5419451

Ideal Stelrad Group Limited

Report and Financial Statements

31 December 2006

Registered No 5419451

Directors

R A Connell
T T Harvey
G J Letham
M De Venecia
S J Coates

Secretary

K Wills

Auditors

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Bankers

HSBC Plc
110 Grey Street
Newcastle upon Tyne
NE1 6JG

Solicitors

Dickinson Dees
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NE99 1SB

Registered Office

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NE1 3JE

Directors' report

The directors present their report and the group financial statements for the year ended 31 December 2006

Results and dividends

The group's profit for the year amounted to £2,653,000 (6 months to 31 December 2005 loss of £536,000) The directors do not recommend the payment of a dividend

Principal activities and review of the business

The group's principal activities during the year continued to be the manufacture and distribution of boilers and radiators

The group's key financial and other performance indicators during the year were as follows

	Audited 12 months to 31 December 2006 £m	*Unaudited Pro forma 12 months to 31 December 2005 £m*	*Audited 6 months to 31 December 2005 £m*
Turnover			
Boilers	126 9	106 8	57 8
Radiators	168 6	165 3	87 5
Group turnover	295 5	272 1	145 3
Operating profit			
Boilers	14 0	11 7	7 3
Radiators	13 7	11 8	5 9
Group operating profit	27 7	23 5	13 2
Operating profit margin	9 4%	8 6%	9 1%
Retained profit/(loss) for the period	2 7	2 4	(0 5)
Shareholders' funds	1 8	2 3	2 3
Working capital	40 6	37 6	37 6
Average number of employees	2,368	2,095	2,095

Pro-forma numbers for the 12 months to 31 December 2005 have been included to aid comparisons with the results in 2006 Although audited consolidated accounts were not prepared for the 12 months ended 31 December 2005, the group's subsidiaries traded for the 12 months ended 31 December 2005 The consolidated pro-forma numbers have been derived from the unaudited management accounts for these companies

Turnover in the boilers division increased by 19% in 2006 compared to the pro-forma results for the year to 31 December 2005 This was primarily due to market share gains arising from the continued migration from standard efficiency boilers to high efficiency boilers following changes in UK regulations introduced in April 2005, increased sales of commercial boilers and spare parts and the impact of the acquisition of Keston Holdings Limited ("Keston") Keston was acquired on 31 July 2006 for consideration of £24 2m (excluding acquisition costs) and contributed £7 0m of turnover in 2006 for the 5 months since acquisition

Turnover in the radiator division increased by 2% in the year reflecting increased market share in several European markets

Directors' report

Principal activities and review of the business (continued)

Group operating profit increased by £4 2m (18%) in 2006 compared to the pro forma results for the year to 31 December 2005 This was primarily due to the operating profit generated by Keston of £1 4m in the 5 months since acquisition, the impact of market share gains in both boiler and radiator businesses, operational savings from the optimisation of our low cost radiator manufacturing facilities together with the impact of a change in the mix of sales The proportion of boiler sales to total sales increased from 39% in 2005 to 43% in 2006, with boilers contributing an average profit margin of 11% compared to 8% for radiators

Operating profit in 2006 is stated after £1 8m of costs which were incurred in a re-organisation of the Belgian radiator business

Retained profit for the year increased by 13% compared to the pro forma profit for the year to 31 December 2005 despite higher interest costs, mainly relating to preference shares The tax credit of £0 6m is due largely to the recognition of deferred tax assets of £2 3m in the UK as the group became tax paying in the UK during 2006 and expects to generate sufficient profits to recover the deferred tax assets

Shareholders' funds reduced to £1 8m in 2006 despite the reported profit This was due primarily to exchange differences recognised in the Statement of Total Recognised Gains and Losses

Working Capital in the group increased by £3 0m (8%) in the year, this is despite Keston adding working capital of £4 7m This highlights the group's continued focus on managing working capital

The average number of employees increased by 13% in the year This was partially attributable to the acquisition of Keston but also related to increased direct headcount at Ideal Boilers due to increased volume and additional headcount employed in Turkey following the installation of the fourth radiator line in September 2005

Principal Risks and Uncertainties

The principal risks and uncertainties facing the group can be broadly categorised as – competitive, raw material and financial instrument risk

Competitive

Three major customers account for a significant proportion of group sales in the UK Business relationships with these customers are based on performance criteria relating to demand generation, customer service and commercial terms

Competitive pressures exist from local manufacturers in low cost economies and international competitors with scale benefits

Raw Material

The radiator businesses are exposed to uncertainties surrounding price volatility of steel and time lag in the recovery of steel price increases through selling prices

Financial Instrument

The group is exposed to a number of financial instrument related risks including credit risk, liquidity risk, foreign currency risk and interest rate risk

The group has established a risk and financial management framework, the primary objectives of which are to protect the group from events that may hinder the achievement of financial performance objectives The policies that the group uses to manage these risks is set out in the Treasury management policy section below

Directors' report

Treasury management policy

The objectives of the group treasury function are to manage the group's financial risk and to minimise the adverse effects of fluctuations in the financial markets on reported profitability and on the cash flows of the group The main risks associated with the group's financial assets and liabilities are set out below, as are the policies agreed for their management

The group finances its activities with a combination of bank loans, cumulative redeemable preference shares and cash and short-term deposits Overdrafts are used to satisfy short-term cash flow requirements The group also enters into derivative transactions, including principally interest rate hedges and forward currency contracts The purpose is to manage the interest rate and currency risks arising from the group's operations and its sources of finance The group only utilises interest rate hedges and forward currency contracts to manage identified exposures and does not trade in such instruments for speculative purposes

Foreign currency risk

The group has invested in operations outside the United Kingdom and also buys and sells goods and services denominated in currencies other than sterling As a result the value of the group's non-sterling revenues, purchases, financial assets and liabilities and cash flows can be affected by movements in exchange rates in general and in US Dollar, Euro and Turkish Lira exchange rates in particular

The group seeks to mitigate the effect of its translational currency exposures by borrowing in the same functional currency as the foreign operation into which it invests Approximately 70% of assets denominated in Euros are hedged by bank borrowings in Euros Assets denominated in currencies other than Euros are not significant

The group's transactional currency exposures arise from sales or purchases by an operating unit in currencies other than its functional currency Transaction exposures for any given year are identified as part of the group's budget process and hedged in accordance with group treasury policy at between 25% and 100% Transaction exposures are reviewed on a quarterly basis

To date, the only financial instrument used to hedge identified foreign exchange exposures have been fixed forward contracts At 31 December 2006, the value of unsettled foreign exchange forward contracts in all group companies was estimated at £18,022,000 (2005 £16,650,000)

Interest rate risk

The group's policy is concerned with minimising the group's exposure to adverse changes in interest rates This is managed by drawing all of the group's bank loans in the form of variable rate debt and utilising interest rate hedging products to convert a portion of this debt into fixed rate borrowing

As at 31 December 2006, the group's interest hedges were as follows

Currency	Borrowings	Hedged	Hedge%	Instrument
GBP	£120 1m	£90 0m	74 9%	5 00%/3 65% Collar
EUR	€66 0m	€40 0m	60 1%	2 442% Vanilla Swap

As at 31 December 2005, the group's interest hedges were as follows

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Directors' report

Treasury management policy (continued)

Exposure to credit, liquidity and cash flow risk

Credit risk is the risk that a third party will cause a financial loss by failing to discharge an obligation A group wide credit insurance policy is in place to minimise the risk of trade debts going bad without recompense Certain large customers are not included within the credit insurance policy due to the cost of insurance not being justified by the remote likelihood of non recoverability

