

Registered Number 3879156

Baxi Heating UK Limited
(Formerly Baxi Heating Limited)
Annual report
for the year ended 31 December 2002



Baxi Heating UK Limited

Annual report for the year ended 31 December 2002

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Baxi Heating UK Limited

Directors and advisers for the year ended 31 December 2002

Directors

P T Moss

M J Edwards

A G Hannah

L Eperjesi

Newmond Administration Limited

Newmond Management Services Limited

Secretary

M Stratton

Registered Office

Pentagon House

Sir Frank Whittle Road

Derby

DE21 4XA

Auditors

PricewaterhouseCoopers

Temple Court

35 Bull Street

Birmingham

B4 6JT

Registered Number

3879156

Baxi Heating UK Limited

Directors' report for the year ended 31 December 2002

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2002.

Principal activity

The principal activity of the company is the development, manufacture and sale of domestic gas boilers, gas fires, wall heaters, commercial and domestic water heaters, and solid fuel fires.

Business review and future developments

The results for the year are shown on page 6 of these financial statements. On 1 January 2002 the company purchased the trade and assets of 5 fellow group companies, as part of the ultimate holding company, Baxi Group Limited's divisionalisation of its UK businesses. Following the divisionalisation the group has incurred £2.9 million of reorganisation costs, as the company completes reorganisation programmes initiated following the combination of the Baxi Group and the Newmond Group in November 2000. Full details are given in note 18. On 11 October 2002 the company changed its name to Baxi Heating UK Limited.

Results and dividends

The directors consider the trading results and future prospects of the company to be satisfactory. The profit for the year retained in the company was £31,667,000 (2001: £2,028,000). No dividends were proposed for the year (2001 £4,203,000).

Directors and their interests

The directors who held office during the year are given below:

P T Moss

M T Davies (resigned 15 July 2002)

M J Edwards (resigned 15 July 2002) (reappointed 28 November 2002)

A G Hannah

L Eperjesi (appointed 28 November 2002)

Newmond Administration Limited (appointed 15 July 2002)

Newmond Management Services Limited (appointed 15 July 2002)

No director had any interest in the share capital of the company or any subsidiary of Baxi Group Limited at the balance sheet date.

As permitted by statutory instrument the directors' interests above do not include the interests of M J Edwards as he is also a director of the ultimate parent undertaking and his interests are disclosed in the financial statements of Baxi Group Limited. The interests of the other directors in the ordinary share capital of the company's parent Baxi Group Limited are set out below:

	Number of shares			
	At 31 December 2002		At 31 December 2001*	
	Ordinary shares	C Ordinary shares	Ordinary shares	C Ordinary shares
P T Moss	33,333	6,888	33,333	6,888
A G Hannah	40,000	6,888	17,000	6,888
L Eperjesi	6,667	-	6,667	-

*Or date of appointment if later

Research and development

The company commits resources to research and development to assist it in securing its competitive position in its chosen markets.

Baxi Heating UK Limited

Directors' report for the year ended 31 December 2002 (Continued)

Employees

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

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

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible be, identical to that of a person who does not suffer from a disability.

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.

Payment to suppliers

The company supports the CBI initiative to address the problem of delayed payments to suppliers, consequently the company always endeavours to meet agreed supplier payment terms. This is consistent with the Vendor Improvement Programme which continues to support a total quality approach with suppliers. Trade creditors at the year end represented 67 days (2001: 71 days) of purchases.

Political and charitable contributions

The company made no political or charitable contributions during the year.

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the statement of responsibilities set out in the Independent Auditors' Report to the Members, is made with a view to distinguishing the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for the financial year.

The directors are responsible for ensuring that the financial statements are prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards that they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985. The directors also 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.

The directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

Baxi Heating UK Limited

Directors' report for the year ended 31 December 2002 (Continued)

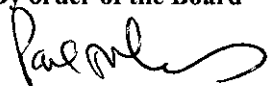
European Monetary Union

All operating divisions developed plans to deal with the implications of European Monetary Union, both for their information systems and other aspects of their operations. To date the change over has not resulted in any significant financial or legal impact on the Companies business. No significant incremental expenditure was incurred to ensure compliance with the necessary requirements.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 25 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the Board



P T Moss

Director

7 March 2003

Baxi Heating UK Limited

Independent auditors' report to the members of Baxi Heating UK Limited

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the accounting policies and the related notes.

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 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
7 March 2003

Baxi Heating UK Limited

Profit and loss account for the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
Turnover			
Continuing		51,950	98,608
Acquisitions		297,142	-
Discontinued operations		-	8,825
	1	349,092	107,433
Cost of sales		(221,189)	(61,230)
Gross profit		127,903	46,203
Distribution costs		(34,879)	(2,117)
Administrative expenses		(55,377)	(31,489)
Operating profit / (loss)			
Continuing operations		11,866	12,761
Acquisitions		25,781	-
Discontinued operations		-	(164)
	1	37,647	12,597
Loss on disposal of fixed assets	2	-	(1,000)
Profit on sale of business - discontinued operations	17	626	879
Profit on ordinary activities before interest	2	38,273	12,476
Interest receivable and similar income	6	3,600	-
Profit on ordinary activities before taxation		41,873	12,476
Tax on profit on ordinary activities	7	(10,206)	(6,245)
Profit on ordinary activities after taxation		31,667	6,231
Dividends payable	8	-	(4,203)
Retained profit for the financial year	21	31,667	2,028

Baxi Heating UK Limited

Statement of total recognised gains and losses

	2002	2001
	£'000	£'000
Profit for the year	31,667	2,028
Total losses on pension liabilities (note 23)	(67,550)	-
Deferred taxation on actuarial loss	20,265	-
Total recognised (losses) / gain for the year	(15,618)	2,028

Baxi Heating UK Limited

Balance sheet as at 31 December 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Intangible assets	9	133,108	140,983
Tangible fixed assets	10	43,914	5,108
Investments	11	2,269	2,269
		179,291	148,360
Current assets			
Stocks	12	30,324	10,650
Debtors	13	202,437	62,231
Cash at bank and in hand		24,001	7,899
		256,762	80,780
Creditors: amounts falling due within one year	14	(121,156)	(35,330)
Net current assets		135,606	45,450
Total assets less current liabilities		314,897	193,810
Creditors: amounts falling due after more than one year	15	(69,114)	(140,356)
Provisions for liabilities and charges	16	(13,976)	(8,454)
Net assets excluding pension liabilities		231,807	45,000
Pension liabilities	23	(47,425)	-
Net assets		184,382	45,000
Capital and reserves			
Called up share capital	20	200,000	45,000
Profit and loss account	21	(15,618)	-
Total equity shareholders' funds	22	184,382	45,000

The financial statements on pages 6 to 28 were approved by the board of directors on 7 March 2003 and signed on its behalf by:



P T Moss
Director

Baxi Heating UK Limited

Accounting policies

These financial statements are prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards.

Consolidated financial statements

The financial statements contain information about Baxi Heating UK Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Baxi Group Limited, a company registered in England & Wales.

Tangible fixed assets

Fixed assets are carried at historic cost. Depreciation is provided by the company to write off the cost of the assets on a straight-line basis over their estimated useful economic lives as follows:

Freehold buildings	50 years
Leasehold land and buildings	over the period of the lease
Plant and equipment	3 to 15 years
Tooling	lower of product life and 3 years

No depreciation is provided on freehold land.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes attributable overheads where appropriate. Net realisable value is the estimated selling price reduced by all costs of completion, marketing, selling and distribution.

Foreign currencies

Transactions in foreign currencies are recorded using the contracted rate of exchange or the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Deferred taxation

Full provision is made for the tax liability on all timing differences in accordance with FRS 19. Deferred tax balances have not been subject to discounting.

