in the consolidated profit and loss account from the date of acquisition. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against reserves on acquisition. Any excess of the aggregate of the fair value of the separable net assets acquired over the fair value of the consideration given (negative goodwill) is credited direct to reserves.

In the Company's financial statements, investments in subsidiary and associated undertakings are stated at cost less amounts written off. 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.

In accordance with Section 230(4) of the Companies Act 1985, Baxi Partnership Limited is exempt from the requirement to present its own profit and loss account.

Fixed assets and depreciation

Land is stated at cost. Buildings are reviewed each year by the directors and revalued to their estimate of depreciated replacement cost or existing use value as considered appropriate.

Plant and equipment, excluding motor vehicles, are reviewed each year by the directors and revalued to their estimate of depreciated replacement cost. Revaluation surpluses and deficits are dealt with through the revaluation reserve, with adjustments for realised elements transferred between reserves.

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

Freehold buildings	-	50 years
Plant and machinery	-	3 to 15 years

No depreciation is provided on freehold land.

Notes (continued)

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the contracted rate of exchange or rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies except long term Group loans, 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 gains or losses on the translation of long term Group loans are taken directly to reserves.

For consolidation purposes, the assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising on these translations are taken to reserves.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to trading profit over the estimated useful economic lives of the assets to which they relate.

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.

Pensions and other post retirement benefits

The Group operates a contributory defined benefit pension scheme in the UK 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 pensions 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 schemes are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Notes (continued)

1 Accounting policies (continued)

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.

Repairs and Renewals and Tooling

Repairs and renewals and tooling costs are written off to the profit and loss account as incurred, except tooling costs on specific contracts which are capitalised and amortized over the life of the contract.

Football transfer fees

The fees payable and receivable in respect of the transfer of football players are charged/credited to the profit and loss account in the year of transfer.

Investments

Investments are stated at the lower of cost and market value net of accrued interest.

Warranty liability

Provision is made for the estimated liability on all products sold under warranty including claims already received. This provision is charged against the profit and loss account and included in creditors falling due within one year.

Taxation

The charge or credit for taxation is based on the results 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.

Amounts claimed or surrendered by way of Group relief are transferred at a consideration dependent upon the circumstances of each transfer.

Notes (continued)

2 Segmental information

Turnover represents amounts invoiced by the Group in respect of goods and services provided during the year net of value added tax and discounts. Turnover, profit and operating net assets are analysed as follows:

a) Business Analysis

Division	Turnover		Operating (loss)/profit		(Loss)/profit before tax		Operating net assets	
	1995 £000	1994 £000	1995 £000	1994 £000	1995 £000	1994 £000	1995 £000	1994 £000
Heating	71,196	72,257	1,485	4,959	(529)	4,190	23,434	29,595
Air management	10,018	4,217	37	(513)	(309)	(557)	6,087	2,025
Engineering components	13,050	4,162	(2,394)	(542)	(3,032)	(748)	7,028	5,788
Other activities	1,625	-	(422)	-	1,293	2,760	36,375	39,014
Inter divisional turnover	(9,180)	(3,639)	-	-	-	-	-	-
Exceptional items	-	-	(3,534)	-	-	-	-	-
	<u>86,709</u>	<u>76,997</u>	<u>(4,828)</u>	<u>3,904</u>	<u>(2,577)</u>	<u>5,645</u>	<u>72,924</u>	<u>76,422</u>
Current and deferred taxation							(801)	(5,321)
Profit sharing							(7)	(1,090)
Cash at bank							1,718	6,817
Deferred credit for grants							(515)	(82)
Loans							(537)	(314)
Pensions prepayment							942	1,096
Interest receivable on investments							120	610
Net assets per consolidated balance sheet							<u>73,844</u>	<u>78,138</u>

The acquisition of Actionair Equipment Limited contributed turnover of £6,200,000, operating profit of £15,000 and profit before tax of £14,000 to the Air Management division during the year. The directors do not consider the Group's other acquisitions to be material.

