Baxi Partnership Limited

Report and financial statements

Registered Number 367875

Nine months to 31 December 1999

Operating and Financial Review *(continued)*

In December 1999 the Group acquired BCH for consideration, excluding external debt and costs, of £488.1M. BCH comprised boiler businesses in the UK, Germany and France and radiator businesses which were subsequently disposed of, with the exception of those integrated with the German and French boiler businesses. As part of the acquisition, the Group also acquired distribution businesses in the Netherlands and Ireland, a UK based pump manufacturer and a German based manufacturer of riveting machines.

On 17 March 2000, the Group completed the disposal of the stand alone radiator businesses together with the Italian radiator plant acquired during the previous period. At 31 December 1999 the stand alone radiator businesses were carried as a current asset investment in the balance sheet (note 16) at the net present value of the proceeds received on the subsequent disposal. As a result, no gain or loss will arise on this disposal in the financial statements for the year ended 31 December 2000.

2000 trading

Trading of the Group in 2000 did not meet with expectations. Turnover in the nine months to September 2000 was behind the previous year and earnings before interest, tax and depreciation were correspondingly lower due to the lost contribution. This shortfall in trading has largely been caused by a significant shift in the UK market away from traditional boiler products to combination boilers, a sector where the Group is not well represented. Sales in continental Europe have also failed to meet expectations.

From the outset of the BCH acquisition a key objective of the Group was the consolidation of the UK heating businesses to form one business and enable the realisation of synergy benefits. During the period under review the Group announced a significant restructuring programme in the UK, the aim of which was to eliminate unnecessary duplication within the combined UK businesses. . Redundancy costs of £0.4M were incurred in December 1999 and the programme continued during 2000.

Financing

The acquisition of BCH was initially financed by a temporary borrowing facility which was replaced on 17 January 2000, as set out in note 17. Following this refinancing the Group had three facilities which expired on 17 October 2000: a short term bridge (£186.5M), a further tranche of senior debt (£18.5M) and a subordinated bridge facility (£147.5M). The short-term bridge was repaid from the proceeds of the radiator disposal on 17 March 2000. The Group's existing bank syndicate supported the Group until the merger with Newmond completed on 22 November 2000 when the remaining indebtedness was repaid in full.

Financial performance

Before exceptional items, the Group achieved an operating profit of £10.9M in the period *(year ended 27 March 1999: £8.4M)*, of which £10.0M related to continuing businesses. The Italian heating business has already made a significant contribution to the Group, generating an operating profit of £3.9M in the period *(2 months to 27 March 1999 : £0.5M)*.

Gross margin has reduced from 31.3% in the year to March 1999 to 28.9% in the period, principally due to lower gross margin earned by our Italian business, reflecting the lower margin earned on wall mounted combination boilers.

Exceptional costs totalling £8.9M have been provided in the period. The major components of this charge are: a constructive obligation to support the internal market for the purchase of employee-owned shares (£4.6M); an impairment of ATL fixed assets (£0.6M) and goodwill (£1.6M); changes in the basis of measurement for sales rebate costs (£0.9m) and fees incidental to the acquisition of BCH (£0.8M). Income of £1.7M received from Alcoa Inc as a contribution to operating costs has been recognised in the period and, due to its non-recurring nature, has been treated as exceptional.

Profit sharing of £1.5M *(year ended 27 March 1999: £2.3M)* has been charged to the profit and loss account and is disclosed within other operating expenses and cost of sales as appropriate. The profit and loss account for the prior year, which disclosed profit sharing charges below operating profit, has been restated accordingly.

Operating and Financial Review *(continued)*

The taxation charge for the period is higher than the Group's composite tax rate applied to the loss before tax for the period principally due to the exceptional impairment of ATL's assets, which is not tax deductible, together with other expenses incurred which are also not allowable for tax. The tax rate incurred by the Group in continental European countries is higher than the prevailing UK rate.

The exchange loss of £2.2M taken through reserves arose primarily due to the fall in the euro-sterling exchange rate during the period, which reduced the value of goodwill arising on the acquisition of the Italian boiler business.

Cash flow

The Group has significantly increased its operating cash inflow to £34.4M *(year ended 27 March 1999: £14.2M).* Of this £14.8M arose from the BCH companies as the acquisition occurred close to the seasonal peak of working capital requirements, which subsequently reduced by the end of the period.

The cash outflow from returns on investments and servicing of finance of £17.8M *(year ended 27 March 1999: inflow of £2.4M)* includes £13.7M of debt issue costs. These costs are being charged to the profit and loss account over the term of the debt facilities.

Balance sheet

During the period, shareholders' funds reduced to £77.9M *(year ended 27 March 1999: restated £83.6M).* This reduction is due to the loss for the period of £5.1M, less the reinstatement of goodwill previously written off to reserves (£1.6M), and the exchange loss of £2.2M taken directly to reserves, which arises from the decision not to hedge the Italian goodwill from the acquisition in February 1999.

The balance sheet at 31 December 1999 shows significant short term borrowings which were refinanced on 17 January 2000 and subsequently reduced by the sale of the stand alone radiator businesses on 17 March 2000.

Change in accounting policy

During the period the Group has elected to take advantage of the transitional arrangements of Financial Reporting Standard 15 and have restated the value of land and buildings to historical cost. This change in policy has been accounted for as a prior year adjustment and the comparatives have been adjusted accordingly.

Bryan Gray
Chief Executive

Report of the Directors

The directors present their report and the audited financial statements for the nine month period ended 31 December 1999.

Principal activities

The principal activity of the Group during the period was the manufacture and distribution of home comfort products in Europe. The Group also produced air management products and riveting machines used in aircraft manufacture. However, on 22 November 2000 the Company and Baxi Guarantees Limited disposed of all their trading operations by the sale of Baxi Holdings plc as referred to in the Foreword on behalf of the Board on page 1.

The Group continued to focus on community involvement through its investment in Preston North End plc.

Review of the business

A review of the Group's operating performance during the period is set out in the Operating and Financial Review on pages 2 to 4 and in the Foreword on behalf of the Board on page 1. Details of acquisitions and disposals are set out in the Operating and Financial Review and in note 13 to the financial statements.

Following the acquisition of Blue Circle Heating the Group changed its year end to 31 December.

Share capital

As at 31 December 1999, the Baxi Partnership Limited Employee Trust held 79.1% *(27 March 1999: 79.1%)* of the Company's issued ordinary share capital together with all the Company's issued preference share capital. A further 17.8% of ordinary share capital *(27 March 1999: 14.1%)* 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 3.1% *(27 March 1999: 6.8%)* of the issued ordinary share capital.

Post balance sheet events

On 9 January 2000 the Group disposed of its investment in Baxi Air Management Limited for net proceeds of £5.1M resulting in a small profit after deducting goodwill previously written off to reserves of £2.5M.

On 17 January 2000, all the assets and liabilities of Baxi Partnership Limited, with the exception of its investments in Preston North End plc and Tinsley Foods Limited, debtors and other trading balances in respect of these investments, certain intercompany balances, cash and deposits, liabilities for administering the Employee Trusts and the Baxi Parliamentary Bill, contracts for the executive directors and other statutory creditors, were transferred to Baxi plc, an indirect subsidiary of Baxi Partnership Limited. Contracts for the non-executive directors were transferred to Baxi Holdings plc.

On 17 January 2000 the Group refinanced its short term borrowing facilities by entering into long and medium term financing agreements with its principal bankers, Sociëté Générale, details of which are given in note 17 to the financial statements.

On 17 March 2000 the Group completed the disposal of the stand alone radiator businesses acquired in December 1999 as part of the Blue Circle Heating acquisition, together with the Italian radiator plant acquired in February 1999 as part of the acquisition of the trade and assets of Ocean Idroclima SpA. The total proceeds, excluding costs, were £187.0M. These radiator businesses, excluding the Italian radiator plant were held as a current asset investment at 31 December 1999 (note 16). As these businesses were held at their net realisable value on acquisition, no profit or loss arose on their subsequent disposal in 2000.

In June 2000 the Group disposed of its investment in ATL for debt free consideration of £6.0M. The loss on disposal of £2.3M, including goodwill of £1.6M previously written off to reserves, has been recognised as an impairment charge in these financial statements.

On 22 November 2000 the Company and Baxi Guarantees Limited (which together held directly all the issued share capital of Baxi Holdings plc) sold their interests in Baxi Holdings plc, for consideration of approximately £16M. including an amount of £5M which is to be set aside for the payment of a special dividend to shareholders. As a result the Company has disposed of all its interests in the Baxi trading businesses. This disposal will result in a loss of approximately £46M in the accounts of the Company being recognised in the financial statements for the year ending 31 December 2000. No provision has been made for this loss in the accounts as the diminution in value occurred after the end of the period to which these accounts relate.

Report of the Directors *(continued)*

Transfers to reserves

The loss of the Group for the period was £5.1M *(year ended 27 March 1999: restated profit £5.7M)*. The directors do not recommend the payment of a dividend *(year ended 27 March 1999: £nil)*

Research and development

In the nine months ended 31 December 1999 the Group invested £2.7M *(year ended 27 March 1999: £1.4M)* in research and development, directed towards new technology, innovative products and to support the achievement of best practice across Europe.