Pensions costs

The majority of employees of the company are members of the Baxi Group Pension Scheme, following the merger of the Newmond Pension Plan and the Baxi Group Pension Scheme. This is a group pension scheme, which is funded partly from the employees and partly from the company at rates determined by an independent actuary. These contributions are invested separately from the company's assets. Details are disclosed in the accounts of Baxi Group Limited.

In 2001, the contributions paid by the company were accounted for as a defined contribution scheme as the company was unable to identify its share of the underlying assets and liabilities in the schemes. However, with effect from 1 January 2002, the Baxi Group divisionalised many of its UK subsidiaries with the responsibility for funding future pension commitments falling on the Baxi Group and its two remaining UK trading subsidiaries, one being Baxi Heating UK Limited. Consequently, the company's share of the underlying assets and liabilities for 2002 can be estimated and have been allocated based on its proportion of total pensionable payroll.

Baxi Heating UK Limited

Accounting policies (continued)

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provisions of goods and services to customers net of rebates.

Investments

Fixed asset investments are held at cost less any provision for permanent diminution in value.

Operating leases

Operating lease rentals are charged against profit on a straight line basis over the term of the lease.

Cash flow statement and related party disclosures

The company is a wholly-owned subsidiary of the Baxi Group Limited and is included in the consolidated financial statements of the Baxi Group Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996). The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Baxi Group Limited.

Goodwill

Goodwill represents the excess of the fair value of the purchase consideration, including costs of acquisition, over the fair values of the separately identifiable assets and liabilities acquired. Goodwill is held on the balance sheet and is amortised over its expected useful economic life.

Provisions

Provisions are made for obligations of uncertain timing or amount arising from a past event where a reliable estimate can be made of the probable cost.

Warranty

Provision is made for the estimated liability relating to products sold still under warranty, and is calculated based on historic claims information.

Research and development expenditure

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred with the exception of expenditure on the development of certain major new product projects where the outcome of those projects is assessed as being reasonably certain as regards viability and technical feasibility. Such expenditure is capitalised and amortised over a period not longer than four years commencing in the year sales of the product are first made.

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

1 Segmental analysis

Turnover and profit on ordinary activities before taxation are attributable to the company's principal activity. The analysis of turnover between home and export markets is as follows:

	2002 £'000	2001 £'000
UK	339,409	105,209
European Union	8,093	2,122
Other	1,590	102
	349,092	107,433

The segmental turnover includes the following in respect of acquisitions, UK £288,294,000, European Union £7,258,000, and Other £1,590,000.

	2002			2001		
	Acquisition £'000	Continuing £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Turnover	297,142	51,950	349,092	98,608	8,825	107,433
Cost of sales	(213,656)	(7,533)	(221,189)	(53,170)	(8,060)	(61,230)
Gross profit	83,486	44,417	127,903	45,438	765	46,203
Distribution costs	(32,154)	(2,725)	(34,879)	(1,751)	(366)	(2,117)
Administrative expenses	(25,551)	(29,826)	(55,377)	(30,926)	(563)	(31,489)
Operating profit	25,781	11,866	37,647	12,761	(164)	12,597

Administrative expenses include exceptional reorganisation costs of £2,855,000 (2001: £55,000), and £2,600,000 of pension merger costs.

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

2 Profit on ordinary activities before taxation

	2002 £'000	2001 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration for:		
Audit	126	50
Non-audit services	-	-
Depreciation	7,125	1,381
Research and development	1,225	-
Operating lease rentals		
Plant and machinery	1,531	88
Land and buildings	980	660
Amortisation of intangible fixed assets	7,875	7,875

Exceptional items

The loss of £1,000,000 incurred on disposal of fixed assets relates to the sale of plant and equipment at the Warwick site closed in 2000.

The profit on disposal of subsidiary operations relates to the sale of Range Cylinders. Details of this transaction can be found in note 17. The profit on disposal of businesses in the prior year relate to the sale of the Myson Pumps and Enertech divisions.

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

3 Directors' emoluments

	2002 £'000	2001 £'000
Aggregate emoluments	613	-

During the year 5 (2001:4) of the directors accrued retirement benefits under the defined benefit scheme.