Notes (continued)

2 Segmental information (continued)

b) Geographical analysis

	Turnover by destination		Turnover by origin	
	1995	1994	1995	1994
	£000	£000	£000	£000
UK	67,861	67,658	72,102	69,338
Rest of Europe	18,070	9,339	14,607	7,659
Rest of the World	778	-	-	-
	<u>86,709</u>	<u>76,997</u>	<u>86,709</u>	<u>76,997</u>

All sales are to third parties.

3 Analysis of existing and acquired operations

		1995		1994 (As restated) £000
		Existing operations £000	Acquired operations £000	
		£000	£000	£000
Turnover		77,459	9,250	76,997
Cost of sales	- normal	(54,236)	(4,831)	(52,431)
	- exceptional	(1,601)	(220)	-
		<u>21,622</u>	<u>4,199</u>	<u>24,566</u>
Gross profit		21,622	4,199	24,566
Distribution costs	- normal	(9,592)	(937)	(8,520)
	- exceptional	(156)	-	-
Administrative expenses	- normal	(14,715)	(3,692)	(12,142)
	- exceptional	(1,475)	(82)	-
		<u>(4,316)</u>	<u>(512)</u>	<u>3,904</u>
Operating (loss)/profit		<u>(4,316)</u>	<u>(512)</u>	<u>3,904</u>

There were no discontinued operations in either year.

Notes (continued)

4 Exceptional items

	1995	1994
	£000	£000
Redundancy and re-organisations	2,654	-
Termination of sales agency agreement	136	-
Provision for lease commitments	744	-
	<u>3,534</u>	<u>-</u>

Redundancy costs of £1.4m have been incurred in the year reflecting both over-capacity and efforts to reduce the cost base through increased efficiency. In addition, £1.2m has been provided for further restructuring in the areas of pay and productivity. Lease commitments are in respect of buildings no longer used. At 1 April 1995, £0.9m of the exceptional charges had been paid and the remainder carried forward within creditors. (see note 25).

5 (Loss)/profit on ordinary activities before taxation

	1995	1994
	£000	£000
<i>(Loss)/profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration in respect of audit services	78	54
Depreciation of owned fixed assets	3,696	3,166
Depreciation of assets held under finance leases and hire purchase contracts	60	-
Hire of plant and machinery - rentals payable under operating leases	22	9
Research and development expenditure	1,468	866
Exchange losses/(gains)	68	(86)

The remuneration of the auditors during the year in respect of non-audit services was £137,000 (1994 : £287,000).

Notes (continued)

6 Remuneration of directors

	1995 £000	1994 £000
Fees	26	-
Other emoluments:		
Basic salaries	201	193
Benefits	23	20
Performance related bonus	31	5
Share allocation	1	1
Pension contributions	25	33
	<hr/>	<hr/>
	307	252
Compensation for loss of office	164	-
	<hr/>	<hr/>
	471	252
	<hr/>	<hr/>

Compensation paid to Mr S N Carter represents a sum agreed between Mr Carter and the Board for the termination of his contract of employment. The amount approximates to his remuneration package for one year's service.

Performance related bonuses are awarded by the Remuneration and Appointments Committee based on the performance of the executive against criteria agreed at the beginning of the year under review.

Share allocations are based upon criteria applicable to all employees within the Group and are distributed through an Inland Revenue approved all employee profit sharing scheme.

Notes (continued)

6 Remuneration of directors (continued)

The emoluments of the chairman and highest paid director were as follows:

	1995		1994
	Chairman	Highest paid director	Chairman and highest paid director
	£	£	£
Fees	11,250	-	-
Salary	-	94,167	95,000
Benefits	-	10,135	11,400
Performance related bonuses	-	15,000	5,424
Share allocation	-	-	637
Pension Contributions	-	15,124	21,091
	<u>11,250</u>	<u>134,426</u>	<u>133,552</u>

The emoluments of the other directors for the year were as follows:

	L King	PR Johnson	PS Baxendale	TC Campbell
	£	£	£	£
Fees	-	-	7,500	7,500
Salary	55,000	35,330	-	-
Benefits	7,404	4,741	-	-
Performance related bonus	6,000	-	-	-
Share allocation	508	-	-	-
Pension contributions	5,500	2,500	-	-
	<u>74,412</u>	<u>42,571</u>	<u>7,500</u>	<u>7,500</u>

Non executive directors fees are for a period of nine months. Mr A G Thomas was appointed on 1 April 1995 and received no emoluments during the year.