Policy and practice on payment of creditors

The Company's policy, which was 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 31 December 1999 the Company did not have any trade creditors. At 31 December 1999 the number of days purchases outstanding for payment by the Group in the UK was 47 days *(27 March 1999: 63 days)*.

Directors and directors' interests

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

Executive directors
Bryan Gray
John Acornley

Non-executive directors
Sir Anthony Cleaver (appointed director on 9 July 1999 and appointed Chairman on 16 July 1999, resigned as a director, on 27 October 2000)
Trevor Eccleston (resigned on 22 November 2000)
David Erdal
Cairns Campbell
Andrew Thomas (resigned on 22 November 2000)
Nick Kuenssberg (resigned 1 October 1999)

Sir Anthony Cleaver is Chairman of AEA Technology plc, IX Europe and S Three and a non-executive director of Smith & Nephew plc and Lockheed Martin UK Limited. He is also Chairman of the Council for Excellence in Management Leadership, the Medical Research Council and the Royal College of Music.

David Erdal is Executive Director of Job Ownership Limited, 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.

Andrew Thomas was Executive Chairman of The Greenalls Group plc until his retirement in February 2000 and is Non-executive Chairman of The Homeform Group Limited, a Non-executive Director of JJB Sports plc and a number of non-quoted companies. He is also a Partner in Moors, Andrew Thomas & Company, Chartered Accountants. Andrew Thomas chairs the Audit Committee.

Alan Wood is the Chief Executive of Siemens plc having previously been the Group Managing Director with responsibility for the UK divisions, focusing on Power Engineering, Automation and Installation Equipment. He is a long standing member of the Institution of Mechanical Engineers.

Trevor Eccleston has been with Baxi for twenty-one years and is presently a production manager at Alfer. Trevor was the Employee Director.

Cairns Campbell is a trustee of the Baxi Partnership Limited Employee Trust and a director of the Nobel Exhibition Trust.

Details of the directors' interests in shares of the Company are disclosed in note 7.

Report of the Directors *(continued)*

Alan Wood was appointed a director on 28 March 2000 and resigned as a director on 22 November 2000.

At the Annual General Meeting of the Company on 3 October 2000 Andrew Thomas and David Erdal retired by rotation and were re-elected. Having been appointed as directors since the last Annual General Meeting, Sir Anthony Cleaver and Alan Wood also retired and were re-elected as directors.

Employees

Consequent upon the sale of Baxi Holdings plc on 22 November 2000, the Company and its remaining subsidiary do not have any employees. However, during the period and until 22 November 2000 the Group placed considerable emphasis on the contribution of the people within its business, supporting the view that its continued prosperity was dependent on the involvement and participation of every employee.

The Group believed 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 were maintained throughout the period.

Employees were kept informed of developments in the business via Group briefings from their managers. On a monthly basis, the internal publication "Baxi News" was circulated to all employees. Baxi also operated a Group Council, chaired by David Erdal, consisting of employee councillors representing each UK company in the Group with the exception of Baxi Heating Limited.

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

Health and safety

The Group's policy during the period was to assure a working environment which minimised 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.

Political and charitable contributions

The Group made no political contributions during the period. Donations to UK charities amounted to £42,000 *(year ended 27 March 1999: £40,000)*.

Auditors

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

By order of the Board

BM Gray
Director

Sceptre Way
Bamber Bridge
Preston
PR5 6AW

22 November 2000

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a 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.

KPMG

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

Report of the Auditors to the Members of Baxi Partnership Limited

We have audited the financial statements on pages 10 to 42.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 8, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

We read the other information contained in the Annual Report 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.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Group and Company's affairs as at 31 December 1999 and of the loss of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

22 November 2000

Consolidated Profit and Loss Account

for the nine months ended 31 December 1999

	Note	9 months ended 31 December 1999					Restated Year ended 27 March 1999		
		Existing £000	**Acquisition £000**	**Total Continuing £000**	**Discontinued £000**	**Total £000**	Existing £000	Discontinued £000	Total £000
Turnover	*2*	137,880	22,505	160,385	6,249	166,634	108,177	10,426	118,603
Cost of sales		(97,993)	(16,460)	(114,453)	(4,055)	(118,508)	(74,205)	(7,293)	(81,498)
Gross profit		39,887	6,045	45,932	2,194	48,126	33,972	3,133	37,105
Other operating expenses:									
- normal		(29,901)	(6,062)	(35,963)	(1,244)	(37,207)	(25,713)	(3,028)	(28,741)
- exceptional	*4*	(7,859)	(1,028)	(8,887)	-	(8,887)	-	-	-
		(37,760)	(7,090)	(44,850)	(1,244)	(46,094)	(25,713)	(3,028)	(28,741)
Other operating income:									
- exceptional	*4*	1,669	-	1,669	-	1,669	-	-	-
Group operating profit		3,796	(1,045)	2,751	950	3,701	8,259	105	8,364
Share of associate's losses (existing)						(225)			(667)
Total operating profit						3,476			7,697
Profit on disposal of fixed asset investments (existing)	*6*					-			82
Loss on disposal of subsidiary undertakings (discontinued)	*6*					-			(868)
Share of associate's profit on disposal of fixed assets (existing)						151			90
Amounts written off investments (existing)	*4*					(920)			-
Profit before interest and taxation						2,707			7,001
Net interest (payable)/receivable	*9*					(5,474)			2,343
(Loss)/profit on ordinary activities before taxation	*5*					(2,767)			9,344
Tax on (loss)/profit on ordinary activities	*10*					(2,331)			(3,637)
(Loss)/profit for the financial period	*21*					(5,098)			5,707

Existing operations include the results of Baxi SpA which was acquired in February 1999.

The results analysed under acquisition relate to the trading of the businesses acquired from BCI for the period from acquisition on 3 December 1999 to 31 December 1999, excluding the stand alone radiator businesses sold.

Discontinued activities represent the results of Baxi Air Management Limited which was sold in January 2000.

Consolidated and Company Balance Sheets

as at 31 December 1999

		Group		Company	
	Note	**31 December 1999 £000**	Restated 27 March 1999 £000	**31 December 1999 £000**	Restated 27 March 1999 £000
Fixed assets					
Intangible assets – goodwill	*11*	**235,492**	37,133	**-**	-
Tangible assets	*12*	**94,698**	53,913	**2,939**	3,286
Investments	*13*	**2,102**	3,109	**59,203**	87,070
		332,292	94,155	**62,142**	90,356
Current assets					
Stocks	*14*	**81,366**	24,006	**-**	-
Debtors	*15*	**143,058**	52,045	**2,813**	11,898
Investments	*16*	**196,197**	-	**-**	-
Cash		**22,585**	25,337	**4,460**	10,527
		443,206	101,388	**7,273**	22,425
Creditors: amounts falling due within one year					
Loans and overdrafts	*17*	**(519,404)**	(6,896)	**-**	-
Creditors	*18*	**(145,183)**	(55,300)	**(6,518)**	(2,682)
		(664,587)	(62,196)	**(6,518)**	(2,682)
Net current (liabilities)/assets		**(221,381)**	39,192	**755**	19,743
Total assets less current liabilities		**110,911**	133,347	**62,897**	110,099
Creditors: amounts falling due after one year					
Loans and overdrafts	*17*	**(3,068)**	(44,575)	**-**	(38,483)
Creditors	*18*	**(545)**	-	**-**	-
		(3,613)	(44,575)	**-**	(38,483)
Provisions for liabilities and charges	*19*	**(29,370)**	(5,203)	**-**	(58)
Net assets		**77,928**	83,569	**62,897**	71,558
Capital and reserves					
Called up share capital	*20*	**1,031**	1,031	**1,031**	1,031
Share premium account	*21*	**3,566**	3,566	**3,566**	3,566
Profit and loss account	*21*	**73,331**	78,972	**58,300**	66,961
Shareholders' funds (including non - equity)		**77,928**	83,569	**62,897**	71,558

These financial statements were approved by the board of directors on 22 November 2000 and were signed on its behalf by:

Bryan Gray

Bryan Gray
Director

John Acornley
Director

Consolidated Cash Flow Statement

for the nine months ended 31 December 1999

	Note	**9 months ended 31 December 1999 £000**	Year ended 27 March 1999 £000
Cash flow from operating activities	*22*	**34,386**	14,233
Returns on investments and servicing of finance	*23*	**(17,763)**	2,410
Taxation	*23*	**(739)**	(2,938)
Capital expenditure and financial investment	*23*	**(4,971)**	(7,445)
Acquisitions and disposals	*23*	**(502,507)**	(80,001)
Cash flow before use of liquid resources and financing		**(491,594)**	(73,741)
Management of liquid resources		**-**	3,038
Financing	*23*	**489,235**	42,175
Decrease in cash	*24*	**(2,359)**	(28,528)