Liquidity risk is the risk that a group company will encounter difficulty in meeting obligations associated with its financial liabilities The group aims to mitigate liquidity risk by central planning and management of cash generation for all group operations The group also manages liquidity risk via both short term and long term debt including a revolving credit facility During 2006 additional debt was raised and loan notes issued to fund the purchase of Keston

Cash flow risk is the risk of exposure to variability in the amount of cash required to settle a liability or which will be received from a recognised asset An example of such a risk is future interest payments on variable rate debt The group manages this risk by use of derivatives as explained above

Disabled employees

The group gives full consideration to applications for employment from disabled persons where disabled persons can adequately fulfil the requirements of the job

Where existing employees become disabled, it the group's policy wherever practicable to provide continuing employment under normal terms and conditions and provide training, career development and promotion wherever appropriate

Employee involvement

The group is committed to involving its employees in the decisions that affect them Regular meetings take place between local management and employees to allow a free flow of information and ideas In addition, where practicable, the group seeks to keep the employees informed through regular newsletters

Directors and their interests

The directors who served during the year and to the date of signing these financial statements were as follows

	At 31 December 2006 'A' Ordinary shares	*At 31 December 2005 'A' Ordinary shares*
M De Venecia	-	-
S Coates	-	-
R A Connell	129,955	129,955
T T Harvey	436,364	436,364
G J Letham	174,068	174,068

Directors' report

Directors' qualifying third party indemnity provisions

The group has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

Research and development

Research and development costs of £2,529,000 (6 months to 31 December 2005 £1,067,000) have been incurred in the year All such costs are written off as incurred

Creditors payment policy and practice

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with At 31 December 2006, the group had an average of 71 days (2005 64 days) purchases outstanding in trade creditors The company has no trade creditors

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

On behalf of the Board

G J Letham
Director

Date 26/03/07

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable United Kingdom Law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state affairs of the company and of the group and of the profit and loss of the group 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 keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

ERNST & YOUNG

Independent auditors' report

to the members of Ideal Stelrad Group Limited

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 26 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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

ERNST & YOUNG

Independent auditors' report

to the members of Ideal Stelrad Group Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with the United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Newcastle upon Tyne

26 March 2007

Group profit and loss account

for the year ended 31 December 2006

	Notes	*Year ended 31 December 2006 £'000*	*6 months ended 31 December 2005 £'000*
Turnover			
Turnover group and share of joint venture's turnover		297,402	145,348
Less share of joint venture's turnover		1,903	-
Continuing operations			
Ongoing		288,541	145,348
Acquisitions – Keston Holdings Limited		6,958	-
Group Turnover	2	295,499	145,348
Cost of sales		(215,410)	(107,121)
Gross profit		80,089	38,227
Selling and distribution costs		(29,817)	(14,263)
Administrative expenses		(16,203)	(7,502)
Other operating expenses		(6,376)	(3,262)
Operating profit			
Ongoing		26,257	13,200
Acquisitions – Keston Holdings Limited		1,436	-
Group operating profit	3	27,693	13,200
Share of operating loss in joint venture		(159)	-
Total operating profit group and share of joint venture		27,534	13,200
Analysed as			
Before goodwill amortisation		34,402	16,845
Goodwill amortisation		(6,868)	(3,645)
Interest receivable	6	735	311
Interest payable and similar charges	6	(25,338)	(12,023)
Profit on ordinary activities before taxation		2,931	1,488
Tax credit/(charge) on profit on ordinary activities	7	566	(1,658)
Profit/(loss) on ordinary activities after taxation		3,497	(170)
Minority interest – equity	26	(844)	(366)
Profit/(loss) for the year	20	2,653	(536)

Group statement of total recognised gains and losses

for the year ended 31 December 2006

	Year ended 31 December 2006 £'000	*6 months ended 31 December 2005 £'000*
Profit/(loss) for the financial year excluding share of loss of joint venture	2,808	(536)
Share of joint venture's loss for the year	(155)	-
Profit/(loss) for the financial year attributable to members of the parent company	2,653	(536)
Exchange difference on retranslation of net assets of foreign subsidiary undertakings	(3,730)	(588)
Exchange difference on loan hedged against foreign subsidiary	350	-
Exchange difference on result for the year of foreign subsidiary undertakings	(236)	25
Actuarial gain/(loss) for the year recognised in the pension scheme	704	(828)
Deferred tax arising on actuarial gain/(loss) for the year	(209)	248
Total recognised losses relating to the year	(468)	(1,679)

There are no material differences between the gains and losses recognised above and their historical cost equivalents

Group balance sheet

at 31 December 2006

	Notes	2006 £'000	2005 £'000
Fixed assets			
Intangible assets	9	142,729	129,600
Tangible assets	10	60,368	60,786
Investments	11	104	-
		203,201	190,386
Current assets			
Stocks	12	46,484	36,824
Debtors	13	69,802	63,992
Cash at bank and in hand		22,571	22,324
		138,857	123,140
Creditors amounts falling due within one year	14	(89,772)	(66,575)
Net current assets		49,085	56,565
Total assets less current liabilities		252,286	246,951
Creditors: amounts falling due after more than one year	15	(241,621)	(234,840)
Provisions for liabilities and charges	18	(3,167)	(2,630)
Investments in joint venture			
Share of gross assets		1,115	-
Share of gross liabilities		(1,270)	-
		(155)	-
Net assets excluding pension liability and minority interests		7,343	9,481
Pension liability	25	(3,277)	(5,475)
Equity minority interests	26	(2,239)	(1,711)
Net assets		1,827	2,295
Capital and reserves			
Called up share capital	19	40	40
Share premium account	20	3,934	3,934
Profit and loss account	20	(2,147)	(1,679)
Shareholders' funds	20	1,827	2,295

G J Letham
Director

Date 26/03/07

Company balance sheet
at 31 December 2006

	Notes	2006 £'000	2005 £'000
Fixed assets			
Investments	11	76,875	76,875
Current assets			
Debtors			
amounts falling due after one year	13	803	163
amounts falling due within one year	13	12	125
Net current assets		815	288
Total assets		77,690	77,163
Creditors: amounts falling due after one year	15	(85,922)	(77,196)
Pension liability	25	(2,484)	(2,517)
		(10,716)	(2,550)
Capital and reserves			
Called up share capital	19	40	40
Share premium account	20	3,934	3,934
Profit and loss account	20	(14,690)	(6,524)
Equity shareholders' deficit	20	(10,716)	(2,550)

G J Letham
Director

Date 26/03/07

Group statement of cash flows

for the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £'000	6 months ended 31 December 2005 £'000
Net cash inflow from operating activities	21(a)	39,134	12,645
Returns on investments and servicing of finance			
Interest received		735	311
Interest paid		(12,260)	(3,806)
		(11,525)	(3,495)
Taxation			
Corporation tax paid		(2,296)	(148)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(8,157)	(4,307)
Receipts from sale of tangible fixed assets		263	63
		(7,894)	(4,244)
Acquisitions			
Purchase of subsidiary undertakings		(13,254)	(34,068)
Net cash acquired with subsidiary undertakings		1,924	5,215
Loan to joint venture		(500)	-
		(11,830)	(28,853)
Net cash inflow/(outflow) before financing		5,589	(24,095)
Financing			
Proceeds from issue of ordinary shares		-	3,974
Proceeds from issue of preference shares	21(c)	-	73,120
Repayment of long term loans	21(c)	(15,313)	(191,214)
Receipt of long term loans	21(c)	11,060	160,392
Capital element of finance leases repaid	21(c)	(37)	(9)
		(4,290)	46,263
Increase in cash	21(c)	1,299	22,168