Notes (continued)

6 Remuneration of directors (continued)

The emoluments, excluding pension contributions and compensation for loss of office, of the directors (including the chairman and highest paid director) were within the following ranges:

		Number of directors	
		1995	1994
£0	- £ 5,000	1	5
£ 5,001	- £10,000	2	-
£10,001	- £15,000	1	-
£25,001	- £30,000	1	-
£30,001	- £35,000	-	1
£40,001	- £45,000	1	-
£65,001	- £70,000	1	-
£75,001	- £80,000	-	1
£110,001	- £115,000	-	1
£115,001	- £120,000	1	-

7 Staff numbers and costs

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

		Number of employees	
		1995	1994
Production		1,049	783
Sales and administration		379	274
		<hr/>	<hr/>
		1,428	1,057
		<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

		1995	1994
		£000	£000
Wages and salaries		26,611	21,463
Social security costs		2,034	1,726
Other pension costs (see note 24)		1,775	1,464
		<hr/>	<hr/>
		30,420	24,653
		<hr/>	<hr/>

Notes (continued)

8 Interest receivable and similar income

	1995	1994
	£000	£000
Bank interest	758	878
Income from listed investments	513	897
Income from unlisted investments	949	1,341
	<u>2,220</u>	<u>3,116</u>

9 Interest payable and similar charges

	1995	1994
	£000	£000
On bank loans, overdrafts and other loans wholly repayable within five years	56	77
On all other loans	3	1
Finance charges payable in respect of finance leases and hire purchase contracts	14	-
	<u>73</u>	<u>81</u>

10 Taxation

	1995	1994
	£000	£000
UK corporation tax at 33% (1994 : 33%) on the (loss)/profit for the year on ordinary activities	3	1,954
Deferred taxation	(743)	417
Overseas taxation	19	30
Adjustment relating to an earlier year	448	300
	<u>(273)</u>	<u>2,701</u>
Tax (credit)/charge		

The adjustment relating to earlier years relates to an agreement reached with the Inland Revenue regarding the tax treatment of certain tooling expenditure (1994 : the re-classification of capital items previously treated as revenue).

Notes (continued)

11 Tangible fixed assets

	Group			Company
	Land and buildings	Plant and machinery	Total	Total (Plant and machinery)
	£000	£000	£000	£000
Cost or valuation				
At beginning of year	15,485	32,546	48,031	107
Arising on acquisitions	1,881	6,141	8,022	-
Additions	234	3,033	3,267	62
Revaluations	488	286	774	-
Disposals	(536)	(1,243)	(1,779)	(35)
Currency translation	288	503	791	-
At end of year	17,840	41,266	59,106	134
Depreciation and diminution in value				
At beginning of year	3,679	24,292	27,971	42
Arising on acquisitions	49	3,316	3,365	-
Charge for year	552	3,204	3,756	27
On disposals	(11)	(940)	(951)	(18)
Currency translation	26	354	380	-
At end of year	4,295	30,226	34,521	51
Net book value				
At 1 April 1995	13,545	11,040	24,585	83
At 2 April 1994	11,806	8,254	20,060	65
Historical cost at 1 April 1995				
Historical Cost	12,198	35,218	47,416	134
Accumulated depreciation	(2,701)	(26,036)	(28,737)	(51)
Net historical cost	9,497	9,182	18,679	83

Notes (continued)

11 Tangible fixed assets (continued)

The net book value of land and buildings comprises:

		Group		Company	
		1995	1994	1995	1994
		£000	£000	£000	£000
Freehold	- historical cost	9,294	7,947	-	-
	- valuation	4,048	3,859	-	-
Long leasehold		203	-	-	-
		<u>13,545</u>	<u>11,806</u>	<u>-</u>	<u>-</u>

Included in freehold land and buildings is an amount of £1,324,000 (1994 : £959,000) in respect of freehold land at cost.

Included in the total net book value of plant and machinery is £221,000 (1994 : £Nil) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £60,000 (1994 : £Nil) The Company had no assets held under finance leases and similar hire purchase contracts.