	2002 £'000	2001 £'000
Highest paid director		
Emoluments	409	-
Accrued pension at the end of the year	8	-

The emoluments of Messrs Davies and Edwards are paid by the ultimate parent company Baxi Group Limited. Their services to the company are of a non executive nature. The emoluments of P T Moss and A G Hannah were borne by a fellow group subsidiary, Baxi UK Limited, in 2001.

4 Employee information

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

	2002 No	2001 No
Production	1,794	629
Selling and distribution	302	19
Administration	713	384
	2,809	1,032

5 Employee costs

	2002 £'000	2001 £'000
Aggregate payroll costs for the above persons:		
Wages and salaries	57,417	18,089
Social security costs	4,802	1,693
Other pension costs	7,888	1,672
	70,107	21,454

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

6 Interest receivable and similar income

	2002 £'000	2001 £'000
Net return on financing of pension liability (note 23)	3,600	-

7 Tax on profit on ordinary activities

	2002 £'000	2001 £'000
Current tax:		
United Kingdom corporation tax at 30%	12,930	5,947
(Over) / under provision in respect of prior years	(2,418)	1,357
Total current tax	10,512	7,304
Deferred tax:		
United Kingdom corporation tax at 30%	2,240	407
Over provision in respect of prior years	(2,486)	(1,466)
Total deferred tax – origination and reversal of timing differences (note 13)	(246)	(1,059)
Pension liability movement	(60)	-
	10,206	6,245

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

Factors affecting tax charge for the year

The tax charge for the year is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	41,873	12,476
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	12,562	3,743
Effects of:		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	2,616	2,611
Difference between tax written down value and net book value of assets transferred	(185)	-
Adjustments to tax charge in respect of prior periods	(2,418)	1,357
Accelerated capital allowances and other timing differences	(2,063)	(407)
Current tax charge for the year	10,512	7,304

Factors that may effect future tax changes

The future effective rate of tax is expected to be in line with the effective rate of tax for the current year.

8 Dividends payable

	2002 £'000	2001 £'000
Final proposed: Nil (2001: 9.3p) per £1 share	-	4,203

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

9 Intangible fixed assets

Goodwill	Total £'000
Cost	
At 1 January 2002 and 31 December 2002	157,499
Amortisation	
At 1 January 2002	16,516
Charge for the year	7,875
At 31 December 2002	24,391
Net book value	
At 31 December 2002	133,108
At 31 December 2001	140,983

The goodwill is being amortised on a straight-line basis over 20 years. The directors estimate that this is the period over which the value of the underlying businesses acquired is expected to exceed the value of the underlying assets.

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

10 Tangible fixed assets

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 January 2002	3,416	4,352	7,768
Additions	5,810	8,030	13,840
Acquisitions	10,961	20,506	31,467
Transfers from group companies	133	2,789	2,922
Businesses disposed	(824)	(1,132)	(1,956)
Disposals	(250)	(3,419)	(3,669)
At 31 December 2002	19,246	31,126	50,372
Depreciation			
At 1 January 2002	82	2,578	2,660
Charge in the year	396	6,729	7,125
Transfers from group companies	66	83	149
Businesses disposed	(41)	(630)	(671)
Disposals	(12)	(2,793)	(2,805)
At 31 December 2002	491	5,967	6,458
Net book value			
At 31 December 2002	18,755	25,159	43,914
At 31 December 2001	3,334	1,774	5,108

The land and buildings can be further analysed as follows: -

	2002 £'000	2001 £'000
Freehold land	5,318	895
Freehold buildings	8,813	2,307
Short leasehold	1,903	-
Long leasehold	2,721	132
	18,755	3,334

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

11 Investments

	£'000
Shares in group undertakings	
Cost and net book value at 1 January 2002 and 31 December 2002	2,269

Investments in group undertakings are stated at cost. Details of the subsidiaries of the company are as follows:

Company	Registration	Shares	%	Activity
Potterton Myson (Ireland) Limited	Eire	Ordinary	100	Distribution
Baxi (BVU) Limited	England and Wales	Ordinary	100	Dormant
Baxi Pension Trustees (Number 1) Limited	England and Wales	Ordinary	100	Dormant
Baxi Pension Trustees (Number 2) Limited	England and Wales	Ordinary	100	Dormant
Baxi Process Equipment Limited	England and Wales	Ordinary	100	Dormant

12 Stocks

	2002 £'000	2001 £'000
Raw materials and consumables	9,343	2,207
Work in progress	1,488	1,020
Finished goods and goods for resale	19,493	7,423
	30,324	10,650

13 Debtors

	2002 £'000	2001 £'000
Amounts falling due within one year		
Trade debtors	76,862	7,595
Amounts owed by group undertakings	105,990	51,859
Other debtors	1,280	-
Prepayments and accrued income	15,701	808
Deferred tax	2,604	1,969
	202,437	62,231

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

Deferred tax asset

	2002 £'000	2001 £'000
Deferred tax asset		
Tax effect of timing differences because of:		
Excess of depreciation over capital allowances	6,562	1,808
Short term timing differences	(3,958)	161
	2,604	1,969
At 1 January 2002		1,969
On acquisition		586
Transferred to group companies		(197)
Transfer from profit and loss account		246
At 31 December 2002		2,604

14 Creditors: amounts falling due within one year

	2002 £'000	2001 £'000
Trade creditors	43,083	12,533
Amounts owed to group undertakings	14,714	6,022
Corporation tax	19,987	11,478
Other taxes and social security costs	13,640	-
Other creditors	16,755	3,504
Accruals and deferred income	12,977	1,793
	121,156	35,330

15 Creditors: amounts falling due after more than one year

	2002 £'000	2001 £'000
Amounts owed to group undertakings	69,114	140,356

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

16 Provisions for liabilities and charges

	Warranty £'000	Reorganisation £'000	Other £'000	Total £'000
At 1 January 2002	8,454	-	-	8,454
Acquisitions	2,985	4,274	3,441	10,700
Reclassified from accruals	-	184	-	184
Charged to the profit and loss account	16,284	1,605	1,106	18,995
Utilised during the year	(15,889)	(5,724)	(2,410)	(24,023)
Disposed	(334)	-	-	(334)
At 31 December 2002	11,500	339	2,137	13,976

The warranty provision is to cover potential liabilities relating to products sold and is dependant on guarantee periods on individual products. The provision has been recognised based on historic claims information and the level of sales. It is expected that most of the expenditure will be incurred in the next financial year.

The reorganisation provision relates to the final stages of the rationalisation of facilities following the acquisition of Baxi Holdings plc and Newmond PLC in November 2000, and is expected to be spent in the next financial year.

Other provisions primarily relate to deferred consideration on the acquisition of a company, along with an environmental provision for site remediation. The deferred consideration provision will be fully utilised over the next financial year.

The effect of discounting on the provisions is not material.

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

17 Disposals

The Company disposed of the trade and assets of Range Cylinders on 31 January 2002.

	£'000	£'000
Consideration		2,270
<u>Net assets disposed</u>		
Tangible fixed assets	1,285	
Stocks	777	
Debtors	1,159	
Creditors	(1,243)	
Provisions	(334)	
		(1,644)
<u>Profit on disposal</u>		<u>626</u>

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

18 Acquisitions

The Company acquired the trade and assets of the following businesses, from fellow group companies on 1 January 2002.

	Heatrae Sadia				
	Baxi UK	Heating	Valor	Others	Total
<u>Fair value of net assets acquired</u>	Limited	Limited	Limited		Total
	£'000	£'000	£'000	£'000	£'000
Tangible fixed assets	12,118	9,154	3,350	6,845	31,467
Stocks	17,552	2,928	3,313	3,180	26,973
Debtors	52,332	9,762	15,710	5,580	83,384
Cash	9,715	5,215	3,652	2,782	21,364
Creditors	(69,697)	(15,306)	(9,411)	(12,604)	(107,018)
Corporation tax	(5,515)	(3,514)	419	(422)	(9,032)
Deferred tax	(144)	59	625	46	586
Provisions	(4,274)	(3,308)	(2,348)	(770)	(10,700)
	12,087	4,990	15,310	4,637	37,024
Consideration - Cash	12,087	4,990	15,310	4,637	37,024
Resulting goodwill	-	-	-	-	-

Others include Alfer Limited and RSA Waterheating Limited. The acquisitions have been accounted for using acquisition accounting principles. No fair value adjustments were made on acquisition.