Notes to the financial statements

at 31 December 2006

1. Accounting policies

Basis of preparation

The financial statements of Ideal Stelrad Group Limited were approved for issue by the Board of Directors on 21 March 2007

The financial statements are prepared under the historical cost convention and in accordance with accounting principles generally accepted in the United Kingdom

Fundamental accounting concept

The financial statements have been prepared on a going concern basis as the directors consider that this is appropriate on the basis of current trading and future expected cash flows

The company has net liabilities of £10,716,000 at 31 December 2006 The net liabilities include £73,120,000 relating to the nominal value of preference shares reclassified as debt under FRS 25 Excluding this net assets would be £62,404,000 at 31 December 2006

Basis of consolidation

The group financial statements consolidate the financial statements of Ideal Stelrad Group Limited and all of its subsidiary undertakings drawn up to 31 December 2006 No profit and loss account is provided for the company as permitted by Section 230 of the Companies Act 1985

All acquisitions are included in the group financial statements using the acquisition method of accounting Accordingly the group profit and loss account and cash flow statement includes the results and cash flows of acquisitions from the date of acquisition by the group The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition

Entities in which the group holds an interest on a long term basis and are jointly controlled by the group and one or more ventures under a contractual arrangement are treated as joint ventures In the group financial statements, joint ventures are accounted for using the gross equity method

For those group companies which do not have a year end which is coterminous with the group, interim financial statements are used to consolidated the results of the entity

Goodwill

Goodwill, being the excess of cost of acquisition over the fair value of assets and liabilities acquired, is capitalised and classified on the balance sheet as a fixed asset It is amortised evenly over its estimated economic life of 20 years Goodwill will be reviewed for impairment at the end of the first full financial year following the acquisition, and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

Tangible fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment Such costs include costs directly attributable to making the assets capable of operating as intended Borrowing costs attributable to assets under construction are recognised as an expense when incurred

Depreciation is provided on all tangible fixed assets, other than land, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows

Leasehold land and buildings	-	period of lease
Freehold buildings	-	10 to 50 years
Plant and machinery	-	2 to 10 years
Fixtures and fittings	-	2 to 10 years

The carrying value of tangible fixed assets is reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable

Notes to the financial statements

at 31 December 2006

1. Accounting policies (continued)

Investments

Investments are carried at cost less provision for impairment

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value Cost of manufactured goods and work in progress includes direct materials and an appropriate proportion of overhead expenses

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,

- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable,

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Research and development

Research and development costs are written off to the profit and loss account as incurred

Foreign currencies

Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate All differences are taken to the profit and loss account

Notes to the financial statements

at 31 December 2006

1. Accounting policies (continued)

Group

The balance sheets of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date All profit and loss movements are translated at the average rate for the period, and the difference between translating the profit and loss account at an average rate and at the closing rate is recorded as a movement on reserves The exchange difference arising on the re-translation of opening net assets is taken directly to reserves All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves

The results, assets and liabilities of operations in hyper-inflationary economies are determined using an appropriate relatively stable currency as the functional currency The exchange differences arising from this process are taken to the profit and loss account In the prior year, the Turkish economy was considered to be hyperinflationary As from 1 January 2006 the Turkish economy is no longer considered to be hyperinflationary and therefore hyperinflationary accounting ceased on 1 January 2006

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Pensions

The cost of providing benefits under the defined benefit plan is determined separately for each plan using the projected unit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice Past service costs are recognised in profit or loss on a straight-line basis over the vesting period or immediately if the benefits have vested When a settlement or a curtailment occurs the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the profit and loss account Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance income or expense

Actuarial gains and losses are recognised in full in the statement of recognised gains and losses in the period in which they occur

Notes to the financial statements

at 31 December 2006

1. Accounting policies (continued)

Pensions (continued)

The defined benefit pension liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair-value of plan assets out of which the obligations are to be settled directly Fair value is based on market price information and in the case of quoted securities is the published mid-market price The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed funds from the scheme

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet

Capital instruments

FRS 25 "Financial Instruments Disclosure and Presentation" was adopted in the prior year This requires that when shares are issued, any component that creates a financial liability of the company or group is presented as a liability in the balance sheet, measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption The corresponding dividends relating to the liability component are charged as interest expense in the income statement The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs The carrying amount of the equity component is not remeasured in subsequent years

Warranty

Included within the standard sales value of Boilers products supplied by the group is a 12 - 36 month warranty Provision is made for the estimated costs expected to arise in respect of these warranty obligations Included within this provision are estimates of further financial commitments to customers arising under product recall or other product performance commitments

Revenue from the sale of extended warranties is deferred and released to profit over the period of the warranty Costs incurred under extended warranty agreements are charged against the provision

The effect of the time value of money is not material and therefore the provision is not discounted

Revenue recognition

Revenue is recognised to the extent the group obtains the right to consideration in exchange for its performance Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods

Notes to the financial statements

at 31 December 2006

1. Accounting policies (continued)

Provisions

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

Derivative instruments

The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates and interest rate swaps to adjust interest rate exposures The group consider its derative instruments qualify for hedge accounting when certain criteria are met Foreign exchange contracts that are used to hedge future commitments are not recognised until the transaction occurs

2. Turnover and segmental analysis

Turnover represents the amounts derived from the provision of goods and services which fall within the group's ordinary activities, stated net of value added tax

The group's principal areas of activity during the year were the manufacture and distribution of boilers and radiators within Europe

By area of activity

	Turnover year ended 31 Dec 2006 £'000	*Operating profit year ended 31 Dec 2006 £'000*	*Net assets/ (liabilities) 2006 £'000*
Boilers	126,929	14,030	122,162
Radiators	168,570	13,663	115,699
	295,499	27,693	237,861
Share of joint venture		(159)	(155)
		27,534	237,706
Interest bearing net liabilities			(235,879)
			1,827

The post acquisition operating profit of Keston Holdings Limited of £1,436,000 is included in Boilers operating profit in 2006

Notes to the financial statements

at 31 December 2006

2. Turnover and segmental analysis (continued)

	Turnover 6 months ended 31 Dec 2005 £'000	*Operating profit 6 months ended 31 Dec 2005 £'000*	*Net assets/ (liabilities) 2005 £'000*
Boilers	57,831	7,306	107,708
Radiators	87,517	5,894	110,990
	145,348	13,200	218,698
Interest bearing net liabilities			(216,403)
			2,295

By geographic origin.