Reconciliation of Net Cash Flow to Movements in Net Debt

for the nine months ended 31 December 1999

	Note	**9 months ended 31 December 1999 £000**	Year ended 27 March 1999 £000
Decrease in cash	*24*	**(2,359)**	(28,528)
Cash inflow from increase in debt	*24*	**(477,098)**	(42,175)
Cash inflow from decrease in liquid funds		**-**	(3,038)
Movement in net debt resulting from cash flows		**(479,457)**	(73,741)
Hire purchase obligations acquired with subsidiary	*24*	**(380)**	-
Non-cash changes	*24*	**3,002**	-
New hire purchase obligations		**-**	(250)
Currency translation gain	*24*	**3,082**	2,256
Movement in net debt	*24*	**(473,753)**	(71,735)
Opening net (debt)/funds	*24*	**(25,784)**	45,951
Closing net debt	*24*	**(499,537)**	(25,784)

Consolidated Statement of Total Recognised Gains and Losses

for the nine months ended 31 December 1999

		9 months ended 31 December 1999 £000	Restated Year ended 27 March 1999 £000
(Loss)/profit for the financial period	- Group	**(4,992)**	6,284
	- Associates	**(106)**	(577)
		(5,098)	5,707
Surplus on revaluation of own shares		**-**	89
Net exchange loss on overseas net assets		**(2,165)**	(1,698)
Total recognised (losses)/gains relating to the financial period		**(7,263)**	4,098
Prior year adjustments (note 1)		**(5,763)**	-
Total (losses)/gains recognised since last annual report		**(13,026)**	4,098

Reconciliation of Movements in Shareholders' Funds

for the nine months ended 31 December 1999

	Group		**Company**	
	9 months ended 31 December 1999 £000	Restated Year ended 27 March 1999 £000	**9 months ended 31 December 1999 £000**	Restated Year ended 27 March 1999 £000
(Loss)/profit for the period	**(5,098)**	5,707	**(6,741)**	(1,367)
Net exchange loss on currency translation	**(2,165)**	(1,698)	**(1,920)**	(1,887)
Surplus on revaluation of own shares	**-**	89	**-**	89
Goodwill on disposals previously written off	**-**	27	**-**	-
Impairment of goodwill previously written off	**1,622**	-	**-**	-
Goodwill on prior year acquisition	**-**	87	**-**	-
Movement in shareholders' funds	**(5,641)**	4,212	**(8,661)**	(3,165)
Shareholders' funds at beginning of period (originally £89,332,000 before deducting prior *year adjustment of £5,763,000)*	**83,569**	79,357	**71,558**	74,723
Shareholders' funds at end of period	**77,928**	83,569	**62,897**	71,558

Shareholders' funds includes £450,000 of non-equity interests *(27 March 1999: £450,000).*

Notes to the Accounts

1 **Accounting policies**

Except for the change in accounting policy regarding the revaluation of land and buildings as noted below, the following principal accounting policies have been applied consistently in dealing with items which are considered material to the financial statements.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. During the period the Group has adopted new accounting standards FRS 15 Tangible Fixed Assets and FRS 16 Current Tax.

Certain prior year comparatives have been restated to achieve consistency with the layout adopted in the current period. The charge for profit sharing of £1,471,000 *(year ended 27 March 1999: £2,344,000)* which was separately disclosed below operating profit in the financial statements for the year ended 27 March 1999 has been reclassified within cost of sales and other operating expenses, as appropriate.

Change in accounting policy and prior period adjustment

Following the Group's adoption of FRS 15 Tangible Fixed Assets, land and buildings have been restated to depreciated historical cost. Previously they were stated at valuation. The effect of this change, which has been shown as a prior year adjustment, has been to increase operating profit for the year ended 27 March 1999 by £122,000 and to reduce shareholders' funds at that date by £5,763,000 *(28 March 1998: £5,885,000)*.

The impact of restating land and buildings to historical cost in the nine months ended 31 December 1999 has been to reduce the charge for depreciation by £92,000.

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 period 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.

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 reserve.

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.

Notes *(continued)*

1 **Accounting policies** *(continued)*

Similarly, the results of disposed subsidiaries are included in the consolidated profit and loss account up to the date of disposal. On disposal of a business, any goodwill not already transferred to the profit and loss account is included in determining the profit and loss on disposal.

Subsidiaries and businesses which are held with the intention of resale and have not previously been consolidated are held as current asset investments at their estimated net realisable value.

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

Depreciation is provided to write off on a straight line basis the cost of the assets, less residual value, 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 buildings	-	50 years
Plant and machinery	-	3 to 15 years
Tooling	-	lower of product life and 3 years

No depreciation is provided on freehold land.

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 realisable value net of costs of disposal.

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.

Long-term contracts

The amount of profit attributable to the stage of completion of a long-term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at cost incurred, less those costs transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Capital instruments

In accordance with FRS 4 Capital Instruments, term debt is stated in the accounts at the gross amount at issue less the costs incurred in connection with its issue. Costs which have been capitalised in the balance sheet are amortised in the profit and loss account over the term of the debt to which they relate.

Notes *(continued)*

1 **Accounting policies** *(continued)*

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 sheet 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 period in which it is incurred.

Pensions and other post retirement benefits

The expected cost of providing pensions and other post retirement benefits, as calculated periodically by independent actuaries, is charged to the profit and loss account so as to spread the cost over the expected average remaining service lives of current employees. The Group operates several pension schemes providing benefits based on final pensionable pay. The assets of the UK schemes are held separately from those of the Group; overseas schemes are funded out of the assets of the companies and pension obligations are provided on the balance sheet.

Taxation

The charge for taxation is based on the result for the period 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.

Notes *(continued)*

2 Segmental information

Turnover

	9 months ended 31 December 1999				Year ended 27 March 1999		
	Existing £000	Acquisition £000	Discontinued £000	Total £000	Existing £000	Discontinued £000	Restated Total £000
By market							
Boilers and related products	137,880	22,408	-	160,288	108,177	-	108,177
Automation	-	97	-	97	-	-	-
Other activities	-	-	6,249	6,249	-	10,426	10,426
	137,880	22,505	6,249	166,634	108,177	10,426	118,603

	9 months ended 31 December 1999				Year ended 27 March 1999		
	Existing £000	Acquisition £000	Discontinued £000	Total £000	Existing £000	Discontinued £000	Restated Total £000
By origin							
United Kingdom	61,051	8,566	6,249	75,866	78,304	10,426	88,730
Italy	63,413	-	-	63,413	13,007	-	13,007
France	4,252	8,681	-	12,933	5,577	-	5,577
Scandinavia	9,164	-	-	9,164	11,289	-	11,289
Germany	-	4,321	-	4,321	-	-	-
Other Europe	-	937	-	937	-	-	-
	137,880	22,505	6,249	166,634	108,177	10,426	118,603
By destination							
United Kingdom	65,509	8,570	5,109	79,188	75,703	8,861	84,564
Italy	24,515	19	-	24,534	6,902	-	6,902
France	10,507	7,201	23	17,731	6,975	43	7,018
Scandinavia	8,264	2	9	8,275	10,356	58	10,414
Germany	4,155	4,295	-	8,450	1,546	-	1,546
Other Europe	19,298	2,057	875	22,230	5,836	902	6,738
Rest of World	5,632	361	233	6,226	859	562	1,421
	137,880	22,505	6,249	166,634	108,177	10,426	118,603

(Loss)/profit on ordinary activities before tax

	9 months ended 31 December 1999				Year ended 27 March 1999		
	Existing £000	Acquisition £000	Discontinued £000	Total £000	Existing £000	Discontinued £000	Restated Total £000
By market							
Boilers and related products	9,986	73	-	10,059	8,259	-	8,259
Automation	-	(90)	-	(90)	-	-	-
Other activities	(74	-	950	876	(577)	105	(472)
	9,912	(17)	950	10,845	7,682	105	7,787
By origin							
United Kingdom	5,288	122	950	6,360	6,416	105	6,521
Italy	3,943	-	-	3,943	504	-	504
France	(166	478	-	312	(231)	-	(231)
Scandinavia	847	-	-	847	993	-	993
Germany	-	(591)	-	(591)	-	-	-
Other Europe	-	(26)	-	(26)	-	-	-
	9,912	(17)	950	10,845	7,682	105	7,787
Net exceptional items	(6,190	(1,028)	-	(7,218)	-	-	-
Amounts written off and loss on sale of investments and subsidiaries	(920	-	-	(920)	82	(868)	(786)
	2,802	(1,045)	950	2,707	7,764	(763)	7,001
Net interest (payable)/receivable				(5,474)			2,343
(Loss)/profit before tax				(2,767)			9,344

Notes *(continued)*

2 Segmental information *(continued)*

Exceptional items of £6,190,000 and £1,028,000 relating to existing and acquired businesses respectively arise in the UK and relate to the boilers and related products market, with the exception of the ATL impairment and other operating income which relate to other activities.

The segmental analysis has been restated to reflect the new Group structure following the Group's acquisition during the period. Other activities comprise the results of Baxi Air Management Limited, which represents the damper and fan coil business traded under the Actionair brand, and the Group's associated undertaking, Preston North End plc.

The results analysed under acquisitions relate to the acquisition of BCH on 3 December 1999, excluding the stand alone radiator businesses which were sold on 17 March 2000.

