

Baxi Finance Limited

Annual report and accounts

for the year ended 31 December 2007

Registered number 4010580

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Baxi Finance Limited

Annual report for the year ended 31 December 2007

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Baxi Finance Limited

Directors' report for the year ended 31 December 2007

The Directors present their report and the audited financial statements for the year ended 31 December 2007

Business review and principal activities

The Company acts as an intermediate holding Company. The Company's profit after taxation for the year is £55,980,000 (2006 £45,139,000) as set out in the profit and loss account on page 5

Principal risks and uncertainties

The Directors of Baxi Holdings Limited manage the Group's risks at a Group level, rather than at an individual business unit level. For this reason, the Company's Directors believe that a discussion of the Group's risks would not be appropriate for an understanding of the development, performance or position of Baxi Finance Limited. The principal risks and uncertainties of the Baxi Holdings Limited, which include those of the Company, are discussed in the Chief Executive's Review of the Group's annual report which does not form part of this report.

Key performance indicators ("KPIs")

The Directors of Baxi Holdings Limited manage the Group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of Baxi Finance Limited. The development, performance and position of Baxi Holdings Limited, which includes the Company, is discussed in the Chief Executive's Review which does not form part of this report.

Dividends

During the year the company declared dividends of 574.23p (2006 395.24p) per ordinary share amounting to £57,423,000 (2006 £39,524,000)

Directors

The Directors who held office during the year and up to the date of this report were as follows

M J Edwards (resigned 16 January 2008)

A E Darling

J McFaul (appointed 16 January 2008)

R L Nash (appointed 16 January 2008)

Baxi Finance Limited

Directors' report for the year ended 31 December 2007 (continued)

Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The Directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently in the preparation of the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2007 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

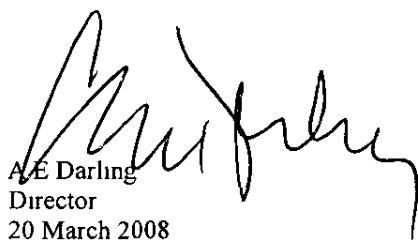
Disclosure of information to auditors

Each of the Directors at the date of approval of this report confirms that so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

By order of the Board



A.E. Darling
Director
20 March 2008

Independent auditors' report to the shareholders of Baxi Finance Limited

We have audited the financial statements of Baxi Finance Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom 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). 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 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.

Independent auditors' report to the shareholders of Baxi Finance Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its 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

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
20 March 2008

Baxi Finance Limited

Profit and loss account for the year ended 31 December 2007

		2007	2006
	Notes	£'000	£'000
Other operating income		109	56
Operating profit	2	109	56
Income from shares in Group undertakings	3	47,070	34,785
Interest receivable and similar income	4	64,885	45,718
Interest payable and similar charges	5	(53,212)	(34,069)
Profit on ordinary activities before taxation		58,852	46,490
Taxation	6	(2,872)	(1,351)
Profit on ordinary activities after taxation		55,980	45,139

All amounts relate to continuing operations

There is no difference between the profit on ordinary activities after taxation and the historical cost equivalents

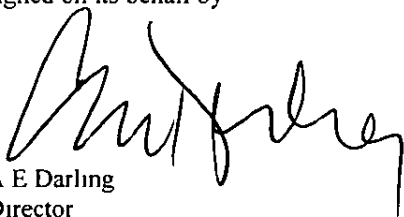
The Company has no recognised gains or losses, other than the profit on ordinary activities after taxation, and therefore no separate statement of total recognised gains and losses has been presented

Baxi Finance Limited

Balance sheet as at 31 December 2007

	Notes	2007 £'000	2006 £'000
Fixed assets			
Investments	7	293,952	293,952
Current assets			
Debtors	8	833,918	665,616
Cash at bank and in hand		26,807	13,230
		860,725	678,846
Creditors: amounts falling due within one year	9	(796,348)	(613,026)
Net current assets		64,377	65,820
Net assets		358,329	359,772
Capital and reserves			
Called up share capital	11	10,000	10,000
Other capital reserves	12	339,418	339,418
Profit and loss account	12	8,911	10,354
Total shareholders' funds	13	358,329	359,772

The financial statements on pages 5 to 13 were approved by the board of Directors on 20 March 2008 and were signed on its behalf by


A E Darling
Director

Baxi Finance Limited

Notes to the financial statements for the year ended 31 December 2007

1 Principal accounting policies

The financial statements have been prepared on the going concern basis and in accordance with the Companies Act 1985 and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Transactions with other Group Companies have not been disclosed as permitted by FRS 8.

The Company is itself a subsidiary Company, and as such is exempt from the requirement to prepare Group accounts by virtue of s228 of the Companies Act 1985. These financial statements therefore present information about the Company as an individual undertaking and not about the Group.

Cash flow statement

The Company is a wholly owned subsidiary of Baxi Holdings Limited for the year ended 31 December 2007 which publishes a consolidated cash flow statement. Consequently the Company is exempt under the terms of FRS 1 (Revised) from publishing a cash flow statement.

Foreign currencies

Assets and liabilities denominated in overseas currencies are translated into sterling at the rate ruling at the balance sheet date. Differences arising on restatement of currency investments are matched by differences arising on currency loans and are dealt with as adjustments to reserves. All other exchange differences are dealt with in the profit and loss account. Exchange differences arising in respect of revenue transactions are taken to the profit and loss account in the year in which they arise.

Fixed assets investments

Fixed assets investments are held at cost less any provision for impairment.

Deferred taxation

Full provision is made for the tax liability on all timing differences in accordance with FRS 19. A deferred tax asset is only recognised where transactions or events that have occurred before the balance sheet date give the Company the right to pay less tax in future, and it is considered to be more likely than not that the asset will be recovered. Deferred tax balances are not discounted.