	Turnover by destination year ended 31 Dec 2006 £'000	*Turnover by origin year ended 31 Dec 2006 £'000*	*Operating profit by origin year ended 31 Dec 2006 £'000*	*Net assets/ (liabilities) by origin 2006 £'000*
UK	199,325	192,775	15,721	228,907
Continental Europe	91,814	102,724	11,972	8,954
Other	4,360	-	-	-
	295,499	295,499	27,693	237,861
Share of joint venture			(159)	(155)
			27,534	237,706
Interest bearing net liabilities				(235,879)
				1,827

Notes to the financial statements

at 31 December 2006

2. Turnover and segmental analysis (continued)

	Turnover by destination 6 months ended 31 Dec 2005 £'000	*Turnover by origin 6 months ended 31 Dec 2005 £'000*	*Operating profit by origin 6 months ended 31 Dec 2005 £'000*	*Net assets/ (liabilities) by origin 2005 £'000*
UK	95,359	95,028	8,611	214,990
Continental Europe	48,027	50,320	4,589	3,708
Other	1,962	-	-	-
	145,348	145,348	13,200	218,698
Interest bearing net liabilities				(216,403)
				2,295

Interest bearing net liabilities comprise cash, loan balances, loan notes and preference shares

3. Group operating profit

This is stated after charging/(crediting)

		Year ended 31 December 2006 £'000	*6 months ended 31 December 2005 £'000*
Auditors' remuneration	- audit services - UK	186	76
	- audit services - overseas	85	49
	- non-audit services - UK	88	43
	- non audit services - overseas	148	108
Depreciation of owned assets		7,492	3,649
Depreciation of assets held under finance leases and hire purchase contracts		34	10
Amortisation of goodwill		6,868	3,645
Operating lease rentals	- plant and machinery	247	252
	- other	916	584
Exchange gains in hyper inflationary economy		-	(332)
Other exchange (losses)/gains		(498)	68
(Profit)/loss on sale of fixed assets		(124)	5
Research and development costs		2,529	1,067
Redundancy costs		1,847	-

Non audit services include £224,000 (2005 £147,000) relating to taxation services, £8,000 (2005 £Nil) relating to corporate finance services and £4,000 (2005 £4,000) relating to other services Included within cost of investment is £205,000 of non audit fees incurred in relation to the acquisition of Keston Holdings Limited (2005 £750,000 in relation to the acquisition of Caradon Radiators Holdings Limited and Caradon Boilers Holdings Limited)

The redundancy costs represent the costs of a restructuring during the year at one of the overseas subsidiaries, Henrad NV

Notes to the financial statements

at 31 December 2006

4. Staff costs

	Year ended 31 December 2006 £'000	*6 months ended 31 December 2005 £'000*
Wages and salaries	48,160	22,698
Social security costs	6,933	3,852
Other pension costs	3,317	1,684
	58,410	28,234

The average monthly number of employees during the year was made up as follows

	Year ended 31 December 2006 No	*6 months ended 31 December 2005 No*
Direct	1,367	1,152
Indirect	406	415
Administration	595	528
	2,368	2,095

5. Directors' emoluments

	Year ended 31 December 2006 £'000	*6 months ended 31 December 2005 £'000*
Emoluments	970	315
Company contributions paid to money purchase pension schemes	43	21
Company contributions paid to private pension scheme	91	48
Members of money purchase pension scheme	1	1

The amounts in respect of the highest paid director are as follows

Emoluments	475	154
Company contributions paid to private pension schemes	91	48
	566	202

The directors' emoluments are paid by Ideal Stelrad Limited, a subsidiary company of Ideal Stelrad Group Limited, in respect of services to the group

Notes to the financial statements

at 31 December 2006

6. Interest

Interest receivable

	Year ended 31 December 2006 £'000	*6 months ended 31 December 2005 £'000*
Bank interest	731	311
Share of joint ventures' interest	4	-
	735	311

Interest payable and similar charges

	Year ended 31 December 2006 £'000	*6 months ended 31 December 2005 £'000*
Bank loans and overdrafts	14,784	7,385
Other interest	369	236
Finance charges payable under finance leases and hire purchase contracts	8	2
Other finance charges	39	20
Amortisation of loan issue costs	849	297
Costs arising from the early repayment of debt	475	-
Debt component of preference shares	8,726	4,076
Net interest cost on pension scheme assets and liabilities (note 25)	88	7
	25,338	12,023

Notes to the financial statements

at 31 December 2006

7. Tax on profit on ordinary activities

	Year ended 31 December 2006 £'000	*6 months ended 31 December 2005 £'000*
(a) Analysis of credit/(charge) in year		
Current tax		
UK Corporation tax	(967)	-
Foreign tax	(940)	(308)
Total current tax (note 7(b))	(1,907)	(308)
Deferred tax		
Origination and reversal of timing differences (note 7(d))	2,285	(1,420)
Deferred tax credit on movement in FRS17 pension scheme liability	188	70
Total deferred tax	2,473	(1,350)
Tax credit/(charge) on profit on ordinary activities	566	(1,658)

(b) Factors affecting current tax charge for the year

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30%

The differences are reconciled below

	Year ended 31 December 2006 £'000	*6 months ended 31 December 2005 £'000*
Profit on ordinary activities before tax	2,931	1,488
Profit on ordinary activities at standard rate of corporation tax in the UK of 30%	(879)	(446)
Effects of		
Expenses not deductible for tax purposes (primarily goodwill and preference dividends)	(4,116)	(2,579)
Capital allowances in excess of depreciation/ (depreciation in excess of capital allowances)	1,536	(614)
Short term timing differences	51	(69)
Foreign tax rate differences	494	538
Utilisation of tax losses	1,007	2,862
Current tax charge for the year (note 7a))	(1,907)	(308)

Notes to the financial statements

at 31 December 2006

7. Tax on profit on ordinary activities (continued)

(c) Factors that may affect future tax charge

The group has carried forward tax losses of £34 8m (2005 £35 0m) comprising UK £7 7m and overseas £27 1m, In the event that these are available for offset against future taxable profits, it is expected that the future tax rate would be below the standard rate in the country where the profits are offset These losses will only be available for offset in the company that holds them, if that company makes suitable taxable profits in future periods It is not expected that these losses will be utilised in the foreseeable future, and so deferred tax assets have not been recognised in respect of these losses Overseas losses are not available for offset against UK profits

There is a significant interest burden in the UK holding companies To the extent that there are insufficient suitable taxable profits in the other UK companies to utilise these losses, there may be an impact on the future tax rate This may also result in losses being carried forward which remain unrelieved

(d) Deferred tax

Amounts included with debtors

	£'000
At 1 January 2006	(1,451)
Deferred tax credit (note 7(a))	(2,285)
Exchange adjustment	337
Reclassification of FRS 17 related deferred tax asset	153
At 31 December 2006 (note 13)	(3,246)

The deferred tax asset included in the balance sheet is as follows

	Recognised 2006 £'000	*Not recognised 2006 £'000*	*Recognised 2005 £'000*	*Not Recognised 2005 £'000*
Decelerated capital allowances	(2,575)	-	(801)	(3,425)
Tax losses carried forward	-	(10,459)	(18)	(10,493)
Other timing differences	(671)	-	(632)	(599)
Deferred tax asset (note 13)	(3,246)	(10,459)	(1,451)	(14,517)

8. Loss attributable to members of the parent company

The loss dealt with in the financial statements of the parent company was £8,639,000 (2005 £5,944,000)

Notes to the financial statements

at 31 December 2006

9. Intangible fixed assets

Group

	Goodwill
	£'000
Cost	
At 1 January 2006	133,268
Adjustments to provisional fair values (note 11)	1,042
Acquired (note 11)	18,081
Exchange adjustment	837
At 31 December 2006	153,228
Amortisation	
At 1 January 2006	3,668
Charged during the year	6,868
Exchange adjustment	(37)
At 31 December 2006	10,499
Net book value	
At 31 December 2006	142,729
At 31 December 2005	129,600

Goodwill is being written off in equal annual instalments over its presumed estimated economic life of 20 years