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

18 Acquisitions (Continued)

The results of the three major businesses acquired in the year, as reported for the year to 31 December 2001, are as follows: -

	Heatrae Sadia		
	Baxi UK Limited £'000	Heating Limited £'000	Valor Limited £'000
Turnover	165,577	67,364	30,180
Cost of sales	(133,256)	(42,560)	(23,762)
Gross profit	32,321	24,804	6,418
Distribution costs	(17,056)	(7,284)	(5,190)
Administrative expenses	(16,491)	(4,266)	(6,141)
Operating (loss) / profit	(1,226)	13,254	(4,913)
Interest receivable and similar income	19	-	-
Interest payable and similar charges	(1)	(125)	-
(Loss) / profit on ordinary activities before taxation	(1,208)	13,129	(4,913)
Tax on (loss) / profit on ordinary activities	680	(3,961)	747
(Loss) / profit on ordinary activities after taxation	(528)	9,168	(4,166)

There were no other gains and losses in the businesses acquired.

19 Financial commitments

At 31 December 2002, the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2002 £'000	Other 2002 £'000	Land and buildings 2001 £'000	Other 2001 £'000
Expiring within one year	-	494	27	-
Expiring between two and five years inclusive	179	2,226	95	621
Expiring after five years	528	6	347	-
	707	2,726	469	621

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

20 Called up share capital

	2002 £'000	2001 £'000
Authorised		
200,000,000 ordinary shares of £1 each	200,000	45,000
Allotted and fully paid		
200,000,000 ordinary shares of £1 each	200,000	45,000

During the year 154,999,999 ordinary shares were issued for cash, the nominal value and consideration received was £154,999,999.

21 Profit and loss account

	£'000
At 1 January 2002	-
Actuarial loss on pension liabilities	(47,285)
Retained profit for the year	31,667
At 31 December 2002	(15,618)

The profit and loss account includes a £47,425,000 deficit stated after deferred taxation of £20,325,000 in respect of pension scheme liabilities.

22 Reconciliation of movements in equity shareholders' funds

	2002 £'000	2001 £'000
Profit for the year	31,667	6,231
Dividends	-	(4,203)
	31,667	2,028
At 1 January	45,000	42,972
Net proceeds of issue of ordinary share capital	155,000	-
Total losses on pension liabilities	(67,550)	-
Deferred taxation on actuarial loss	20,265	-
At 31 December	184,382	45,000

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

23 Pension scheme

The majority of the company's employees are members of the two defined benefit schemes operated by the Baxi Group. The two schemes are the Baxi Group Pension Scheme, which merged with the Newmond Pension Plan and the Baxi Pension Scheme in 2002, and the Newmond Pension Plan for certain residual liabilities. The schemes are funded by the payment of contributions to separately administered trust funds. Liabilities and future funding rates of the plans are assessed in accordance with advice of independent qualified actuaries using the projected unit method.

The schemes have closed to new entrants, and hence the average age of the schemes will rise in the future. This means that, under the projected unit method of calculation, the current service cost (as a percentage of pensionable payroll for active members) will increase as the members of the scheme approach retirement.