The amount of assets held for use under operating leases and similar hire purchase contracts to third parties is as follows:

		Group		Company	
		1995	1994	1995	1994
		£000	£000	£000	£000
Cost		1,181	1,330	-	-
Accumulated depreciation		(1,158)	(1,301)	-	-
Net book value		<u>23</u>	<u>29</u>	<u>-</u>	<u>-</u>

Notes (continued)

12 Fixed asset investments

Group	Shares in Group undertakings £000	Interests in associated undertakings £000	Other investments other than loans £000	Total £000
Cost or valuation				
At beginning of year	12	151	12	175
Additions	-	493	216	709
Currency translation	1	-	2	3
Elimination on consolidation	-	(644)	-	(644)
At end of year	13	-	230	243
Share of post acquisition reserves				
At beginning of year	-	(16)	-	(16)
Retained profits less losses	-	27	-	27
Elimination on consolidation	-	(11)	-	(11)
At end of year	-	-	-	-
Net book value				
At 1 April 1995	13	-	230	243
At 2 April 1994	12	135	12	159

The Group holds 95% of the issued share capital of Thermitec S.a.r.l. at a cost of £12,801. This subsidiary's accounts have not been consolidated as, in the opinion of the directors, they would have no material effect on the consolidated accounts.

The Group acquired the remaining shares of HS Perifal AB during the year and this investment has been eliminated on consolidation.

Notes (continued)

12 Fixed asset investments (continued)

	Shares in Group undertakings	Loans to Group undertakings	Other investments other than loans	Total
Company	£000	£000	£000	£000
Cost or valuation				
At beginning of year	3,910	21,666	-	25,576
Additions	614	7,781	216	8,611
Currency translation	-	401	-	401
At end of year	4,524	29,848	216	34,588
Provisions				
At beginning and end of year	1,199	-	-	1,199
Net book value				
At 1 April 1995	3,325	29,848	216	33,389
At 2 April 1994	2,711	21,666	-	24,377

Long term loans to Group companies which are viewed as capital in nature have been re-classified as fixed asset investments and the amount shown at the beginning of the year represents an adjustment to debtors in the comparative figures. (see note 14).

Included within additions to other investments is £152,000 in respect of the acquisition of 15% of the issued share capital of Capital Strategies Limited.

Notes (continued)

12 Fixed asset investments (continued)

During the year the Company made the following acquisitions:

Company	Acquisition Date	Consideration (all cash) £000	Percentage share capital acquired %
Actionair Equipment Ltd	6 April 1994	6,688	100
Hills Zinc Diecasting Ltd*	6 December 1994	625	100
Preston North End (Holdings) Ltd	26 September 1994	47	90
Barrhead Sanitary Ware plc	1 February 1995	542	**
BPL Engineering Ltd*	31 March 1994	597	100
HS Perifal AB	28 December 1994	493	72
		<u>8,992</u>	

* acquisition of trade and assets

** the Company acquired 100% of the issued voting ordinary share capital, 70% of the issued non-voting ordinary share capital and 100% of the issued redeemable preference share capital.

The net tangible assets acquired comprised:

	Actionair (book & fair value) £000	Other acquisitions (book value) £000	Fair value adjustments £000	Accounting policy adjustments £000	Aggregate fair value £000
Fixed assets	1,915	2,917	-	(175)	4,657
Stock	750	801	(123)	-	1,428
Debtors	2,175	995	(23)	-	3,147
Cash and bank overdraft	615	(402)	-	-	213
Creditors due within one year	(1,103)	(1,513)	(81)	-	(2,697)
Creditors due after one year	-	(1,220)	-	-	(1,220)
Deferred tax	(184)	(52)	237	-	1
Minority interest	-	130	(25)	25	130
Existing interest in HS Perifal AB	-	(162)	-	-	(162)
	<u>4,168</u>	<u>1,494</u>	<u>(15)</u>	<u>(150)</u>	<u>5,497</u>
Group share of net assets	4,168	1,494	(15)	(150)	5,497
Consideration (see note 26)	6,688	2,304			8,992
	<u></u>	<u></u>			<u></u>
Goodwill arising on acquisitions					3,495

Notes (continued)

12 Fixed asset investments (continued)

The principal fair value adjustments relate to the elimination of unrealised profit in stock, accrual for professional costs and the recognition of a deferred tax asset on accumulated corporation tax losses.