Notes to the financial statements

at 31 December 2006

10. Tangible fixed assets

Group	*Leasehold land and buildings £'000*	*Freehold land and buildings £'000*	*Assets in the course of construction £'000*	*Plant and machinery £'000*	*Fixtures and fittings £'000*	*Total £'000*
Cost						
At 1 January 2006	872	33,809	1,865	26,098	2,629	65,273
Additions	-	316	5,378	1,940	556	8,190
Acquisition of subsidiary	-	686	-	465	72	1,223
Transfers	-	1,093	(2,082)	597	392	-
Disposals	-	-	-	(83)	(370)	(453)
Exchange adjustment	-	(1,161)	(70)	(3,328)	(104)	(4,663)
At 31 December 2006	872	34,743	5,091	25,689	3,175	69,570
Depreciation						
At 1 January 2006	17	507	-	3,430	533	4,487
Depreciation in year	35	1,670	-	4,952	869	7,526
Disposals	-	-	-	(83)	(231)	(314)
Exchange adjustment	-	(133)	-	(2,301)	(63)	(2,497)
At 31 December 2006	52	2,044	-	5,998	1,108	9,202
Net book value						
At 31 December 2006	820	32,699	5,091	19,691	2,067	60,368
At 31 December 2005	855	33,302	1,865	22,668	2,096	60,786

Included in land and buildings is land of £9,342,000 (2005 £9,704,000) which is not depreciated

The net book value of plant and machinery above includes an amount of £57,000 (2005 £58,000) in respect of assets held under finance leases and hire purchase contracts

11. Investments

Group

	2006 £'000
Cost	
At 1 January 2006	-
Acquisitions	100
Exchange adjustment	4
At 31 December 2006	104

The investment represents a 12 5% shareholding in SC Amplo SA, registered in Romania

Notes to the financial statements

at 31 December 2006

11. Investments (continued)

Company

	£'000
Cost	
At 1 January 2006 and 31 December 2006	76,875

Details of the investments in which the group or the company holds 20% or more of the nominal value of any class of share capital, excluding dormant companies, are as follows

Subsidiary undertakings

Name of company ** held by subsidiary companies*	*Country of incorporation*	*Holding*	*Proportion of voting rights held*	*Nature of business*
Bladepark Ltd	United Kingdom	Ordinary	100%	Holding Company
*Corkgrove Ltd	United Kingdom	Ordinary	100%	Holding Company
*Bandwood Ltd	United Kingdom	Ordinary	100%	Holding Company
*Caradon Radiators Holdings Ltd	United Kingdom	Ordinary	100%	Holding Company
*Caradon Boilers Holdings Ltd	United Kingdom	Ordinary	100%	Holding Company
*Caradon Radiators Bidco 2 Ltd	United Kingdom	Ordinary	100%	Holding Company
*Caradon Boilers Bidco 3 Ltd	United Kingdom	Ordinary	100%	Holding Company
*Ideal Stelrad Ltd	United Kingdom	Ordinary	100%	Management and Services Supplier
*Ideal Boilers Ltd	United Kingdom	Ordinary	100%	Boilers
*Stelrad Ltd	United Kingdom	Ordinary	100%	Radiators
*Caradon Rymax Polska sp zoo	Poland	Ordinary	100%	Radiators
*Caradon Stelrad B V	Holland	Ordinary	100%	Radiators
*Hendrickx Radiatoren NV	Belgium	Ordinary	100%	Radiators
*Termo Teknik Ticaret ve Sanayi A S	Turkey	Ordinary	85%	Radiators
*Caradon Stelrad GmbH	Germany	Ordinary	100%	Radiators
*Henrad GmbH	Germany	Ordinary	100%	Radiators
*Caradon Stelrad Radiatoren Vertriebs GmbH	Austria	Ordinary	100%	Radiators
*Caradon Heating CZ sro	Czech Republic	Ordinary	100%	Radiators
* Keston Holdings Ltd	United Kingdom	Ordinary	100%	Holding Company
* Keston Boilers Ltd	UK	Ordinary	100%	Boilers
* Keston Boilers Sales Ltd	UK	Ordinary	100%	Agency Company
* Celsius 2000 SRL	Romania	Ordinary	100%	Boilers
* Thermo Service SRL	Romania	Ordinary	100%	Boiler Parts

Joint Ventures

* Warmsure Ltd	UK	Ordinary	50%	Boilers Servicing

Notes to the financial statements

at 31 December 2006

11. Investments (continued)

Warmsure joint venture

On 1 September 2006, the group entered into a joint venture with Eaga Partnership Limited The joint venture, Warmsure Limited, has a year end of 31 May The group has loaned £500,000 to the joint venture during the year

The movement in the groups share of the joint ventures net liabilities is as follows

	£'000 £'000
On incorporation of joint venture	-
Loss for the year	(155)
At 31 December 2006	(155)

The joint venture has no contingent liabilities or capital commitments

Acquisition of Keston Holdings Limited

On 31 July 2006, the group acquired Keston Holdings Limited for a consideration of £24,195,000 excluding acquisition expenses The net assets of Keston Holdings Limited have been included in the group balance sheet at their fair value at the date of acquisition

Analysis of the acquisition of Keston Holdings Limited

	Book Value £'000	*Revaluation £'000*	*Provisional fair value to group £'000*
Tangible fixed assets	1,223	-	1,223
Investments	100	-	100
Stocks	2,677	(115) (a)	2,562
Debtors	3,852	(159) (b)	3,693
Cash	1,924	-	1,924
Creditors due within one year	(2,074)	-	(2,074)
Provisions for liabilities and charges	(38)	(189) (c)	(227)
Net assets	7,664	(463)	7,201
Goodwill arising on acquisition			18,081
			25,282
Discharged by			
Cash			12,167
Loan notes			12,028
Costs associated with the acquisition			1,087
			25,282

Notes to the financial statements

at 31 December 2006

11. Investments (continued)

Adjustments

(a) Increase provision for stock obsolescence to align with existing group policy

(b) Increase provision for doubtful debts to align with existing group policy

(c) Increase provision for warranties to align with existing group policy

The group's profit and loss in 2006 include the following amounts relating to the acquisition of Keston Holdings Limited sales £6,958,000, cost of sales £4,082,000, selling and distribution costs £697,000, administrative expenses £698,000 and other operating expenditure £45,000

The acquisition contributed £1,031,000 to the group's operating cash flow in 2006

The results of the Keston Holdings Limited group are not available for periods prior to acquisition as consolidated accounts were not prepared

Adjustment to prior year provisional fair values

The provisional fair value adjustments recorded in relation to the acquisition of Caradon Radiators Holdings Limited and Caradon Boilers Holdings Limited have been finalised during the year following final reviews of judgemental areas and a professional actuarial valuation in relation to retirement obligations in Turkey Details of the adjustments made are set out below

	Provisional fair value as stated in the 2005 financial statements £'000	*Revaluation £'000*		*Final fair value £'000*
Tangible fixed assets	59,713	-		59,713
Stock	43,245	(58)	(a)	43,187
Debtors	56,821	-		56,821
Cash	5,215	160	(b)	5,375
Creditors due within one year	(66,800)	(1,071)	(c)	(67,871)
Creditors due after one year	(188,196)	-		(188,196)
Provisions for liabilities and charges	(3,931)	(640)	(d)	(4,571)
Pension liability	(4,673)	567	(e)	(4,106)
Minority interest	(1,320)	-		(1,320)
Net assets	(99,926)	(1,042)		(100,968)

