Barrhead Sanitaryware Limited
(formerly Barrhead Sanitaryware plc)

Directors' report and financial statements

29 March 1997

Registered number SC138807

Directors' report and financial statements

Contents

Directors, officers and advisers

Directors

BM Gray (non-executive chairman)	(resigned 9 October 1997)
TC Campbell (non-executive)	(resigned 9 October 1997)
KG Durose	
R Peedle	(resigned 24 April 1996)
IL Hay	(appointed 9 October 1997)
AD Plenderleith	(appointed 9 October 1997)

Secretary

IL Hay

Registered office

15-17 Nasmyth Road South
Hillington
Glasgow
G52 4RG

Auditors

KPMG
24 Blythswood Square
Glasgow
G2 4QS

Solicitors

Wright Johnston & Mackenzie
12 St Vincent Place
Glasgow
G1 2EQ

Bankers

The Royal Bank of Scotland plc
Renfrewshire Commercial Centre
1 Moncrieff Street
Paisley
PA3 2AW

Directors' report

The directors present their annual report to shareholders together with audited accounts for the year ended 29 March 1997.

Principal activities

The principal activities of the company are the manufacture and sale of vitreous china sanitaryware and related products throughout the United Kingdom.

Results and dividend

The loss for the financial year after tax and the finance cost of non equity shares amounted to £393,000 *(1996: £584,000)*. The directors are unable to recommend the payment of a dividend for the year and recommend the loss for the financial year be applied against reserves.

Business review

In 1995/96 the company lost £584,000. More significantly a major contract worth almost £1 million in turnover came to an end in September 1996.

Following a re-appraisal of the market, product and customer range and financial position of the company, a re-structuring plan was formulated.

A significant improvement in trading performance has been effected as a result of this re-structuring plan. Turnover increased by 16% (although in real terms an increase of 40% was achieved net of major contract loss), the product range was increased from 3 suites to 7, new distributors and customers have been engaged and initial exploration into the export market also looks promising.

The full benefits of the re-structuring plan will be realised in the year ahead as the order book continues to improve and investments in new products are realised.

Significant costs have been incurred during the course of the year, particularly investment in new product development and the funding of business debt.

The loss for the year reflects a marked improvement - with the majority of the shortfall incurring in the earlier part of the year.

Post balance sheet events

On 21 July 1997 the company's status changed from being a public limited company to a private company and accordingly its name changed to Barrhead Sanitaryware Limited.

On 9 October 1997 the company was acquired by Carrickbeach Limited, a company established by the management team to acquire the company from Baxi Partnership Limited. Carrickbeach Limited subsequently changed its name to Barrhead International Limited on 21 October 1997, and remains the ultimate parent undertaking.

On 9 October 1997 the company entered into an agreement with Baxi Partnership Limited to defer repayment of amounts advanced, with the first repayment of £34,000 being payable by 30 September 1999. The company entered a factoring arrangement with Royal Bank Invoice Finance Limited to provide working capital.

Directors' report *(continued)*

Directors

The directors who held office during the year along with subsequent changes are as noted on page 1. None of the directors held interests in the share capital of the company at the beginning or at the end of the year, or at any time during the year.

The interests of BM Gray and TC Campbell in the parent company, Baxi Partnership Limited, are shown in the accounts of that company. No director has an interest in the preference shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group undertaking were granted to any of the directors or their immediate families, or exercised by them during the year.

The directors are not required to retire by rotation.

Creditor payment policy

It is the company's policy to pay creditors when they fall due for payment. The number of days purchases outstanding at the end of the financial year was 88 (1996: 89).

Employees

The company places considerable emphasis on the people within the business, supporting the view that its continued prosperity is dependent on the involvement and participation of all those involved in the business.

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

Health and safety

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

On behalf of the board

ILHay

IL Hay
Director

15-17 Nasmyth Road South
Hillington
Glasgow
G52 4RG

30 January 1998

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to (a) select suitable accounting policies and then apply them consistently, (b) make judgements and estimates that are reasonable and prudent, (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements and (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG
24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Report of the auditors to the members of Barrhead Sanitaryware Limited (formerly Barrhead Sanitaryware plc)

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors
As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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

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

Fundamental uncertainty
In forming our opinion we have considered the opinion expressed by the directors in note 1(a) to the financial statements that, on the grounds stated, the company's working capital should be adequate for its foreseeable needs. We are unable to form an opinion on this matter and thus on whether it is appropriate to prepare the financial statements on a going concern basis.