The principal accounting policy adjustment relates to the elimination of capitalised development costs.

The loss retained by Actionair Equipment Limited for the period from 1 August 1993 to 6 April 1994 amounted to £65,222 (profit retained for the year ended 31 July 1993 : £333,285).

13 Stocks

	Group		Company	
	1995	1994	1995	1994
	£000	£000	£000	£000
Raw materials and consumables	2,730	1,211	-	-
Work in progress	3,259	4,491	-	-
Finished goods and goods for resale	4,683	6,214	-	-
	<u>10,672</u>	<u>11,916</u>	<u>-</u>	<u>-</u>

14 Debtors

	Group		Company	
	1995	1994	1995	1994
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	20,969	15,011	-	-
Amounts owed by subsidiary undertakings	-	-	1,957	1,649
Amounts owed by undertakings in which the Group has a participating interest	-	209	-	-
Corporation tax recoverable	203	-	-	-
Overseas tax recoverable	49	-	-	-
Other debtors	556	149	327	113
Prepayments and accrued income	1,903	2,832	110	1,553
	<u>23,680</u>	<u>18,201</u>	<u>2,394</u>	<u>3,315</u>
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	-	-	7,182	6,188
Other debtors	-	150	-	150
	<u>-</u>	<u>150</u>	<u>7,182</u>	<u>6,338</u>
Total debtors	<u>23,680</u>	<u>18,351</u>	<u>9,576</u>	<u>9,653</u>

As explained in note 12, certain long term Group loans have been re-classified as fixed asset investments and the comparative figures adjusted accordingly.

Notes (continued)

15 Investments (held as current assets)

	Group		Company	
	1995 £000	1994 £000	1995 £000	1994 £000
Short term investments	11,521	20,913	11,521	20,674
Short term deposits	25,749	18,340	22,749	18,340
	<u>37,270</u>	<u>39,253</u>	<u>34,270</u>	<u>39,014</u>

At the year end the market value of short term investments was £11,605,000.

16 Creditors: amounts falling due within one year

	Group		Company	
	1995 £000	1994 £000	1995 £000	1994 £000
Bank loans	18	-	-	-
Obligations under finance leases and hire purchase contracts	70	-	-	-
Trade creditors	7,725	2,869	-	-
Amounts owed to subsidiary undertakings	-	-	719	-
Amounts owed to undertakings in which the Group has a participating interest	38	-	-	-
Group relief payable	-	-	599	-
Other creditors including taxation and social security:				
Corporation tax	-	3,542	-	564
Overseas tax	-	45	-	-
Other taxes and social security	2,342	1,587	-	-
Other creditors	1,073	1,929	-	-
Accruals and deferred income	10,905	6,271	149	232
	<u>22,171</u>	<u>16,243</u>	<u>1,467</u>	<u>796</u>

Notes (continued)

17 Creditors: amounts falling due after more than one year

	Group		Company	
	1995 £000	1994 £000	1995 £000	1994 £000
Loan stock	80	110	80	110
Bank and other loans*	439	204	-	-
Obligations under finance leases and hire purchase contracts	66	-	-	-
	<u>585</u>	<u>314</u>	<u>80</u>	<u>110</u>

The loan stock has no fixed terms of repayment and carries an interest rate of 2% below bank base rate.

* Amounts totalling £20,000 (1994 : £nil) are repayable, other than by instalments, after more than five years. Amounts totalling £229,000 (1994 : £nil) and £190,000 (1994 : £nil) are payable by instalments within five years and after five years respectively.

The maturity of obligations under finance leases and hire purchase contracts is £78,000 due within one year and £74,000 in the second to fifth years and includes £16,000 for future finance charges (1994 : £nil).