Notes to the financial statements

at 31 December 2006

11. Investments (continued)

Adjustments

(a) Further provision for obsolete stock

(b) Recognition of a bank balance not previously recognised

(c) Recognition of unrecorded liabilities of £1,215,000 in relation to rebates payable to the ultimate installer of boilers and radiators manufactured in the UK and the reversal of previously recognised liabilities of £144,000

(d) Provision for environmental remedial costs (note 18)

(e) Finalisation of the FRS 17 valuation in relation to the retirement liability in Turkey

12. Stocks

	Group 2006 £'000	*Group 2005 £'000*
Raw materials	14,070	12,080
Work in progress	2,287	2,056
Finished goods and goods for resale	21,978	15,868
Other consumables	8,149	6,820
	46,484	36,824

The replacement cost is not materially different to the purchase price or production cost of stocks

13. Debtors

	Group 2006 £'000	*Company 2006 £'000*	*Group 2005 £'000*	*Company 2005 £'000*
Trade debtors	63,706	-	59,458	-
Other debtors	818	-	1,772	94
Prepayments and accrued income	1,069	-	1,311	-
Amounts due from subsidiary undertakings	-	803	-	125
Amounts due from joint venture	963	-	-	-
Corporation tax	-	12	-	69
Deferred tax asset	3,246	-	1,451	-
	69,802	815	63,992	288

Notes to the financial statements

at 31 December 2006

13. Debtors (continued)

Amounts falling due after more than one year included above are

	Group 2006 £'000	*Company 2006 £'000*	*Group 2005 £'000*	*Company 2005 £'000*
Trade debtors	197	-	-	-
Amounts due from fellow subsidiary undertakings	-	803	-	125
Amounts due from joint venture	500	-	-	-
Deferred tax	3,246	-	1,451	-
	3,943	803	1,451	125

Included within other debtors is £Nil (2005 £34,575) which represented amounts due from G Letham, a director, in relation to unpaid share capital

14. Creditors: amounts falling due within one year

	Group 2006 £'000	*Group 2005 £'000*
Current instalments due on loans (note 16)	4,747	3,828
Obligations under finance leases and hire purchase contracts (note 17)	54	59
Trade creditors	44,841	36,280
Corporation tax	536	925
Other taxes and social security costs	5,743	5,382
Other creditors and accruals	21,823	20,101
Loan notes	12,028	-
	89,772	66,575

The loan notes have been guaranteed by Royal Bank of Scotland and are repayable on 1 August 2007

Notes to the financial statements

at 31 December 2006

15. Creditors: amounts falling due after more than one year

	Group 2006 £'000	*Company 2006 £'000*	*Group 2005 £'000*	*Company 2005 £'000*
Loans (note 16)	155,677	-	157,623	-
Obligations under finance leases and hire purchase contracts (note 17)	22	-	21	-
Preference shares	85,922	85,922	77,196	77,196
	241,621	85,922	234,840	77,196

The preference shareholders have the right to receive a fixed cumulative dividend at a yearly rate of 11%, compounded every six months The preference shares do not confer any further right of participation in the profits or assets of the company

The preference shares are redeemable at par by the holder in the event of either a sale, or change in ownership of the company, if the preference dividend is not paid in full or in the event of the winding up of the company The preference shares are redeemable by the company at any time

16. Loans

Group

	2006 £'000	*2005 £'000*
Amounts falling due (gross of finance costs)		
In one year or less (note 14)	4,747	3,828
In more than one year but not more than two years	2,201	4,747
In more than two years but not more than five years	34,179	20,671
In more than five years (including rolled up interest)	123,410	136,755
	164,537	166,001
Less unamortised finance costs	(4,113)	(4,550)
	160,424	161,451
Less amounts falling due within one year	(4,747)	(3,828)
	155,677	157,623

	2006 £'000	*2005 £'000*
Libor + 13% PIK loan facility arranged by Royal Bank of Scotland repayable on 5 November 2015 including rolled up interest	-	10,487
Libor + 10 5% mezzanine loan facility arranged by Intermediate Capital Group repayable on 30 June 2015 including rolled up interest	37,966	35,649
Loans with Royal Bank of Scotland *	126,571	119,865
	164,537	166,001

The PIK loan was repaid early on 19 May 2006

Notes to the financial statements

at 31 December 2006

16. Loans (continued)

* The loans with Royal Bank of Scotland consist of the following tranches

	Loan £'000	*Interest*	*Repayment terms*
Tranche A (Sterling)	36,890	Libor + 2 25%	Half yearly instalments, commencing 15 December 2005, final payments on 30 June 2012
Tranche A (Euro)	17,461	Euribor + 2 25%	Half yearly instalments, commencing 31 December 2010, final payment on 30 June 2012
Tranche B (Sterling)	22,634	Libor + 2 75%	Payable on 30 June 2013
Trance B (Euro)	13,476	Euribor + 2 75%	Payable on 30 June 2013
Tranche C (Sterling)	22,634	Libor + 3 25%	Payable on 30 June 2014
Tranche C (Euro)	13,476	Euribor + 3 25%	Payable on 30 June 2014

The loans with Royal Bank of Scotland are secured under an agreement giving Royal Bank of Scotland prior claim over the assets of the company and those subsidiary undertakings in the events of default by the company or any subsidiary undertaking

Royal Bank of Scotland and Intermediate Capital Group are facility agents on behalf of other lenders to whom the loans have been syndicated

17. Obligations under leases and hire purchase contracts

Group

	2006 £'000	*2005 £'000*
The maturity of these amounts is as follows		
Amounts payable		
Within one year (note 14)	54	59
In two to five years (note 15)	22	21
	76	80

18. Provisions for liabilities and charges

Group

	Legal cases £'000	*Warranty £'000*	*Environment Remedial work £'000*	*Total £'000*
At 1 January 2006	662	1,968	-	2,630
Adjustment to fair value (note 11)	-	-	640	640
Acquisition (note 11)	-	227	-	227
Arising during the year	111	1,841	-	1,952
Reclassification	(108)	-	-	(108)
Utilised	(73)	(1,942)	-	(2,015)
Released	(133)	(1)	-	(134)
Exchange movement	(13)	-	(12)	(25)
At 31 December 2006	446	2,093	628	3,167

Notes to the financial statements

at 31 December 2006

18. Provisions for liabilities and charges (continued)

Legal cases

A provision is recognised for expected redundancy claims from past employees and associated legal costs

Costs of £108,000 have been reclassified as pension obligations during the year

Warranty

A provision is recognised for expected warranty claims on products sold during the year It is expected that the majority of these costs will be incurred in the next financial year in line with typical warranty terms

Included within the warranty provision at 31 December 2006 is a provision of £482,000 (2005 £809,000), being the estimate of future obligations of technical modifications required to a range of boilers sold in the UK market, which were identified during 2004

Environmental remedial work

A provision is recognised for remedial costs likely to be incurred in Belgium to eliminate ground contamination The provision is expected to be utilised over the next 5 years

19. Share capital

	2006 *No*	*2006* *£'000*	*2005* *No*	*2005* *£'000*
Authorised				
Ordinary 'A' shares of £0 01 each	1,000,000	10,000	1,000,000	10,000
Ordinary 'B' shares of £0 01 each	4,500,000	45,000	4,500,000	45,000
		55,000		55,000

	2006 *No*	*2006* *£'000*	*2005* *No*	*2005* *£'000*
Allotted, issued and fully paid				
Ordinary 'A' shares of £0 01 each	894,188	9	894,188	9
Ordinary 'B' shares of £0 01 each	3,079,980	31	3,079,980	31
		40		40