In the nine months ended 31 December 1999 discontinued activities represents the results of Baxi Air Management Limited which was disposed of in January 2000. In the year ended 27 March 1999 discontinued activities also included the results of Landmark Components Limited which was disposed of in that year.

	9 months ended 31 December 1999				Year ended 27 March 1999		
	Existing £000	**Acquisition £000**	**Discontinued £000**	**Total £000**	Existing £000	Discontinued £000	Restated Total £000
Operating net assets							
By market							
Boilers and related products	98,868	294,157	-	393,025	109,808	-	109,808
Automation	-	14,228	-	14,228	-	-	-
Other activities	-	-	2,726	2,726	-	2,042	2,042
	98,868	308,385	2,726	409,979	109,808	2,042	111,850
By origin							
United Kingdom	23,321	143,406	2,726	169,453	23,354	2,042	25,396
Italy	69,993	-	-	69,993	80,678	-	80,678
France	2,112	113,808	-	115,920	1,623	-	1,623
Scandinavia	3,442	-	-	3,442	4,153	-	4,153
Germany	-	47,496	-	47,496	-	-	-
Other Europe	-	3,675	-	3,675	-	-	-
	98,868	308,385	2,726	409,979	109,808	2,042	111,850

Operating net assets excludes: investments £198,299,000 *(27 March 1999: £3,109,000)*, net borrowings £499,887,000 *(27 March 1999: £25,784,000)*, corporation and deferred tax £6,114,000 *(27 March 1999: £2,905,000)* and other net current liabilities of £24,349,000 *(27 March 1999: £2,701,000)*.

3 Analysis of operating results

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

	9 months ended 31 December 1999				Year ended 27 March 1999		
	Existing £000	**Acquisition £000**	**Discontinued £000**	**Total £000**	Existing £000	Discontinued £000	Restated Total £000
Turnover	137,880	22,505	6,249	166,634	108,177	10,426	118,603
Cost of sales	(97,993)	(16,460)	(4,055)	(118,508)	(74,205)	(7,293)	(81,498)
Gross profit	39,887	6,045	2,194	48,126	33,972	3,133	37,105
Distribution costs							
- normal	(15,623)	(3,788)	(798)	(20,209)	(14,256)	(1,266)	(15,522)
- exceptional	(872)	-	-	(872)	-	-	-
	(16,495)	(3,788)	(798)	(21,081)	(14,256)	(1,266)	(15,522)
Administrative expenses							
- normal	(14,278)	(2,274)	(446)	(16,998)	(11,457)	(1,762)	(13,219)
- exceptional	(5,318)	(1,028)	-	(6,346)	-	-	-
	(19,596)	(3,302)	(446)	(23,344)	(11,457)	(1,762)	(13,219)
Group operating profit/(loss)	3,796	(1,045)	950	3,701	8,259	105	8,364

Notes *(continued)*

4 Exceptional items and amounts written off fixed asset investments

Exceptional items

	Existing £000	Acquisition £000	Total £000
Other operating expenses:			
Impairment of ATL - fixed assets	635	-	635
- goodwill	1,622	-	1,622
Employee Trust support provision	4,550	-	4,550
Alignment of accounting practices	872	-	872
Redundancy costs	180	200	380
Professional fees	-	828	828
	7,859	1,028	8,887
Other operating income:			
Contribution to ATL operating losses	(1,669)	-	(1,669)

Impairment of ATL

The carrying value of the fixed assets of ATL, and associated goodwill which had previously been written off to reserves, has been reviewed for impairment during the period. By considering their value in use and net realisable value impairment charges of £635,000 and £1,622,000 have been made against fixed assets and goodwill respectively reflecting the net realisable value of these assets.

Employee Trust support provision

Historically the Group had adopted a practice of making contributions to profit share trusts which have bought shares from employees and ex-employees wanting to sell in order that these shares may be newly allocated in pursuance of profit sharing. The result has been a market within which employees wanting to sell shares in the Company could do so.

Under the current financing structure, it will not be possible for any additional shares to be issued under profit sharing arrangements. However, in order to foster and maintain good employee relations, it will still be necessary for the Trusts to continue to operate a market for the purchase of existing shares held by employees. Consequently, the Group has recognised this obligation and provided £4,550,000 to reflect the contributions which will be needed to support the Employee Trusts' repurchase of shares held by or on behalf of (past and present) employees. See note 30 for details of the implication of the sale of Baxi Holdings plc and its subsidiaries on the provision.

Alignment of accounting practices

Following the BCH acquisition the Group has reviewed and harmonised accounting policies and practices. This has resulted in a non-recurring charge for the existing Group of £872,000 in respect of the alignment of the methodology for the measurement of sales rebates.

Redundancy costs

Redundancy costs of £380,000 relate to the integration of the existing and acquired UK boiler businesses.

Professional fees

Fees incurred incidental to the BCH acquisition and radiator disposal which have not been capitalised and are charged in arriving at operating profit are £828,000.

Other operating income

Other operating income of £1,669,000 relates to amounts receivable from Alcoa Inc. as a contribution towards the operating costs of ATL. The amount is receivable under the terms of a contract entered into between ATL and Alcoa Inc. in July 1999 under which Alcoa Inc. agreed to contribute to the operating costs of ATL for the year from 1 July 1999 to 30 June 2000 up to a maximum of £3,000,000.

Notes *(continued)*

4 Exceptional items and amounts written off fixed asset investments *(continued)*

Amounts written off fixed assets investments

Amounts written off fixed asset investments of £920,000 include a write down of the value of own shares held by the Company of £720,000 (note 13) and a provision of £200,000 against the carrying value of the Group's other investments.

5 (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging:

		9 months ended 31 December 1999 £000	Restated Year ended 27 March 1999 £000
Audit fees		**435**	103
Depreciation of tangible fixed assets:			
- owned assets		**6,875**	4,313
- assets held under hire purchase contracts:	normal	**438**	486
	exceptional	**635**	-
Amortisation of goodwill		**2,252**	329
Operating lease rentals:			
- plant and machinery		**127**	78
- land and buildings		**169**	203
Research and development expenditure		**2,672**	1,371
Currency translation loss		**8**	282
Profit sharing charge		**1,471**	2,344

The auditors' fees in respect of non-audit services were £2,542,000 *(year ended 27 March 1999: £628,000)* for the Group and £360,000 *(year ended 27 March 1999: £332,000)* for the Company. The fees paid to the auditors in respect of other services for the year ended 27 March 1999 and the nine months ended 31 December 1999 principally relate to the acquisitions during each period, the raising of debt finance and the disposal of the stand alone radiator businesses. The total amount of fees capitalised in respect of non audit services was £1,457,000 *(year ended 27 March 1999: £398,000)*. The audit fee for the Company was £40,000 *(year ended 27 March 1999: £15,000)*.

The audit fees of the stand alone radiator businesses, which are not consolidated, were £115,000.

6 Loss on disposal of discontinued operations and fixed assets

The loss on disposal of subsidiary undertakings in the year ended 27 March 1999 of £868,000 relates to the Group's disposal of Landmark Components Limited and included goodwill previously written off to reserves of £27,000. The profit of £82,000 on the disposal of fixed asset investments in the prior year related to the disposal of certain of the Group's other investments.

Notes *(continued)*

7 Directors' emoluments

Directors' emoluments, excluding pension contributions and payments made under the long term share Bonus Plan ("LTSBP") and Long Term Incentive Plan ("LTIP") were as follows:

	Nine months ended 31 December 1999					Year ended 27 March 1999
	Salary and fees	**Benefits**	**Annual Bonus**	**Profit Share**	**Total**	Total
	£	£	£	£	£	£
Executive directors						
Bryan Gray	129,112	11,210	76,112	18,225	234,659	228,461
John Acornley	69,166	11,283	44,267	12,280	136,996	134,650
Non-executive directors						
Sir Anthony Cleaver[1]	33,750	-	-	-	33,750	-
David Erdal	16,500	-	-	-	16,500	25,000
Cairns Campbell	12,000	-	-	-	12,000	16,000
Nick Kuenssberg[2]	22,500	-	-	-	22,500	18,000
Andrew Thomas[3]	13,500	-	-	-	13,500	18,000
Trevor Eccleston	20,201	-	-	519	20,720	19,797
	316,729	22,493	120,379	31,024	490,625	459,908

Notes

[1] Sir Anthony Cleaver was appointed Director on 9 July 1999. His fees included in the above table are from this date.

[2] The fees payable to Nick Kuenssberg include £13,500 paid in respect of compensation for loss of office.

[3] The fees were paid as consultancy fees to a company under his control.

During the period Bryan Gray also received a final award of £15,484 *(year ended 27 March 1999: £17,224)* in cash and £23,223 *(year ended 27 March 1999: £25,830)* in shares under the LTSBP in respect of a provisional award made on 1 April 1996 covering the three year period ending in March 1999.

A non contractual payment was made to each participant of the LTIP in final settlement for its cancellation. Payments were made of £56,250 to Bryan Gray and £30,938 to John Acornley in February 2000.

