

Company Registration No. 875806

AAF LIMITED

Report and Financial Statements

31 December 2011

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REPORT AND FINANCIAL STATEMENTS 2011

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Directors' responsibilities statement	6
Independent auditor's report	7
Profit and loss account	8
Statement of total recognised gains and losses	8
Balance sheet	9
Notes to the financial statements	10

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Allsopp
C S Wantland
K Lynch
R Carling
VP Chen
B Loiw
I Creasey

SECRETARY

I Creasey

REGISTERED OFFICE

Bassington Lane
Bassington Industrial Estate
Cramlington
Northumberland
NE23 8AF

BANKERS

Barclays Bank plc
Percy Street
Newcastle upon Tyne
NE1 4QL

The Bank of Tokyo-Mitsubishi UFJ Ltd
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9AN

AUDITOR

Deloitte LLP
Chartered Accountants and Registered Auditor
One Trinity Gardens
Broad Chare
Newcastle upon Tyne
NE1 2HF

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2011

PRINCIPAL ACTIVITY

The principal activity of the company is the manufacture and marketing of products and systems for the control of environment air

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £1,602,000 (2010 £1,267,000)

The directors consider the performance of the company to be satisfactory and expect it to continue in the coming year

There were no dividends paid during the year (2010 - £nil) and the directors do not recommend the payment of a final dividend

BUSINESS REVIEW AND PRINCIPAL RISKS AND UNCERTAINTIES

AAF Ltd's largest market is the supply of equipment for control of air supply and noise abatement in gas turbines used in the power generation and oil and gas industries worldwide. This incorporates intake systems, acoustic turbine enclosures and exhaust systems, and principle customers are manufacturers of gas turbines. Related to this AAF Ltd also operates an aftermarket function, supplying replacement filter consumables and engineered refurbishment solutions to the owners of existing power plants. AAF Ltd also supplies standard and engineered solutions for the control of emissions from manufacturing and processing industries.

The directors are pleased to report a satisfactory level of turnover in the year. Despite hopes for recovery in gas turbine power generation markets in 2011, they remained suppressed throughout the year as a result of the poor global economic conditions. Despite this AAF Ltd maintained volumes and market share at similar levels. This has been achieved by establishing new customers and by continued emphasis on developing the gas turbine related aftermarket business, particularly in the oil and gas sector which has remained buoyant throughout the economic downturn.

Although in future, regulatory requirements will become more onerous, the emissions control sector continues to see a significant impact from the economic downturn and general order levels have remained low in this area this year. However, AAF Ltd are focussing resource on key industries in this sector in order to direct specific skills and maximise future opportunities.

Turnover has stayed broadly flat at £59,419,000 from £59,713,000. Gross profit rose from 14.2% to 15.2% as a direct impact of AAF Ltd's specific efforts to maintain strict cost control and establish further efficiencies in project execution. Distribution and administration expenses have increased from 11.1% to 12.5% of sales, reflecting a £451,000 (48%) increase in expenditure on research and development, product development and engineering improvements. Operating profit has increased from £1,811,000 (3.0%) to £1,902,000 (3.2%) reflecting gross profit improvements and the increased development expenditure.

Working capital (net current assets excluding cash, overdraft, and short term borrowings) at 11.2% of annual sales remained at similar levels to the previous year (2010 11.9% of annual sales). This reflects the relatively steady sales volumes. Working capital is expected to remain at this approximate level into 2012, subject to the impact of any recovery in market conditions, which will require additional working capital to support any further growth. Interest expenditure reduced compared to the prior year as a result of working capital requirements reducing during 2011.

It is expected that markets will start to show signs of recovery from the economic downturn later in 2012 and overall volumes will grow at that point for all aspects of the business. AAF Ltd's goal is to continue to improve gross profits in the next financial year by expanding market share, maintaining strict cost control and establishing further efficiencies in project execution. This will be offset by further increases to expenditure on new product development to ensure that AAF Ltd remains well placed to continue to grow its market share in the future.

DIRECTORS' REPORT (continued)

BUSINESS REVIEW AND PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

The company has undertaken various initiatives during the year to enhance the working environment and employment conditions, and to maximise its relationship with staff through training and development and new processes, to ensure that it continues to attract the best employees

RESEARCH AND DEVELOPMENT

AAF Ltd continues to invest in new facilities for developing and testing existing and new products to provide a competitive advantage now and in the future. The directors regard investment in this area as vital for success in the medium to long-term future.

Work was completed in 2011 on the building of a new Research and Development Centre at the Cramlington site. The company continues to invest in the latest engineering and design technology to maintain its position as a strong force in the marketplace.