There is no difference between the 'A' and 'B' shares in relation to dividends and voting rights

The shares are treated as a single class in the event of a winding up

Notes to the financial statements

at 31 December 2006

20. Reconciliation of shareholders' funds and movements on reserves

Group

	Share capital £'000	*Share premium account £'000*	*Profit and loss account £'000*	*Total shareholders' funds £'000*
On incorporation	-	-	-	-
Issue of shares	40	3,934	-	3,974
Loss for the period	-	-	(536)	(536)
Exchange difference on retranslation of net assets of foreign subsidiary undertakings	-	-	(588)	(588)
Exchange difference on result for the period of foreign subsidiary undertakings	-	-	25	25
Actuarial gain for the period (net of deferred tax)	-	-	(580)	(580)
At 1 January 2006	40	3,934	(1,679)	2,295
Profit for the year	-	-	2,653	2,653
Exchange difference on retranslation of net assets of foreign subsidiary undertakings	-	-	(3,730)	(3,730)
Exchange difference on loan hedged against foreign subsidiary	-	-	350	350
Exchange difference on result for the year of foreign subsidiary undertakings	-	-	(236)	(236)
Actuarial gain for the year (net of deferred tax)	-	-	495	495
At 31 December 2006	40	3,934	(2,147)	1,827

Company

	Share capital £'000	*Share premium account £'000*	*Profit and loss account £'000*	*Total shareholders' deficit £'000*
On incorporation	-	-	-	-
Issue of shares	40	3,934	-	3,974
Loss for the period	-	-	(5,944)	(5,944)
Actuarial loss for the period (net of deferred tax)	-	-	(580)	(580)
At 1 January 2006	40	3,934	(6,524)	(2,550)
Loss for the year	-	-	(8,639)	(8,639)
Actuarial gain for the year (net of deferred tax)	-	-	473	473
At 31 December 2006	40	3,934	(14,690)	(10,716)

Notes to the financial statements

at 31 December 2006

21. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 December 2006 £'000	*6 months ended 31 December 2005 £'000*
Operating profit	27,693	13,200
Depreciation	7,526	3,659
Amortisation of goodwill	6,868	3,645
Decrease/(increase) in debtors	178	(9,557)
(Increase)/decrease in stocks	(7,156)	6,421
Increase/(decrease) in creditors	5,512	(4,728)
Difference between pension charge and cash contributions	539	-
Decrease in provisions	(355)	-
Settlement of pension obligations	(1,547)	-
(Profit)/loss on disposal of fixed assets	(124)	5
Net cash inflow from operating activities	39,134	12,645

(b) Analysis of net debt

	At 1 January 2006 £'000	*Cash flow £'000*	*Other non-cash movements £'000*	*At 31 December 2006 £'000*
Cash at bank and in hand	22,324	1,299	(1,052)	22,571
Loans	(161,451)	4,253	(3,226)	(160,424)
Preference shares	(77,196)	-	(8,726)	(85,922)
Finance leases	(80)	37	(33)	(76)
Loan notes	-	-	(12,028)	(12,028)
	(216,403)	5,589	(25,065)	(235,879)

Notes to the financial statements

at 31 December 2006

21. Notes to the statement of cash flows (continued)

(c) Reconciliation of net cash flow to movement in net debt

		Year ended 31 December 2006 £'000	6 months ended 31 December 2005 £'000
Increase in cash		1,299	22,168
Repayment of long term loans		15,313	191,214
Receipt of long term loans		(11,060)	(160,392)
Receipts from issue of preference shares		-	(73,120)
Capital repayment on finance leases		37	9
Change in net debt resulting from cash flows		5,589	(20,121)
Other non-cash movements	- rolled interest	(3,315)	(1,136)
	- preference dividends	(8,726)	(4,076)
	- amortisation of finance costs	(849)	(297)
	- exchange rate movement	(114)	530
	- new finance leases	(33)	(43)
	- debt acquired with subsidiary	-	(191,260)
	- loan notes issued on acquisition of subsidiaries	(12,028)	-
Movement in net debt		(19,476)	(216,403)
Net debt at 1 January 2006		(216,403)	-
Net debt at 31 December 2006		(235,879)	(216,403)

22. Related party transactions

During the year the group entered into transactions in the ordinary course of business, with a joint venture Transactions entered into and trading balances outstanding at 31 December 2006, are as follows

	Sales to joint venture £'000	*Purchases from joint venture £'000*	*Amounts owed from joint venture £'000*	*Amounts owed to joint venture £'000*
Warmsure Limited	259	2,181	963	-

The group has a 50% interest in Warmsure Limited

The group has taken advantage of the exemption permitted by FRS 8 and has not disclosed transactions between its wholly owned subsidiaries, which are fully eliminated on consolidation

The directors consider Warburg Pincus & Co , a general partnership established in the USA, to be the ultimate controlling party Its subsidiary, Warburg Pincus Partners LLC, acts as general partner and controls the investment funds which control the group through the ownership, via investment funds, of the B Ordinary shares

Notes to the financial statements

at 31 December 2006

23. Commitments

a) Annual commitments under non-cancellable operating leases are as follows

	Land and buildings 2006 £'000	*Other 2006 £'000*	*Total 2006 £'000*
Operating leases which expire			
Within one year	67	209	276
In two to five years	10	1,050	1,060
In more than five years	38	-	38
	115	1,259	1,374

	Land and buildings 2005 £'000	*Other 2005 £'000*	*Total 2005 £'000*
Operating leases which expire			
Within one year	-	262	262
In two to five years	-	621	621
In more than five years	20	-	20
	20	883	903

b) Amounts contracted for but not provided in the financial statements amounted to £885,000 (2005 £560,000) for the group The company did not have any capital commitments at the year end (2005 £nil)

24. Contingent liabilities

There were no known material contingent liabilities at the year end for the group or the company

Termo Teknik has issued letters of guarantee to Eregli Demir Celik Fabrikaler TAS amounting to $15,768,000 (2005 $7,460,000) Ideal Boilers Limited has issued letters of credit to Techwise Electronics Limited Hong Kong for $1,218,000 (2005 $989,000)

The group enters into various forward currency contracts to manage the risk of foreign currency exposures on certain purchases and sales The value of unsettled forward contracts as at 31 December 2006 is estimated to be £18,022,000 (2005 £16,650,000)

Under an unlimited multilateral guarantee, the company in common with certain fellow subsidiary undertakings has jointly and severally guaranteed the obligations falling due under one of the group's net overdraft facilities No loss is expected to arise from their arrangement

Notes to the financial statements

at 31 December 2006

25. Pension commitments

	2006	*2005*
	£'000	*£'000*
Pension schemes valued under FRS17	(3,096)	(4,064)
Other retirement obligations	(181)	(1,411)
	(3,277)	(5,475)

The group operated two plans in the UK, these plans were merged on 31 March 2006 The merged plan contains a defined benefit and defined contribution scheme A full actuarial valuation was carried out as at 5 April 2004 and updated to 31 December 2006 by a qualified independent actuary

The employer contributions made to the plan in the accounting period were £1,994,000 (2005 £823,000) in the defined benefit sections, and £624,000 (2005 £277,000) in the money defined contributions sections

In respect of the Main and Executive defined benefit plans, the group paid 14 5% and 20 9% of pensionable pay until 31 March 2006 From 1 April 2006, the company contributions were 19 6% in respect of the merged Group Plan