In addition to the annual bonus shown in the above table, a further non contractual bonus of £200,000 was awarded to each executive director dependent on successful completion of the disposal of the stand alone radiator businesses acquired as part of the BCH acquisition. The disposal was completed in March 2000, at which time the bonuses became payable.

Notes *(continued)*

7 Directors' emoluments *(continued)*

No directors exercised share options during the year.

Bryan Gray and Trevor Eccleston are members of the Baxi Partnership Pension Scheme. The company pays 10% of John Acornley's gross 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 period ended 31 December 1999 and the accumulated total amount as at the period end of the accrued pension to which each director belonging to the Pension 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 31 December 1999	Years of pensionable service	Additional annual pension earned during period excluding inflation	Accrued annual entitlement 31 December 1999	Accrued annual entitlement 27 March 1999	Estimated transfer value of additional pension earned
			£000	£000	£000	£000
BM Gray	46	7	2	34	32	21
T Eccleston	40	19	-	6	6	1

The basic salary payable to Bryan Gray is in excess of the limit set out 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.

In the nine months ended 31 December 1999 an amount of £15,163 *(year ended 27 March 1999: £16,114)* was paid into the FURB. Income tax and insurance of £11,612 in respect of the contribution to the FURB in the year ended 27 March 1999 was paid to Bryan Gray during the current period and is included within directors' emoluments.

The directors who held office at the end of the period had the following interests in the ordinary shares of the Company according to the register of directors' interests:

	At 31 December 1999	**At 27 March 1999**
Bryan Gray	45,443	38,347
John Acornley	11,602	9,784
Trevor Eccleston	411	293

Notes *(continued)*

7 Directors' emoluments *(continued)*

The interests of the directors in options over the ordinary shares of the Company are set out below.

	Date of grant	Number of shares At 27 March 1999 and 31 December 1999	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

1) Details of the SAYE scheme share options are provided in note 20 to the financial statements.

2) Details of the Company Share Option Plan ("CSOP") are outlined in note 20 to the financial statements.

3) Under the current rules, the number of options exercisable under the CSOP depends upon the cumulative operating profits of the Group in the three years ending March 2001. For operating profit of £29,500,000, 3,703 options will be exercisable, for operating profit of £36,500,000, 7,407 options will be exercisable (and proportionately less options for operating profit between £29,500,000 and £36,500,000). Options are exercisable between the date of announcement of the Group's results in 2001 and 21st April 2008. However, the change in the accounting period for the Company will require a revision to these rules to be agreed with the Inland Revenue.

In addition to the individual interests disclosed above the non-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 period such Employee Trusts held 4,774,961 ordinary shares and 450,000 preference shares of the Company. As a trustee of the Baxi Partnership Limited Employee Trust, 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 a non-beneficial interest in 4,774,961 ordinary shares and 450,000 preference shares in his capacity as a trustee of the Baxi Partnership Limited Employee Trust and as a director of Baxi Partnership Corporate Trustee Limited.

None of the other directors who held office at the end of the financial period had any disclosable 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.

8 Staff numbers and costs

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

	9 months ended 31 December 1999	Year ended 27 March 1999
Production	**1,678**	930
Sales and administration	**587**	397
	2,265	1,327

Notes *(continued)*

8 Staff numbers and costs *(continued)*

The aggregate payroll costs of these employees were as follows:

	9 months ended 31 December 1999 £000	Year ended 27 March 1999 £000
Wages and salaries	**32,558**	27,339
Social security costs	**5,158**	2,504
Other pension costs	**1,803**	1,326
	39,519	31,169

9 Net interest (payable)/receivable and similar income

	9 months ended 31 December 1999 £000	Year ended 27 March 1999 £000
Interest receivable and similar income		
Bank interest	**1,544**	3,390
Income from other investments	**21**	-
Reversal of discount of current asset investment	**1,065**	-
	2,630	3,390
Interest payable and similar charges		
On bank loans and overdrafts	**(5,186)**	(623)
Amortisation of financing fees	**(2,605)**	-
Hire purchase interest	**(281)**	(424)
Share of associate's interest	**(32)**	-
	(5,474)	2,343

The carrying value of the Group's investment in the stand alone radiator businesses is recorded as a current asset investment at 31 December 1999 (note 16) and has been discounted to reflect the expected net present value of proceeds recoverable on its subsequent disposal. The credit of £1,065,000 included within interest for the nine months ended 31 December 1999 relates to the reversal of this discount from the date of acquisition on 3 December 1999 to 31 December 1999.

Interest payable includes financing fees which, in accordance with FRS4 Capital Instruments, have been included within the carrying value of each loan and are amortised over the period of each respective loan facility, which following the refinancing undertaken in January 2000 (note 17), vary between four months and eight years. The charge of £2,605,000 in the nine months ended 31 December 1999 reflects the amortisation charge from acquisition to 31 December 1999.

Notes *(continued)*

10 Taxation

	9 months ended 31 December 1999 £000	Year ended 27 March 1999 £000
UK corporation tax at 30% *(year ended 27 March 1999: 31%)*	**333**	2,491
Overseas tax	**2,112**	462
Deferred taxation	**(114)**	684
	2,331	3,637

The tax charge for the nine months to 31 December 1999 is higher than the Group's composite tax rate applied to the loss before tax for the period principally due to the exceptional impairment of ATL's assets, which is not tax deductible, together with other expenses incurred which are also not allowable for tax. The tax rate incurred by the Group in continental European countries is higher than the prevailing UK rate.

11 Intangible fixed assets

Group	**Goodwill £000**
Cost	
At 27 March 1999	37,457
Adjustments to provisional fair values in prior year	2,111
Goodwill arising on acquisition	200,892
Currency translation difference	(2,476)
At 31 December 1999	237,984
Amortisation	
At 27 March 1999	324
Charge for period	2,252
Currency translation difference	(84)
At 31 December 1999	2,492
Net book value	
At 31 December 1999	**235,492**
At 27 March 1999	37,133

Goodwill capitalised in the year ended 27 March 1999 on the acquisition of the trade and assets of Ocean Idroclima SpA in February 1999 has been adjusted to reflect changes made in the current period to provisional fair value adjustments estimated on the original acquisition. Details of the changes in fair value adjustments are set out in note 13. The goodwill is being amortised over twenty years reflecting the durability of its products and market position.

Additions to goodwill in the nine months ended 31 December 1999 relate to the acquisition of BCH which is detailed in note 13. This goodwill is also being amortised over twenty years.

Notes *(continued)*

11 Intangible fixed assets *(continued)*

The goodwill of £235,492,000 represents goodwill on the acquisition of Baxi SpA and BCH. The directors considered whether there was any impairment of the goodwill as at 31 December 1999 and concluded that it was too soon after the acquisition of the BCH businesses to make a judgement, but that further consideration would be given in light of the results to 31 December 2000.

12 Tangible fixed assets

	Group			Company		
	Land and buildings £000	Plant and machinery £000	Total £000	Land and buildings £000	Plant and machinery £000	Total £000
Cost or valuation						
At 27 March 1999 as originally stated	30,855	65,704	96,559	1,387	4,423	5,810
Prior year adjustment (note 21)	(2,645)	-	(2,645)	-	-	-
At 27 March 1999 as restated	28,210	65,704	93,914	1,387	4,423	5,810
Acquisitions	36,887	133,201	170,088	-	-	-
Additions	311	5,329	5,640	-	348	348
Disposals	(89)	(1,753)	(1,842)	-	(27)	(27)
Currency translation difference	(1,309)	(1,613)	(2,922)	-	-	-
At 31 December 1999	64,010	200,868	264,878	1,387	4,744	6,131
Depreciation and diminution in value						
At 27 March 1999 as originally stated	1,871	35,509	37,380	4	2,520	2,524
Prior year adjustment (note 21)	2,621	-	2,621	-	-	-
At 27 March 1999 as restated	4,492	35,509	40,001	4	2,520	2,524
Acquisitions	16,395	108,322	124,717	-	-	-
Impairment	-	635	635	-	-	-
Charge for period	564	6,749	7,313	17	669	686
Disposals	(10)	(1,619)	(1,629)	-	(18)	(18)
Currency translation differences	(146)	(711)	(857)	-	-	-
At 31 December 1999	21,295	148,885	170,180	21	3,171	3,192
Net book value						
At 31 December 1999	**42,715**	**51,983**	**94,698**	**1,366**	**1,573**	**2,939**
At 27 March 1999 as restated	23,718	30,195	53,913	1,383	1,903	3,286

As stated in note 1, in accordance with FRS 15, Tangible Fixed Assets, land and buildings have been re-stated at their historical cost.

The net book value of land, which is not depreciated, is £15,574,000 *(27 March 1999: £10,962,000)*.

The net book value of the Group's land and buildings comprises freehold £41,136,000 *(27 March 1999: £22,294,000)* and leasehold property of £1,579,000 *(27 March 1999: £1,424,000)*. The Company's land and buildings are long leasehold.

Included in the Group's net book value of plant and machinery is £4,978,000 *(27 March 1999: £5,430,000)* in respect of assets held under hire purchase contracts. Depreciation for the period on these assets was £1,073,000 *(27 March 1999: £486,000)*. The Company had no assets held under hire purchase contracts.