2 Operating profit

None of the Directors received any emoluments for their services to the Company during the year.

There were no employees during the year.

Audit fees are borne by a fellow Group Company.

Baxi Finance Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Income from shares in Group undertakings

	2007	2006
	£'000	£'000
Dividends receivable	47,070	34,785

4 Interest receivable and similar income

	2007	2006
	£'000	£'000
Group interest receivable	64,441	45,418
Bank interest receivable	444	300
	64,885	45,718

5 Interest payable and similar charges

	2007	2006
	£'000	£'000
Group interest payable	52,255	33,579
Bank loans and overdrafts	957	490
	53,212	34,069

Baxi Finance Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

6 Taxation

	2007	2006
	£'000	£'000
Current taxation		
United Kingdom corporation tax at 30% (2006 30%)	3,534	448
Adjustment in respect of prior year	108	533
	3,642	981
Deferred taxation		
Origination and reversal of timing differences	226	3,047
Adjustment in respect of prior years	(996)	(2,677)
Tax charge on profit on ordinary activities	2,872	1,351

The tax for the year is lower than the standard rate of corporation tax in the UK (30%) The differences are stated below

	2007	2006
	£'000	£'000
Profit on ordinary activities before taxation	58,852	46,490
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	17,655	13,947
Effects of		
Timing differences	-	(3,047)
Dividends receivable	(14,121)	(10,436)
Expenses not deductible for tax purposes	-	(16)
Adjustments in respect of prior years	108	533
Current tax charge for the year	3,642	981

With the 2007 UK budget, the Chancellor announced a number of prospective changes to certain UK tax rules. These include reducing the UK standard corporation tax rate from 30% to 28% from 1 April 2008. The future expected rate of tax is expected to be in line with the standard rate of corporation tax in the UK.

Baxi Finance Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

7 Fixed asset investments

	Shares in Group undertakings
	£'000
At 31 December 2006 and 31 December 2007	293,952

At 31 December 2007 the Company held the entire share capital of the following UK companies which operated in the United Kingdom

Company	Principal activity
Heatrae Electrical Limited	Intermediate holding company
Baxi Global Limited	Intermediate holding company

8 Debtors

	2007	2006
	£'000	£'000
Amounts owed by Group undertakings	830,748	663,196
Accrued bank interest	2	22
Deferred tax (note 10)	3,168	2,398
	833,918	665,616

Interest is receivable on Group loans at a rate of 2.5% above LIBOR or 3.5% above EURIBOR dependant on the currency in which the lending is denominated

Baxi Finance Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

9 Creditors: amounts falling due within one year

	2007	2006
	£'000	£'000
Amounts owed to Group undertakings	785,693	603,289
Corporation tax	3,642	981
Bank overdraft	6,988	8,723
Accruals and deferred income	-	33
Other taxes and social security	25	-
	796,348	613,026

Interest is payable on Group loans at a rate of 2.5% above LIBOR or 3.5% above EURIBOR dependant on the currency in which the lending is denominated

10 Deferred tax

	£'000	
At 1 January 2007	2,398	
Credited to the profit and loss account (note 6)	770	
At 31 December 2007	3,168	
The deferred tax relates to		
	2007	2006
	£'000	£'000
Losses	3,168	2,398

With the 2007 UK budget, the Chancellor announced a number of prospective changes to certain UK tax rules. These include reducing the UK corporation tax rate from 30% to 28% from 1 April 2008. As at the balance sheet date these changes have been substantially enacted and hence the deferred tax has been restated to reflect the reduced tax rates.

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Notes to the financial statements for the year ended 31 December 2007 (continued)

11 Share capital

	2007	2006
	£'000	£'000
Authorised		
10,000,000 Ordinary shares of £1 each	10,000	10,000
	10,000	10,000
Allotted, called up and fully paid		
10,000,000 Ordinary shares of £1 each	10,000	10,000
	10,000	10,000

12 Reserves

	Other capital reserves	Profit and loss account
	£'000	£'000
At 1 January 2007	339,418	10,354
Profit on ordinary activities after taxation	-	55,980
Dividends	-	(57,423)
At 31 December 2007	339,418	8,911

Baxi Finance Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

13 Reconciliation of movement in shareholders' funds

	2007	2006
	£'000	£'000
Profit on ordinary activities after taxation	55,980	45,139
Dividends	(57,423)	(39,524)
Net movement in shareholders' funds	(1,443)	5,615
Opening shareholders' funds	359,772	354,157
Closing shareholders' funds	358,329	359,772

14 Contingent liabilities

The Company is a guarantor of loans provided by various bankers to Heating Finance plc a Group Company. At 31 December 2007 the contingent liability was £502.6 million (2006 £527.7 million), being the net amount drawn down under the facility.

The Company's assets and undertakings are secured by a debenture deed dated 12 March 2004 in respect of the above facilities.

The Company has guaranteed the bank borrowings of its subsidiaries. At 31 December 2007 the borrowings from banks under such guarantees were £nil (2006 £0.7 million).

15 Ultimate parent Company

At 31 December 2007 the Company is a wholly owned subsidiary of Baxi 2000 Limited a Company incorporated in Great Britain.

The Company's ultimate holding Company is Baxi Holdings Limited, a Company incorporated in Great Britain, which is the largest Group to consolidate these financial statements. The parent Company of the smallest Group is Heating Finance plc, a Company also incorporated in Great Britain.

The ultimate controlling party is CIE Management II Limited.

Copies of the Baxi Holdings Limited consolidated accounts are available from The Secretary, Baxi Holdings Limited, Stanier Way, The Wyvern Business Park, Derby DE21 6BF.