Opinion
Subject to any adjustments to the carrying values of assets and any provisions which might be necessary if the going concern basis of preparation proves to be inappropriate, in our opinion the financial statements give a true and fair view of the state of the company's affairs as at 29 March 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

30 January 1998

Profit and loss account
for the year ended 29 March 1997

	Notes	1997 £000	1996 £000
Turnover	*2*	**2,680**	2,384
Cost of sales		**(1,881)**	(1,745)
Gross profit		799	639
Administrative expenses		(1,011)	(1,080)
Operating loss		(212)	(441)
Interest payable and similar charges	*3*	(157)	(119)
Loss on ordinary activities before and after taxation	*4-7*	(369)	(560)
Finance costs of non-equity shares		(24)	(24)
Loss for the financial year applied against reserves	*17*	(393)	(584)

There were no recognised gains or losses in either year other than the loss for the financial year.

Balance sheet
at 29 March 1997

	Notes	1997 £000	1997 £000	1996 £000	1996 £000
Fixed assets					
Intangible assets	*9*	216		129	
Tangible assets	*10*	1,047		1,194	
			1,263		1,323
Current assets					
Stocks	*11*	354		258	
Debtors	*12*	646		605	
Cash at bank and in hand		20		-	
		1,020		863	
Creditors: amounts falling due within one year	*13*	(871)		(751)	
Net current assets			149		112
Total assets less current liabilities			1,412		1,435
Creditors: amounts falling due after more than one year	*14*		(1,906)		(1,512)
Deferred income	*15*		(354)		(402)
Net liabilities			(848)		(479)
Capital and reserves					
Called up share capital	*16*		868		868
Profit and loss account	*17*		(1,716)		(1,347)
Deficit on shareholders' funds			(848)		(479)
Equity			(1,271)		(878)
Non-equity			423		399
			(848)		(479)

These financial statements were approved by the board of directors on 30 January 1998 and signed on its behalf by:

IL Hay

IL Hay
Director

Reconciliation of movements in shareholders' funds
for the year ended 29 March 1997

	1997 **£000**	1996 £000
Deficit on shareholders' funds at beginning of the year	**(479)**	81
Loss for the financial year for equity shareholders	**(393)**	(584)
Appropriation from equity to non-equity interests included therein	**24**	24
Deficit on shareholders' funds at end of the year	**(848)**	(479)

Notes

(forming part of the financial statements)

1 Principal accounting policies

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

(a) *Basis of accounting*

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Following the acquisition of the company by Carrickbeach Limited, the directors entered into an agreement to defer repayment of the amounts advanced by Baxi Partnership Limited. The company has also entered into a factoring agreement to provide working capital. The directors therefore consider that the company's working capital should be adequate for its foreseeable needs and thus it is appropriate that the financial statements are prepared on a going concern basis.

(b) *Depreciation*

Depreciation is provided on all fixed assets to write off the cost of the assets over the period of their expected lives. The expected lives of each class of fixed assets are as follows:

Short leasehold improvements	-	the shorter of 20 years or the lease duration
Plant and machinery	-	10 years
Fixtures and fittings and equipment	-	5 to 7 years
Motor vehicles	-	4 years
Design costs and moulds	-	10 to 15 years

(c) *Turnover*

Turnover represents amounts invoiced by the company in respect of goods and services provided during the year net of value added tax, allowances and trade discounts.

(d) *Government grants*

Government grants received are taken to a deferred income reserve which is released to profit and loss account over the expected useful life of the asset concerned.

Grants of a revenue nature are credited to income in the year to which they relate.

(e) *Leases*

Where the company 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 rental charges are charged to the profit and loss account on a straight line basis over the life of the leases.

Notes *(continued)*

1 Principal accounting policies *(continued)*

(f) *Stocks*

Stocks and work in progress are valued at the lower of actual cost and net realisable value. Cost is defined as expenditure incurred in bringing the stock to its present location and condition, and includes direct labour and material costs, together with those production overheads which are allocated to specific products.

Net realisable value is the amount that items of stock and work in progress are expected to realise without creating either profit or loss in the year of sale.

(g) *Research and development*

Expenditure on research and development is written off in the year in which it is incurred. However, where in the opinion of the directors, expenditure is specifically incurred on the development of products which, with regard to their technical feasibility and commercial viability, have a reasonable expectation of specific commercial success and future benefit, the expenditure is deferred to be matched against the anticipated future revenues derived from the developed products. Such deferred expenditure is included within intangible assets.