Notes *(continued)*

13 Fixed asset investments

Group	Interest in associated undertaking	Other investments	Own shares	Total
	£000	£000	£000	£000
Cost or valuation				
At 27 March 1999	3,187	652	1,647	5,486
Additions	-	-	749	749
Disposals	-	(152)	(1,676)	(1,828)
Write off to the profit and loss account (note 4)	-	-	(720)	(720)
At 31 December 1999	3,187	500	-	3,687
Share of reserves and provisions				
At 27 March 1999 as originally stated	642	140	1,098	1,880
Prior year adjustment (note 21)	497	-	-	497
At 27 March 1999 as restated	1,139	140	1,098	2,377
Utilised during the period	-	-	(1,098)	(1,098)
Created (note 4)	-	200	-	200
Share of current period losses	106	-	-	106
At 31 December 1999	1,245	340	-	1,585
Net book value				
At 31 December 1999	**1,942**	**160**	**-**	**2,102**
At 27 March 1999 as restated	2,048	512	549	3,109

Notes *(continued)*

13 Fixed asset investments *(continued)*

Company	Shares in Group undertakings £000	Shares in associated undertaking £000	Other investments £000	Own shares £000	Total £000
Cost or valuation					
At beginning of period	89,552	3,186	652	1,647	95,037
Additions	256	-	-	749	1,005
Acquisitions	59,711	-	-	-	59,711
Revaluations	(3,936)	-	-	-	(3,936)
Disposals	(88,979)	-	(152)	(1,676)	(90,807)
Write off to the profit and loss account (note 4)	-	-	-	(720)	(720)
At 31 December 1999	56,604	3,186	500	-	60,290
Provisions					
At beginning of the period	7,029	641	140	157	7,967
Created	4,570	106	200	-	4,876
Utilised	(11,599)	-	-	(157)	(11,756)
At 31 December 1999	-	747	340	-	1,087
Net book value					
At 31 December 1999	**56,604**	**2,439**	**160**	**-**	**59,203**
At 27 March 1999	82,523	2,545	512	1,490	87,070

On 3 December 1999, as part of a Group reorganisation, the Company exchanged its shareholdings in existing subsidiaries for shares in Baxi Holdings plc, an intermediate holding company.

The interest in associated undertaking represents 38% 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 31 December 1999 the market value of this investment was £2,191,000 *(27 March 1999: £2,658,000).*

During the period the Board decided that profit share awards would be paid in cash rather than satisfied by a combination of shares and cash. As a result, the shares previously held on the balance sheet in accordance with UITF 13 would not be used by the Group for further profit sharing. Consequently, the shares have been fully written off to the profit and loss account in the period.

Notes *(continued)*

13 Fixed asset investments *(continued)*

Substantial acquisition

On 3 December 1999 the Group acquired the companies which formed the heating division of Blue Circle Industries plc for £488,070,000 in cash plus costs not charged to the profit and loss account of £7,028,000. The acquisition has been accounted for using the acquisition method of accounting. Provisional goodwill arising on the acquisition of £200,892,000 has been capitalised. Of the total consideration payable, £10,000,000 was deferred and paid on 31 January 2000.

The book value and fair value of assets acquired is as follows:

	Book value	Accounting policy adjustments	Fair value adjustments	Fair value
	£000	£000	£000	£000
Tangible fixed assets	47,612	-	(2,241)	45,371
Current asset investment	193,668	-	-	193,668
Stocks	62,804	-	-	62,804
Debtors	106,421	-	-	106,421
Intra-group debt	(162,770)	-	-	(162,770)
External debt	(19,121)	-	-	(19,121)
Creditors	(74,559)	(1,790)	-	(76,349)
Provisions	(16,260)	(2,753)	425	(18,588)
	137,795	(4,543)	(1,816)	131,436
Costs				(7,028)
Goodwill capitalised				200,892
Consideration including debt				325,300
Intra-group debt				162,770
External debt				19,121
Total consideration excluding debt				507,191

The accounting policy adjustments to creditors and provisions relate to the alignment of BCH's accounting policies in respect of sales rebate and warranty costs.

The fair value adjustment in respect of fixed assets represents a reduction in the valuation of the properties in Germany, France and an increase in the UK. The basis of valuation was open market value as defined by Practice Statement PS4.2.

The fair value adjustment to provisions principally relates to the fair value assessment of French and German pension provisions in accordance with SSAP 24.

Notes *(continued)*

13 Fixed asset investments *(continued)*

The most recent statutory year end of the companies acquired was 31 December 1998. From this date to the acquisition on 3 December 1999 a consolidated, summarised profit and loss account for these companies was as follows:

	Period ended 3 December 1999 £000	Year ended 31 December 1998 £000
Turnover	**316,551**	277,499
Operating profit before exceptional costs	**27,673**	29,561
Exceptional costs	**(10,131)**	(783)
Operating profit after exceptional costs	**17,542**	28,778
Profit before taxation	**10,366**	34,777
Taxation	**(2,793)**	(9,218)
Dividends	**1,784**	3,173
Retained profit	**9,357**	28,732

There were no gains or losses in the period other than those recognised above.

The summarised profit and loss account has been adjusted to exclude the stand alone radiator businesses which have been excluded from the consolidation.

Changes to provisional fair values

The Group has revised its provisional estimates of the fair value of assets acquired on the acquisition of the trade and assets of Baxi SpA in the financial statements for the year ended 27 March 1999.

Additional fair value adjustments have been made which have increased goodwill arising on the acquisition of Baxi SpA by £2,111,000 to £37,092,000 at the period end exchange rate (note 11). The adjustments relate to the creation of a provision for agents' termination costs of £394,000 and a provision of £1,717,000 to restate the employees' termination provision at its gross rather than discounted value.

Subsidiaries excluded from consolidation

As part of its acquisition of BCH the Group acquired certain stand alone radiator businesses of Blue Circle Industries plc. These businesses were acquired exclusively with the intention of resale and accordingly have not been consolidated with the results of the rest of the Group.

The companies excluded from the Group's consolidation, which were all wholly owned by the Baxi Group at 31 December 1999, were Thermopanel AB, Megatherm i Helsingborg AB, Myson AB, AB Markaryds Metallarmatur, LVI Produckter AB, Finimétal SA, Finimétal Limited, Potterton Myson Limited, Myson Inc., Myson Heating Controls Limited and Myson Radiators Limited.

The aggregate net assets of the companies excluded from the consolidation at 31 December 1999 was £44,535,000 and the profit after tax for the period ended 31 December 1999 was £3,771,000.

Notes *(continued)*

13 Fixed asset investments *(continued)*

Disposal of subsidiary

As set out in note 30 on 22 November 2000 the Company and Baxi Guarantees Limited sold all their investments in their immediate subsidiary, Baxi Holdings plc, for approximately £16,000,000 including an amount of £5,000,000 set aside for the payment of a special dividend to shareholders. This disposal will result in a loss of approximately £46,000,000 being recognised in the Company's financial statements for the year ended 31 December 2000. No provision has been made for this loss in these accounts as the diminution in value occurred post period end.

14 Stocks

	Group	
	31 December 1999 £000	27 March 1999 £000
Long term contract balances	**7,353**	-
Less: attributable progress payments	**(6,037)**	-
	1,316	-
Short term work in progress	**5,756**	2,967
Raw materials and consumables	**21,619**	6,030
Finished goods and goods for resale	**52,675**	15,009
	81,366	24,006

The Company had no stocks at 31 December 1999 *(27 March 1999: nil)*.

15 Debtors

	Group		Company	
	31 December 1999 £000	Restated 27 March 1999 £000	**31 December 1999 £000**	Restated 27 March 1999 £000
Amounts falling due within one year				
Amounts receivable under long term contracts	**1,481**	-	-	-
Trade debtors	**128,265**	47,307	-	-
Amounts owed by subsidiary undertakings	-	-	**1,762**	1,979
Amounts owed by associated undertaking	**350**	357	**350**	357
Other debtors	**9,021**	970	**179**	-
Prepayments and accrued income	**2,194**	1,612	**151**	393
	141,311	50,246	**2,442**	2,729
Amounts falling due after more than one year				
Trade debtors	**179**	-	-	-
Amounts owed by subsidiary undertakings	-	-	-	8,914
Other debtors	**735**	888	**142**	255
Prepayments and accrued income	**833**	911	-	-
Deferred tax asset	-	-	**229**	-
	1,747	1,799	**371**	9,169
Total debtors	**143,058**	52,045	**2,813**	11,898

Notes *(continued)*

16 Current asset investments

	31 December 1999 £000	27 March 1999 £000
Group		
Investments in subsidiary undertakings held exclusively for resale	**167,940**	-
Amounts owed by subsidiary undertakings held exclusively for resale	**28,257**	-
	196,197	-

The investments in subsidiary undertakings relate to the stand alone radiator businesses which were acquired exclusively with the intention of resale (note 13).