18 Provisions for liabilities and charges

Deferred Taxation

	Group		Company	
	1995 £000	1994 £000	1995 £000	1994 £000
At beginning of year	1,779	1,212	736	-
Arising on acquisition of subsidiaries	(1)	150	-	-
Currency translation	18	-	-	-
(Release)/charge for the year in the profit & loss account	(743)	417	(70)	736
At end of year	<u>1,053</u>	<u>1,779</u>	<u>666</u>	<u>736</u>

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

Notes (continued)

18 Provisions for liabilities and charges (continued)

Group	1995 Amount Provided £000	1995 Amount Unprovided £000	1994 Amount Provided £000	1994 Amount Unprovided £000
Difference between accumulated depreciation and capital allowances	808	579	721	662
Revaluation of properties	-	573	-	512
Other timing differences	245	-	1,058	-
	<u>1,053</u>	<u>1,152</u>	<u>1,779</u>	<u>1,174</u>
Company	1995 Amount Provided £000	1995 Amount Unprovided £000	1994 Amount Provided £000	1994 Amount Unprovided £000
Difference between accumulated depreciation and capital allowances	(10)	-	(9)	-
Other timing differences	676	-	745	-
	<u>666</u>	<u>-</u>	<u>736</u>	<u>-</u>

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.

19 Accruals and deferred income

	Group		Company	
	1995 £000	1994 £000	1995 £000	1994 £000
Government grants				
At beginning of year	82	101	-	-
Arising on acquisition	469	-	-	-
	<u>551</u>	<u>101</u>	<u>-</u>	<u>-</u>
Credited to trading profit	(36)	(19)	-	-
	<u>515</u>	<u>82</u>	<u>-</u>	<u>-</u>

Notes (continued)

20 Called up share capital

	1995 £000	1994 £000
<i>Authorised</i>		
Ordinary shares of 10 pence each	750	750
Preference shares of £1 each	450	450
	<u>1,200</u>	<u>1,200</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of 10 pence each	581	575
Preference shares of £1 each	450	450
	<u>1,031</u>	<u>1,025</u>

During the year 62,897 ordinary shares of 10p each were issued to the Employee Profit Sharing Trust as fully paid for a consideration of £194,981 giving rise to a share premium of £188,691.

21 Share premium and reserves

	Share premium account £000	Group Revaluation reserve £000	Profit and loss account £000
At beginning of year	3,377	5,902	67,834
Arising on issue of shares	189	-	-
Retained loss for year	-	-	(2,218)
Surplus on revaluation of fixed assets	-	774	-
Transfers	-	(770)	770
Goodwill arising on acquisition	-	-	(3,495)
Exchange adjustments	-	-	666
At end of year	<u>3,566</u>	<u>5,906</u>	<u>63,557</u>

The cumulative amount of goodwill resulting from acquisitions in the current and earlier financial years which has been written off is £4,258,000 (1994 : £763,000).

The Company's profit for the financial year was £1,446,000 (1994 : £1,352,000).

Notes (continued)

21 Share premium and reserves (continued)

	Company	
	Share premium account	Profit and loss account
	£000	£000
At beginning of year	3,377	68,542
Arising on issue of shares	189	-
Retained profit for year	-	1,446
Exchange adjustments	-	547
At end of year	3,566	70,535

22 Minority interests

	Group	
	1995	1994
	£000	£000
At beginning of year	-	-
Acquisition of subsidiary undertakings	(130)	-
Share of loss for year	(86)	-
At end of year	(216)	-

23 Commitments

(i) Capital commitments at the end of the financial year for which no provision has been made.

	Group		Company	
	1995	1994	1995	1994
	£000	£000	£000	£000
Contracted	354	232	-	-
Authorised but not contracted	421	-	-	-

Notes (continued)

23 Commitments (continued)

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

Group	1995		1994	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	1	-	1
In the second to fifth years inclusive	65	41	-	23
Over five years	130	-	195	-
	<u>195</u>	<u>42</u>	<u>195</u>	<u>24</u>

Provision has been made against the annual charge to the profit and loss account for all land and buildings operating lease commitments (see note 4).

The Company had no operating lease commitments.

24 Pension scheme

The Group operates a contributory defined benefit pension scheme in the UK. The Scheme funds are administered by Trustees and are independent of the Group's finances. The latest actuarial valuation of the Scheme was carried out by independent actuaries as at 1 February 1992 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 9%, the average annual increases in pensionable salaries would be 7%, the average annual increases in pension payments would be 5%, and the average annual increases in equity dividends would be 4.5%.