The major assumptions used for the schemes are:

Rate of increase in salaries 3.25% (2001 3.5%)
Rate of increase in pensions in payment 2.25% (2001 2.5%)
Discount rate 5.6% (2001 6.0%)
Inflation 2.25% (2001 2.5%)

In 2001, the contributions paid by the company were accounted for as a defined contribution scheme as the company was unable to identify its share of the underlying assets and liabilities in the schemes. However, with effect from 1 January 2002, the Baxi Group divisionalised many of its UK subsidiaries with the responsibility for funding future pension commitments falling on the Baxi Group and its two remaining UK trading subsidiaries, one being Baxi Heating Limited. Consequently, the company's share of the underlying assets and liabilities for 2002 can be estimated and have been allocated based on its proportion of total pensionable payroll.

The allocated assets in the schemes and the expected rates of return:

	Year ending 2003	2002 £'000	Year ending 2002
Equities	7.5%	120,400	8.0%
Bonds	5.6%	40,200	6.0%
			£'000
Total market value of assets			160,600
Present value of schemes' liabilities			(228,350)
Deficit in Newmond pension plan and Baxi Pension plan			(67,750)
Related deferred tax asset			20,325
Net pension liabilities			(47,425)

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

	2002 £'000
Analysis of amount charged to operating profit	
Current service cost	4,600
Past service cost	2,600
Total operating charge	7,200

Analysis of amount credited to other finance income	
Expected return on pension scheme assets	15,600
Interest on pension scheme liabilities	(12,000)
Net return	3,600

Amount recognised in the statement of total recognised gains and losses (STRGL)	
Actual return in excess of expected	(51,100)
Experience gains and losses	25
Changes in assumptions	(19,425)
Actuarial loss recognised in STRGL	(70,500)
Allocation adjustment for opening surplus	2,950
Total losses recorded in STRGL	(67,550)

Movement in deficit in the year	Gross £'000	Tax £'000	Net £'000
Deficit at 1 January 2002	-	-	-
Allocation adjustment	2,950	(885)	2,065
Total operating charge	(7,200)	2,160	(5,040)
Contributions	3,400	(1,020)	2,380
Net return	3,600	(1,080)	2,520
Actuarial loss	(70,500)	21,150	(49,350)
Deficit in scheme at 31 December 2002	(67,750)	20,325	(47,425)

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

History of experience gains and losses

	2002 £'000
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Difference between the expected and actual return on schemes assets:	
Amount	(51,100)
Percentage of scheme assets	(31.8)%
 Experience gains and losses on schemes liabilities:	
Amount	25
Percentage of present value of scheme liabilities	0.1%
 Total amount recognised in STRGL	
Amount	(67,550)
Percentage of present value of scheme liabilities	(29.6)%
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The most recent independent actuarial valuations were; for the Newmond Pension Plan 1 April 2001, for the Baxi Group Pension Scheme 1 February 2001, and for the Baxi Pension Scheme, which provides benefits of both a defined benefit and defined contribution nature 1 April 2001.

An actuarial valuation of the merged schemes will be carried out on 1 April 2003.

The employer's contribution rate to the merged scheme is currently 12 per cent.

For the company's defined contribution schemes the charge in the year was £688,000 (2001 £199,000).

24 Contingent liabilities

The company is guarantor, with other group companies, of loans totalling £282.2 million (2001 £331.9 million) made by Baxi Group bankers to New Baxi Holdings Limited, Baxi Finance Limited and Financiere Celsius SA, which are all fellow subsidiary companies.

The company has also guaranteed the bank borrowings of its fellow subsidiaries. At 31 December 2002, the borrowings from banks under such guarantees were £3.9 million (2001 £2.9 million).

Baxi Heating UK Limited

Notes to the financial statements for the year ended 31 December 2002

25 Related parties

Transactions with other companies within the Baxi Group are not disclosed as the company is a wholly owned subsidiary and has taken advantage of the exemption available under Financial Reporting Standard No. 8 "Related Party Disclosures".

26 Ultimate parent undertaking

The company's intermediate holding company is Baxi Limited.

The company's ultimate holding company and controlling party is Baxi Group Limited, a company incorporated in England and Wales.

Copies of Baxi Group Limited's audited accounts for the year ended 31 December 2002 are available from: The Secretary, Baxi Group Limited, Pentagon House, Sir Frank Whittle Road, Derby, DE21 4XA.