17 Loans and overdrafts

	Group		Company	
	31 December 1999 £000	Restated 27 March 1999 £000	**31 December 1999 £000**	Restated 27 March 1999 £000
Amounts falling due within one year				
Bank overdraft	**6,487**	6,058	-	-
Bank loans	**528,664**	-	-	-
Less: unamortised issue costs	**(16,694)**	-	-	-
	518,457	6,058	-	-
Obligations under hire purchase contracts	**947**	838	-	-
	519,404	6,896	-	-
Amounts falling due after more than one year				
Obligations under hire purchase contracts	**3,068**	3,092	-	-
Bank loans	-	41,483	-	38,483
	3,068	44,575	-	38,483
Total loans and overdrafts	**522,472**	51,471	-	38,483

Bank loans of £528,664,000 *(27 March 1999: £3,000,000)* together with the hire purchase liabilities of £4,015,000 *(27 March 1999: £3,930,000)* are secured by a fixed and floating charge.

The value of bank loans outstanding at 31 December 1999 is stated net of unamortised financing costs of £16,694,000 *(27 March 1999: nil)* incurred in respect of the Group's refinancing during the period. The issue costs are amortised to the profit and loss account over the terms of the individual facility (note 9).

Notes *(continued)*

17 Loans and overdrafts *(continued)*

At 31 December 1999 total bank loans, net of financing costs, of £511,970,000 *(27 March 1999: nil)* are disclosed as repayable within one year. At the period end the Group had drawn on a temporary borrowing facility from Société Générale which was refinanced on 17 January 2000 with short, medium and long term facilities. The following table details the Group's net debt at 31 December 1999 and the pro-forma effect of the refinancing.

	31 December 1999 £000	**Pro-forma £000**
Short term facility	(528,664)	-
Working capital drawing	-	(29,445)
Senior debt – sterling	-	(26,060)
Senior debt – euro	-	(118,159)
Senior debt tranche D – sterling	-	(18,500)
Short term bridge – sterling	-	(186,500)
Subordinated bridge – sterling	-	(150,000)
	(528,664)	(528,664)

The senior debt facilities were to be repaid over eight years. Following the sale of the stand alone radiator businesses the short-term bridge was repaid.

The subordinated bridge facility and the senior debt tranche D facility expired on 17 October 2000. The Group's bank syndicate provided support to the Group until the sale of Baxi Holdings plc in pursuance of the merger with Newmond completed on 22 November 2000, when the above facilities were fully repaid.

18 Creditors (excluding loans and overdrafts)

	Group		**Company**	
	31 December 1999 £000	Restated 27 March 1999 £000	**31 December 1999 £000**	Restated 27 March 1999 £000
Amounts falling due within one year				
Trade creditors	**61,824**	33,784	-	-
Customer stage payments	**5,267**	-	-	-
Amounts owed to subsidiary undertakings	-	-	**4,075**	-
United Kingdom corporation tax	**3,518**	2,347	**101**	1,004
Overseas tax	**2,191**	103	-	-
Other taxes and social security	**10,853**	2,088	-	-
Other creditors	**20,627**	7,285	**2,055**	626
Accruals and deferred income	**40,903**	9,693	**287**	1,052
	145,183	55,300	**6,518**	2,682
Amounts falling due after more than one year				
Accruals and deferred income	**545**	-	-	-
Total creditors	**145,728**	55,300	**6,518**	2,682

Notes *(continued)*

19 Provision for liabilities and charges

Group	Deferred tax	Employee Trust support	Warranty	Employee retirement	Tota
	£000	£000	£000	£000	£00
At 27 March 1999	455	-	3,105	1,643	5,20
Revision to provisional fair values	-	-	-	1,717	1,71
Arising on acquisition	65	-	8,956	9,567	18,58
Utilised	-	-	(3,160)	(266)	(3,42
(Credit)/charge for the period	(114)	4,550	2,709	445	7,59
Currency translation difference	(1)	-	(95)	(206)	(30
At 31 December 1999	405	4,550	11,515	12,900	29,37

The Employee Trust Provision is explained in note 4. The warranty provision relates to expected claims on products sold to date and is based on past experience of claims paid.

The employee retirement provision arises in the Group's continental European subsidiaries, where local legislation requires companies to service pension obligations directly and pension funds are not held separately from the companies' assets.

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

	31 December 1999		27 March 1999	
Group	**Amount Provided**	**Amount Unprovided**	Amount provided	Amount Unprovided
	£000	**£000**	£000	£000
Difference between accumulated depreciation and capital allowances	**214**	**(1,101)**	787	853
Other timing differences	**191**	**(1,501)**	(332)	-
Total liability/(asset)	**405**	**(2,602)**	455	853

The Company has recognised a deferred tax asset of £229,000 *(27 March 1999: provision for liability £58,000)*. There were no unprovided amounts at 31 December 1999 or 27 March 1999.

Notes *(continued)*

20 Called up share capital

	31 December 1999 £000	27 March 1999 £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.

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

	SAYE 1992 (7 year)	SAYE 1996 (3 year)	SAYE 1996 (5 year)	CSOP	Total
At 27 March 1999	130,744	60,691	76,416	214,740	482,591
Exercised	(98,332)	(5,824)	(433)	-	(104,589)
Lapsed	(32,412)	(3,719)	(7,516)	(10,047)	(53,694)
At 31 December 1999	-	51,148	68,467	204,693	324,308
Option price per share	£4.00	£3.47	£3.47	£4.05	
Period exercisable	1999	2000	2002	*	

* 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 up to operating profit of £36,500,000, at which point all the options are exercisable. However, the change in accounting period for the Company will require a revision to these rules to be agreed with the Inland Revenue. The sale of Baxi Holdings plc will make the options exercisable for a more limited period than would otherwise have been the case.

Notes *(continued)*

21 Reserves

Group	Share Premium Account £000	Revaluation Reserve £000	Profit and loss account £000	Total £000
At 27 March 1999 as originally stated	3,566	5,763	78,972	88,301
Prior year adjustment	-	(5,763)	-	(5,763)
At 27 March 1999 as restated	3,566	-	78,972	82,538
Retained loss for the period	-	-	(5,098)	(5,098)
Goodwill charged to profit and loss account previously written off to reserves	-	-	1,622	1,622
Currency translation loss	-	-	(2,165)	(2,165)
At 31 December 1999	3,566	-	73,331	76,897

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 £8,594,000 *(27 March 1999: £10,216,000)*. The profit and loss account reserve includes the cumulative share of net losses retained by the Group's associated undertaking of £1,070,000 *(27 March 1999: £964,000)*.

The prior year adjustment in respect of tangible fixed assets and investments is £5,763,000 (note 1) of which £5,266,000 has been transferred from tangible fixed assets and £497,000 from fixed asset investments.

Company	Share Premium Account £000	Profit and loss account £000	Total £000
At 27 March 1999	3,566	66,961	70,527
Retained loss for the period	-	(6,741)	(6,741)
Currency translation loss	-	(1,920)	(1,920)
At 31 December 1999	3,566	58,300	61,866

Notes *(continued)*

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

	9 months ended 31 December 1999 £000	Restated Year ended 27 March 1999 £000
Group operating profit	**3,701**	8,364
Depreciation and amortisation	**9,565**	5,128
Exceptional asset write downs	**2,257**	-
Loss/(profit)on disposal of fixed assets	**33**	(60)
Decrease/(increase) in stocks	**2,226**	(1,604)
Decrease/(increase) in debtors	**10,780**	(2,929)
Increase in creditors and provisions	**5,824**	5,334
Net cash inflow from operating activities	**34,386**	14,233

Cash flows included above relating to exceptional items are redundancy costs (outflow of £300,000), fees incidental to the BCH acquisition (outflow of £149,000) and amounts received from Alcoa Inc., (inflow of £1,641,000) (note 4).

Notes *(continued)*

23 Analysis of cash flows for headings netted in the cash flow statement

	9 months ended 31 December 1999 £000	Year ended 27 March 1999 £000
Returns on investments and servicing of finance		
Interest received	1,482	3,262
Interest paid	(5,273)	(428)
Interest element of hire purchase payments	(280)	(424)
Debt issue costs paid	(13,692)	-
	(17,763)	2,410
Taxation		
UK corporation tax	(490)	(2,429)
Overseas tax	(249)	(509)
	(739)	(2,938)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(4,795)	(8,259)
Disposal of tangible fixed assets	120	393
Disposal of other fixed asset investments	453	851
Purchase of own shares	(749)	(430)
	(4,971)	(7,445)
Acquisitions and disposals		
Purchase of subsidiary undertakings	(289,718)	(69,064)
Net overdraft acquired with subsidiary undertakings	(19,121)	(11,440)
Purchase of current asset investment	(193,668)	-
Disposal of shares in subsidiary undertaking	-	(28)
Overdraft disposed of with subsidiary undertaking	-	531
	(502,507)	(80,001)
Financing		
Net bank loans received	491,080	43,369
Loan to associated undertaking	-	(350)
Loan repayments	-	(102)
Capital element of hire purchase contracts	(290)	(742)
Movement in loans to subsidiaries excluded from Consolidation	(1,555)	-
	489,235	42,175

Notes *(continued)*

23 Analysis of cash flows for headings netted in the cash flow statement *(continued)*

Cash flows of acquired and discontinued operations were as follows:

	9 months ended 31 December 1999		Year ended 27 March 1999
	Acquisition	**Discontinued**	Discontinued
	£000	**£000**	£000
Operating activities	**14,792**	**522**	1,224
Returns on investment and servicing of finance	**(377)**	**(2,512)**	(45)
Taxation	**22**	**(300)**	(269)
Capital expenditure and financial investment	**(609)**	**(20)**	(292)
Financing	**-**	**(503)**	-

24 Movement in net funds

	At 27 March 1999	Cash Flow	Acquired excluding cash	Non-cash changes	Exchange movement	At 31 December 1999
	£000	£000	£000	£000	£000	£000
Cash	25,337	(2,616)	-	-	(136)	22,585
Bank overdraft	(6,058	257	-	-	(686)	(6,487)
Bank loans	(41,483	(477,388)	-	3,002	3,899	(511,970)
Loan to associated undertaking	350	-	-	-	-	350
Hire purchase contracts	(3,930	290	(380)	-	5	(4,015)
	(25,784	(479,457)	(380)	3,002	3,082	(499,537)

The non-cash changes of £3,002,000 relate to the net of accrued financing fees of £5,607,000 and the amortisation of financing fees in the period of £2,605,000.