At the date of the latest actuarial valuation, the market value of the assets of the Scheme was £36,430,561 and the actuarial value of the assets was sufficient to cover 112% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions. For the purpose of assessing pension costs this excess of assets is being spread evenly over the weighted average expected future working lifetime of Scheme members. Consequently, the charge in the profit and loss account is £1,659,000 for the year, and there is a reduction of £154,000 to the existing prepayment in the balance sheet, giving a total prepayment of £942,000 at 1 April 1995.

In accordance with the Trust Deed an actuarial valuation as at 1 February 1995 is currently being undertaken.

The charge in respect of other schemes within the Group is £116,000 (1994 : £11,000).

Notes (continued)

25 Reconciliation of operating loss to net cash inflow from operating activities

	1995 £000	1994 £000
Operating (loss)/profit	(4,828)	3,904
Profit share charge	(7)	(1,227)
Depreciation charge	3,756	3,166
Government grants released to profit	(36)	(19)
Decrease in stocks	2,672	(2,292)
Increase in debtors	(2,779)	2,551
Increase in creditors	4,096	(2,568)
Exceptional item (see note 4)	2,557	-
Net cash inflow from operating activities	<u>5,431</u>	<u>3,515</u>

26 Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings

	1995 £000	1994 £000
Cash consideration (see note 12)	(8,992)	(5,500)
Cash at bank and in hand acquired	752	41
Bank overdrafts acquired	(539)	(2,084)
Net outflow of cash and cash equivalents	<u>(8,779)</u>	<u>(7,542)</u>

Subsidiary undertakings acquired during the year had the following post acquisition net cash flows:

	1995 £000	1994 £000
(Outflow)/inflow from operations	(46)	1,576
Outflow from returns on investment and servicing of finance	(33)	(28)
Taxation paid	(158)	(24)
Inflow/(outflow) from investing activities	177	(24)
	<u>(60)</u>	<u>1,500</u>

Notes (continued)

27 Analysis of changes in cash and cash equivalents

	Cash and short term deposits
	£000
Balance at 27 March 1993	35,656
Net cash outflow before adjustments for foreign exchange rate changes	(10,578)
Effect of foreign exchange rate changes	79
	<hr/>
Balance at 2 April 1994	25,157
Net cash inflow before adjustments for foreign exchange rate changes	2,216
Effect of foreign exchange rate changes	94
	<hr/>
Balance at 1 April 1995	27,467
	<hr/>

28 Analysis of changes in financing during the year

	Share capital and premium, loans and finance lease obligations
	£000
Balance at 27 March 1993	4,270
Shares issued	287
Loans repaid	(77)
Loans and finance lease obligations of subsidiary undertakings acquired	236
	<hr/>
Balance at 2 April 1994	4,716
Shares issued	195
Loans repaid	(66)
Loans and finance lease obligations of subsidiary undertakings acquired during the year	307
Inception of finance lease contracts	220
Capital element of finance lease rental payments	(102)
	<hr/>
Balance at 1 April 1995	5,270
	<hr/>

Notes (continued)

29 Subsidiary undertakings

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

	Country of Incorporation	Holding	Year End
Heating			
Baxi Heating Limited	England	100%	*8 April
HS Group A/S	Denmark	100%	*7 April
HS Kedler-Tarm A/S	Denmark	100%	*7 April
HS France SA	France	100%	31 March
HS Perifal AB	Sweden	100%	31 March
Thermitec S.a.r.l.	France	95%	31 March
Air Management			
Actionair Equipment Limited	England	100%	1 April
BPL Engineering Limited	Ireland	100%	31 March
Packaged Air Conditioning Equipment Limited	England	100%	1 April
Gradwood Limited	England	100%	1 April
Engineering Components			
Alfer Limited	England	100%	*8 April
Spartek Engineering Limited	England	100%	1 April
Hills Zinc Diecasting Limited	England	100%	1 April
Others			
Preston North End (Holdings) Limited	England	90%	**30 June
Preston North End Football Club Limited	England	86%	**30 June
Barrhead Sanitary Ware plc	Scotland	76%	1 April

For reasons of cash flow associated with the date of payment of tax (*) and due to individual reporting requirements (**), in the directors' opinion, it is advantageous to have a different accounting period for these Group companies.