(h) *Intangible fixed assets*

Intangible fixed assets represent deferred development expenditure (see note 1(h) above) and the costs of acquiring the company's trade marks and capitalised professional fees. The expected lives of each class of intangible fixed assets are as follows:

Deferred development expenditure	-	10 to 15 years
Trade marks	-	5 years
Capitalised professional fees	-	3 years

(i) *Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for taxation deferred if there is reasonable evidence that such deferred taxation will be payable or recoverable in the foreseeable future.

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

(j) *Cash flow statement*

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Notes *(continued)*

2 Turnover

The company engages in only one class of business in one location.

All turnover and profits before taxation are derived from trading in the United Kingdom.

3 Interest payable and similar charges

	1997 £000	1996 £000
On all other loans	157	116
Finance charges on finance leases (and similar hire purchase contracts)	-	3
	157	119

Of the above amount £157,000 *(1996: £112,000)* was payable to group undertakings.

4 Staff numbers and cost

The average number of persons employed by the company (including directors) during the period, was follows:

	Number of employees	
	1997	1996
Production	52	45
Sales and administration	14	15
Directors	4	5
	70	65

Notes *(continued)*

4 Staff numbers and cost *(continued)*

The aggregate payroll costs were as follows:

	1997 £000	1996 £000
Wages and salaries	869	943
Social security costs	85	87
Other pension costs	6	-
	960	1,030

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging or (crediting) the following:

	1997 £000	1996 £000
Depreciation (see note 10)	189	198
Amortisation of intangible assets (see note 9)	39	18
(Gain)/loss on sale of fixed assets	(7)	2
Directors' emoluments (see note 6)	50	90
Directors' fees	5	5
Auditors' remuneration:		
- audit	8	10
- other	3	-
Operating lease rentals:		
- plant and machinery	8	10
- other	-	6
Government grants credit (see note 15)	(48)	(49)

Notes *(continued)*

6 Emoluments of directors

The emoluments, excluding pension contributions, of the chairman were £Nil *(1996: £3,000)*.

The emoluments, excluding pension contributions, of the highest paid director were £31,400 *(1996: £43,595)*.

Directors' emoluments, excluding pension contributions, were within the following ranges:

			Number of directors	
			1997	1996
£0	-	£5,000	3	2
£5,001	-	£10,000	-	1
£10,001	-	£15,000	-	1
£20,001	-	£25,000	-	1
£30,001	-	£35,000	1	-
£40,001	-	£45,000	-	1

7 Taxation

Cumulative tax losses, including capital allowances, in excess of £1,054,000 *(1996: £1,300,000)* have been computed as being available to be carried forward for utilisation against future taxable profits. These tax losses have not been recognised in these accounts.

8 Dividends

Under the terms of the preference share subscription agreements and in view of the absence of distributable reserves, no preference dividends are payable. Cumulative dividends accrued but not recognised in these accounts amount to £98,000 *(1996: £74,000)*.

Notes *(continued)*

9 Intangible fixed assets

	Trade marks	Capitalised professional fees	Deferred development expenditure	Total
	£000	£000	£000	£000
Cost				
At beginning of year	4	24	141	169
Additions	-	32	94	126
At end of year	4	56	235	295
Amortisation				
At beginning of year	1	14	25	40
Charge in year	1	13	25	39
At end of year	2	27	50	79
Net book value				
At 29 March 1997	**2**	**29**	**185**	**216**
At 30 March 1996	3	10	116	129

Notes *(continued)*

10 Tangible fixed assets

	Short leasehold improvements	Plant and machinery	Fixtures and fittings and equipment	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	244	1,305	35	71	1,655
Additions	8	19	7	11	45
Disposals	-	-	-	(43)	(43)
At end of year	252	1,324	42	39	1,657
Depreciation					
At beginning of year	31	360	16	54	461
Charge for year	12	152	10	15	189
Disposals	-	-	-	(40)	(40)
At end of year	43	512	26	29	610
Net book value					
At 29 March 1997	**209**	**812**	**16**	**10**	**1,047**
At 30 March 1996	213	945	19	17	1,194

Included in the total net book value of plant and machinery is £3,000 *(1996: £10,000)* in respect of assets held under finance leases and similar hire purchase contracts. Depreciation charged in the period on those assets amounted to £4,000 *(1996: £1,500)*.

Included in the total net book value of motor vehicles is £Nil *(1996: £16,783)* in respect of assets held under finance leases and similar hire purchase contracts. Depreciation charged in the period on those assets amounted to £Nil *(1996: £13,839)*.