As the schemes are closed to new members, under the projected unit method, the current service cost will increase as the members of the schemes approach retirement

There were no outstanding contributions due to the schemes at the balance sheet date

The group is currently contributing to the UK money purchase section at a rate which is dependent on the age of the individual member as follows

Main plan		*Executive plan*	
Age	*% of pensionable pay*	*Age*	*% of pensionable pay*
18 to 24	4	28 to 34	10
25 to 34	6	35 to 44	16
35 to 44	9	45 to 54	23
45 to 54	13	55 to 65	33
55 to 65	18		

In Turkey there is an obligation to provide lump sum termination payments to certain employees At 31 December 2005 the directors calculated a provision with reference to specific individuals who were likely to be offered this arrangement The value of this provision at 31 December 2005 was £1,292,000 During 2006 the value of this provision was adjusted to fair value by a valuation calculated under FRS17 by independent actuaries The FRS17 valuation at 31 December 2006 was a liability of £765,000 There are no assets held in this plan

During 2006 the pension liability in Austria was settled by way of individual settlements with each of the plan's 26 members

Notes to the financial statements

at 31 December 2006

25. Pension commitments (continued)

The major assumptions used by the actuary were (in nominal terms)

	UK scheme		*Austrian scheme*		*Turkish scheme*	
	2006	*2005*	*2006*	*2005*	*2006*	*2005*
	%	*%*	*%*	*%*	*%*	*%*
Rate of increase in salaries	4 60	4 40	n/a	n/a	4 0%	4 00%
Rate of increase in pension payments	3 10	2 80	n/a	2 00%	n/a	n/a
Discount rate	5 10	4 70	n/a	4 25%	6 50%	6 50%
Inflation assumption	3 10	2 90	n/a	n/a	n/a	n/a

The net pension liability can be analysed as follows

31 December 2006

	Long-term rate of return expected	*UK scheme*	*Austrian scheme*	*Turkish scheme*
	%	*£'000*	*£'000*	*£'000*
Equities	6 86%	11,102	-	-
Gilts	4 30%	-	-	-
Cash	5 00%	1,354	-	-
Corporate bonds	5 00%	665	-	-
Total market value of assets		13,121	-	-
Present value of schemes liabilities		(16,669)	-	(765)
Deficit in the scheme		(3,548)	-	(765)
Related deferred tax assets		1,064	-	153
Net pension liability		(2,484)	-	(612)

Notes to the financial statements

at 31 December 2006

25. Pension commitments (continued)

31 December 2005

	Long-term rate of return expected	*UK scheme*	*Austrian scheme*
	%	*£'000*	*£'000*
Equities	6 50%	7,295	-
Gilts	4 00%	1,125	-
Cash	4 50%	1,122	-
Corporate bonds	4 70%	666	-
Total market value of assets		10,208	-
Present value of schemes liabilities		(13,804)	(1,547)
Deficit in the scheme		(3,596)	(1,547)
Related deferred tax assets		1,079	-
Net pension liability		(2,517)	(1,547)

Analysis of the amount charged to the operating profit

	UK Scheme 2006	*Austrian Scheme 2006*	*Turkish Scheme 2006*	*Total 2006*
	£'000	*£'000*	*£'000*	*£'000*
Current service cost	3,088	-	115	3,203
Past service cost	114	-	-	114
	3,202	-	115	3,317

	UK Scheme 2005	*Austrian Scheme 2005*	*Turkish Scheme 2005*	*Total 2005*
	£'000	*£'000*	*£'000*	*£'000*
Current service cost	1,323	-	-	1,323
Past service cost	-	(31)	-	(31)
	1,323	(31)	-	1,292

Notes to the financial statements

at 31 December 2006

25. Pension commitments (continued)

Analysis of the amount credited to other finance income

	UK Scheme 2006 £'000	*Austrian Scheme 2006 £'000*	*Turkish Scheme 2006 £'000*	*Total 2006 £'000*
Expected return on pension scheme assets	661	-	-	661
Interest on pension scheme liabilities	(704)	-	(45)	(749)
	(43)	-	(45)	(88)

	UK Scheme 2005 £'000	*Austrian Scheme 2005 £'000*	*Turkish Scheme 2005 £'000*	*Total 2005 £'000*
Expected return on pension scheme assets	264	-	-	264
Interest on pension scheme liabilities	(271)	-	-	(271)
	(7)	-	-	(7)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	UK Scheme 2006 £'000	*Austrian Scheme 2006 £'000*	*Turkish Scheme 2006 £'000*	*Total 2006 £'000*
Actual return less expected return on pension scheme liabilities	176	-	-	176
Experience gains and losses arising on the scheme liabilities	(123)	-	(53)	(176)
Changes in assumptions underlying the present value of the liabilities	622	-	82	704
Actuarial gains/(losses)	675	-	29	704

Notes to the financial statements

at 31 December 2006

25. Pension commitments (continued)

	UK Scheme 2005 £'000	*Austrian Scheme 2005 £'000*	*Turkish Scheme 2005 £'000*	*Total 2005 £'000*
Actual return less expected return on pension scheme liabilities	657	-	-	657
Experience gains and losses arising on the scheme liabilities	(231)	-	-	(231)
Changes in assumptions underlying the present value of the liabilities	(1,254)	-	-	(1,254)
Actuarial losses	(828)	-	-	(828)

Movement in deficit during the year

	UK Scheme 2006 £'000	*Austrian Scheme 2006 £'000*	*Turkish Scheme 2006 £'000*	*Total 2006 £'000*
Deficit in scheme at 1 January 2006	(3,596)	(1,547)	-	(5,143)
Movement in year				
Adjustment to fair value	-	-	(784)	(784)
Current Service Cost	(3,088)	-	(115)	(3,203)
Contributions	2,618	-	16	2,634
Past Service costs	(114)	-	-	(114)
Other finance income	(43)	-	(45)	(88)
Actuarial gain/(loss)	675	-	29	704
Settled during the year	-	1,547	-	1,547
Exchange adjustment	-	-	134	134
Deficit in scheme at 31 December 2006	(3,548)	-	(765)	(4,313)

Notes to the financial statements

at 31 December 2006

25. Pension commitments (continued)

History of experience gains and losses

	Value at 31 December 2006		
	UK Scheme	Austrian Scheme	Turkish Scheme
Difference between the expected and actual return on scheme assets			
Amount (£'000)	176	-	-
Percentage of scheme assets (%)	1%	-	-
Experience gains and losses on scheme liabilities			
Amount (£'000)	(123)	-	55
Percentage of the present value of the scheme liabilities (%)	(1%)	-	7%
Total amount recognised in the statement of total recognised gains and losses			
Amount (£'000)	675	-	(31)
Percentage of the present value of the scheme liabilities (%)	4%	-	(4%)

Other retirement obligations are made up of retirement benefits provided through insurance schemes for senior managers in certain European countries The value of this provision at 31 December 2006 was £181,000 (2005 £119,000)

In 2005 retirement obligations in Turkey of £1,292,000 were included within other retirement obligations During 2006 these retirement obligations have been valued under FRS 17 and included above as an adjustment to fair value

26. Minority interests

The equity minority interests relate to Termo Teknik Ticaret ve Sanayi A S A movement in the year is as follows

	31 December 2006 £'000
At 1 January 2006	1,711
Profit for the year	844
Foreign exchange differences	(316)
At 31 December 2006	2,239