25 Capital commitments

	31 December 1999	27 March 1999
	£000	£000
Tangible fixed assets:		
Contracted	**6,475**	23
Authorised but not contracted	**3,874**	578

The Company had no outstanding capital commitments at 31 December 1999 or 27 March 1999.

Notes *(continued)*

26 Lease commitments

At 31 December 1999 the Group had the following annual rental commitments under non-cancellable operating leases.

	31 December 1999		
	Land and buildings	**Other assets**	**Total**
	£000	**£000**	**£000**
Expiry:			
Within one year	167	17	184
Between two and five years	1,397	131	1,528
After five years	1,059	73	1,132
	2,623	221	2,844

The Group had no significant operating lease commitments at 27 March 1999. The Company had no significant operating leases at 31 December 1999 or 27 March 1999.

27 Contingent liabilities

Group borrowings

At 31 December 1999, the Company had guaranteed the borrowings of Alloy Technologies Limited. The outstanding liabilities under this guarantee were £3,640,000 *(27 March 1999: £6,930,000)*. The Company also guarantees the borrowings of the Employee Share Ownership Trust. The outstanding liability under this guarantee is £414,000 *(27 March 1999: £1,268,000)*.

Ideal Standard litigation

One of the Group's French subsidiaries is currently the subject of a material legal action brought by American Standard. The substance of the case relates to the ownership of certain trademarks and assets in France under which the French Group makes a significant proportion of its sales. In April 1999 American Standard lost in the French Court of Appeal and have since appealed in the highest French Court, Cour de Cassation. The directors have concurred with the view formed by the management of the French subsidiary, who, having taken legal advice, have concluded that the risk of a material liability arising is remote. Accordingly, except for the costs of defending the case, no provision has been made in the financial statements. The company, which is the subject of this litigation, was sold as part of the disposal of Baxi Holdings plc on 22 November 2000.

Radiator disposal

Under the agreement for the disposal of the Radiator businesses entered into on 17 March 2000, the Group has provided an indemnity to Oy Rettig AB, the purchaser, against any fall in sales volumes, in the UK business, from the levels achieved in 1999. A payment would be triggered by a fall in sales volumes to a principal UK customer. The Group has agreed to compensate the acquiror of the radiator business for half of the loss attributable to the shortfall in sales in the three years following the disposal. The liability of the Group is capped at a maximum of £4,000,000. No provision has been made in the financial statements as the likelihood of a material liability arising is considered to be remote.

Notes *(continued)*

27 Contingent liabilities *(continued)*

Under the same agreement, the Group has agreed to pay up to £4,200,000 in respect of 50% of the costs of any work required to rectify existing environmental problems. An amount of £2,000,000 has been deducted from the current asset investment (note 16) in this regard.

The company, which had granted these guarantees, was sold as part of the disposal of Baxi Holdings plc on 22 November 2000.

On 28 September 2000 the Group received £2,675,000 in full and final settlement of the net asset position of the radiator businesses sold to Oy Rettig AB. This amount was considered as part of the net realisable value of the radiator businesses at 31 December 1999.

28 Pension scheme

The Company operated a contributory defined benefit pension scheme in the UK throughout the period. 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 UK equity dividends would be 4% and overseas equity dividends would be 5%.

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 purposes 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 £954,000 *(year ended 27 March 1999: £1,155,000)* for the period and the existing prepayment is £911,000 *(27 March 1999: £1,065,000)*. The charge in respect of other schemes is £849,000 *(year ended 27 March 1999: £171,000)*.

During 2000 the Group established a new scheme, to provide pension benefits in the UK of both a defined benefit and defined contribution nature, to accommodate employees transferring from the Blue Circle Retirement Plan and the Blue Circle Executive Plan as a result of the acquisition of BCH. The transfers received from the Blue Circle schemes represented the full value of members benefits.

The Group also operated a number of post retirement benefit schemes outside of the UK.

29 Related party disclosures

On 30 April 1998 the Group loaned Preston North End plc £350,000 at a market interest rate. Of this amount £350,000 *(27 March 1999: £357,000)* was outstanding at the period 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 *(27 March 1999: £2,000,000)* and its borrowings at 31 December 1999 were £414,000 *(27 March 1999: £1,268,000)*. During the period Baxi Partnership Limited made a gift of £37,000 *(year ended 27 March 1999: £80,000)* to this trust, which was utilised by the trust towards meeting its interest costs.

Prior to the acquisition on 3 December 1999, BCI provided certain services to the BCH companies relating to information systems, payroll, treasury, transport, taxation, telecommunications, property and business insurance. Transitional arrangements have been entered into between the Group and BCI for the provision by BCI of certain services relating to information systems, payroll services, transport and telecommunications. Individual transactions have not been identified, as it is not practicable to do so. The charge levied by BCI from acquisition to 31 December 1999 in respect of these items of £103,000 was owing to BCI at 31 December 1999.

Notes *(continued)*

In the period from 3 December 1999 to the period end, CICH invoiced Finimétal SA, a radiator company included within the Group's current asset investment, for net trade sales, management charges and running costs for the business premises of £637,000. At the period end £206,000 was due to the Group from Finimétal SA.

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

30 Post balance sheet events

On 9 January 2000 the Group disposed of its investment in Baxi Air Management Limited for net proceeds of £5,100,000 resulting in a small profit after deducting goodwill previously written off to reserves of £2,520,000.

On 17 January 2000, all the assets and liabilities of Baxi Partnership Limited, with the exception of its investments in Preston North End plc and Tinsley Foods Limited, debtors and other trading balances in respect of these investments, certain inter company balances, cash and deposits, liabilities for administering the Employee Trusts and the Baxi Parliamentary Bill, contracts for the executive directors and other statutory creditors, were transferred to Baxi plc, an indirect subsidiary of Baxi Partnership Limited. The contracts of non-executive directors were transferred to Baxi Holdings plc.

On 17 January 2000 the Group refinanced its short term borrowing facilities by entering into long and medium term financing agreements with its principal bankers, Société Générale, details of which are given in note 17 to the financial statements.

On 17 March 2000 the Group completed the disposal of the stand alone radiator businesses, together with the Italian radiator plant acquired in February 1999 as part of the acquisition of the trade and assets of Ocean Idroclima SpA, for total proceeds, excluding costs, of £186,984,000. These radiator businesses, excluding the Italian radiator plant, were acquired as part of the Blue Circle Heating acquisition in December 1999 and held as a current asset investment at 31 December 1999 (note 16). As these businesses are held at their net realisable value on acquisition no profit or loss arose on their disposal in 2000.

In June 2000 the Group entered into an agreement to dispose of its investment in ATL for debt free consideration of £6.0m. The loss on disposal of £2.3m, including goodwill of £1.6m previously written off to reserves, has been recognised as an impairment charge in these financial statements.

On 22 November 2000 the Company and Baxi Guarantees Limited sold all their investments in their immediate subsidiary, Baxi Holdings plc for approximately £16,000,000 including an amount of £5,000,000 which is to be set aside for the payment of a special dividend to shareholders. As a result of this disposal a loss of approximately £46,000,000 will be recognised in the Company's accounts for the year ended 31 December 2000. No provision has been made for this loss in the accounts as the diminution in value occurred post period end.

At completion of the sale of Baxi Holdings plc and all its subsidiaries on 22 November 2000, the bank debt put in place to fund the BCH acquisition was discharged in full. Subsequently, the remaining unamortised issue costs at this date will be expensed to the profit and loss account in the year to 31 December 2000.

Following the sale of Baxi Holdings plc and all its subsidiaries, the Employee Trust support provision is no longer required and will be reversed in the accounts for the year ending 31 December 2000.

31 Subsidiary undertakings

A schedule of interests in all undertakings will be filed with the annual return.

The principal activity of all the Group's subsidiary companies at the end of the period was the manufacture and sale of heating and heating related products; except for Baxi Air Management Limited which also manufactured dampers and fan coils; and Brötje Automation GmbH which manufactured riveting machines for aircraft manufacturers.