11 Stocks

	1997	1996
	£000	£000
Raw materials and consumables	70	83
Work in progress	37	36
Finished goods and goods for resale	247	139
	354	258

The replacement value of stock at the year end was not materially different from the above amounts.

Notes *(continued)*

12 Debtors

	1997 £000	1996 £000
Trade debtors	622	593
Other debtors	-	2
Prepayments and accrued income	24	10
	646	605

13 Creditors: amounts falling due within one year

	1997 £000	1996 £000
Bank overdraft	-	11
Trade creditors	453	424
Amounts owed to parent and fellow subsidiary undertakings	165	-
Other taxation and social security	86	109
Obligations under finance lease and hire purchase contracts (secured)	3	3
Accruals and deferred income	164	204
	871	751

Obligations under finance lease and hire purchase contracts are secured on plant and machinery and motor vehicles.

14 Creditors: amounts falling due after more than one year

	1997 £000	1996 £000
Amounts owed to parent and fellow subsidiary undertakings (secured)	1,906	1,509
Obligations under finance lease and hire purchase contracts (secured)	-	3
	1,906	1,512

Included in the amounts owed to parent and fellow subsidiary undertakings were two loans from Baxi Partnership Limited. Neither loan had any fixed repayment terms and as such they wholly fell due for repayment after more than five years. Interest, payable quarterly in arrears, was charged on the first loan at the rate of 4% over the Royal Bank of Scotland plc base rate which was variable. Interest on the second loan was charged at 2.5% over the local base rate. Baxi Partnership Limited held a floating charge over the assets and undertakings of the company in security for the first loan. As noted in the directors' report, the company have subsequently entered into an agreement with Baxi Partnership Limited to defer repayment.

Notes *(continued)*

15 Deferred income

	1997 £000	1996 £000
Government grants		
At beginning of the year	402	451
Less: Credited to profit and loss account	(48)	(49)
At end of the year	354	402

16 Share capital

	1997 £000	1996 £000
Authorised		
500,000 ordinary voting shares of £1 each	500	500
1,500,000 ordinary non-voting shares of £1 each	1,500	1,500
1,000,000 7.5% cumulative redeemable preference shares of £1 each	1,000	1,000
	3,000	3,000

Allotted, called up and fully paid

	29 March 1997		30 March 1996	
	Number	£000	Number	£000
Ordinary voting shares of £1 each (equity)	106,000	106	106,000	106
Ordinary non-voting shares of £1 each (equity)	437,110	437	437,110	437
7.5% cumulative redeemable preference shares of £1 each (non-equity)	325,000	325	325,000	325
	868,110	868	868,110	868

Notes *(continued)*

16 Share capital *(continued)*

Under the terms of the preference share subscription agreements, the company are liable to pay a fixed cumulative preferential net cash dividend on the preference shares of 7.5 pence per annum per share. The dividends are payable half yearly on 30 April and 31 October in each year, ranking in priority to any dividend paid on any other class of shares. The entitlement of the preference shareholders is however subject to the limitation that dividends paid shall not exceed 49.9% of the income of the company available for distribution.

The cumulative redeemable preference shares are due to be redeemed in four equal tranches at par value (together with all arrears and accruals of dividend) on each of the following dates:

31 January 1998
31 July 1998
31 January 1999
31 July 1999

The company has the option to redeem the preference shares at par, at any time. The preference shareholders also have the option to convert their preference shares into ordinary, non-voting shares at any time.

17 Reserves

The movement of reserves during the year was as follows:

	Profit and loss account £000
At beginning of year	(1,347)
Loss for the year	(393)
Finance costs of non equity shares	24
At end of year	(1,716)

18 Contingent liabilities

Details of the company's contingent liability under the terms of the preference share subscription agreements is given in note 8.

Notes *(continued)*

19 Capital and other commitments

(i) At 29 March 1997 capital expenditure authorised and contracted for amounted to £Nil *(1996: £Nil)*.

(ii) At the end of the financial period the company had annual commitments under non-cancellable operating leases as follows:

	29 March 1997		30 March 1996	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
within one year	-	3	-	-
in the second to fifth years inclusive	-	-	-	3
in over five years	70	-	70	-

20 Ultimate parent undertaking

The company was until 9 October 1997 a subsidiary of Baxi Partnership Limited, a company incorporated in Great Britain and registered in England. The accounts of Baxi Partnership Limited are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF4 3UZ.