GOING CONCERN

The company's forecasts and projections, taking account of reasonably possible changes in trading performance of both itself and the other UK resident members of the group of companies headed by AAF McQuay UK Limited ("the UK Group"), show that the company and group should be able to operate within the level of its current facilities for the foreseeable future. The UK group continues to hold discussions with its bankers about its future borrowing needs and no matters have been brought to its attention to suggest that future renewal may not be forthcoming on acceptable terms.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in note 1 of the notes to the financial statements.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial Risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses foreign currency exchange forward contracts in order to fix the value of sales and purchases in foreign currencies thereby reducing the financial risk of exchange rate fluctuation.

Credit Risk

The company's principal financial assets are bank balances and trade and other receivables. The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The company has no significant concentration of credit risk with exposure spread over a number of counterparties and customers.

Liquidity Risk

In order to maintain liquidity and to ensure that sufficient funds are available for on-going operations and future developments, the company uses a mixture of inter group borrowings and bank overdraft. Further details can be found in note 1 of the notes to the financial statements.

DIRECTORS' REPORT (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Pension risk

The company operates a number of pension schemes which includes two defined benefit schemes. The pension funds' liabilities are partially matched with a portfolio of assets, which leaves potential risk around the amount of the liabilities as a result of changes in life expectancy, inflation, future salary increases, risks regarding the value of investments, the returns derived from such investments and the Pension Protection Fund levy. In addition, actions by the Pensions Regulators or the Trustees and/or any material revisions to the existing pension legislation could require increased contributions by the company to the pension funds.

The pension trustees, in consultation with the company, regularly review the scheme's investment strategy to mitigate the volatility of liabilities and to diversify investment risk and the company takes professional advice regarding options to manage liability volatility.

DIRECTORS

The directors who served during the year and subsequently were as follows:

D Allsopp
C S Wantland
K Lynch
R Carling
VP Chen
B Liow
I Creasey

DIRECTORS' INDEMNITIES

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

EMPLOYEES

The directors attach the greatest importance to employee involvement. Financial and commercial information is made available to all groups of employees.

The company gives full and fair consideration to applications for employment made by disabled persons. The company's policy includes, where practicable, the continued employment of those who may become disabled during their employment. Equal training facilities are provided for disabled and other employees to improve performance, to learn new skills and to qualify for promotion.

SUPPLIER PAYMENT POLICY

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the company at 31 December 2011 of £1,678,000 (2010: £1,543,000) were equivalent to 20.15 (2010: 17.5) days' purchases based on the average daily amount invoiced by suppliers during the year.

FIXED ASSETS

In the opinion of the directors, the current open market value of the company's interest in land and buildings exceeds the book value by approximately £1,000,000.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The company made no political contributions during the year. Donations to UK charities amounted to £2,194 (2010: £281).

DIRECTORS' REPORT (continued)

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

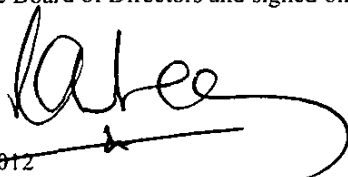
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming annual general meeting

Approved by the Board of Directors and signed on behalf of the Board

I Creasey
Director
26 September 2012

A handwritten signature in black ink, appearing to read 'I Creasey', with a long horizontal flourish extending to the right.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AAF LIMITED

We have audited the financial statements of AAF Limited for the year ended 31 December 2011 which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 24. The financial reporting framework that has been applied is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Matthew Hughes BSc (Hons) ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle upon Tyne, UK
27 September 2012

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2011

	Note	2011 £'000	2010 £'000
TURNOVER	2	59,419	59,713
Cost of sales		(50,387)	(51,220)
GROSS PROFIT		9,032	8,493
Distribution costs		(4,592)	(3,756)
Administrative expenses		(2,538)	(2,926)
OPERATING PROFIT		1,902	1,811
Interest payable and similar charges	6	(21)	(89)
Other finance income	20	260	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	2,141	1,722
Tax charge on profit on ordinary activities	7	(539)	(455)
PROFIT FOR THE YEAR	16, 17	1,602	1,267

All of the company's activities relate to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2011

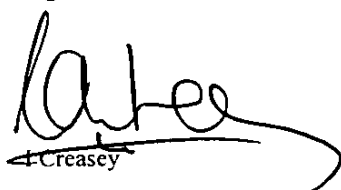
	2011 £'000	2010 £'000
Profit for the financial year	1,602	1,267
Actuarial loss recognised in the pension scheme	(2,648)	-
Deferred tax arising on actuarial loss in the pension scheme	484	-
Total recognised gains and losses relating to the financial year	(562)	1,267
Prior period adjustment (as explained in note 24)	(6,471)	-
Total recognised gains and losses since last annual report and financial statements	(7,033)	1,267

BALANCE SHEET
31 December 2011

	Note	2011 £'000	2011 £'000	Restated (note 24) 2010 £'000	Restated (note 24) 2010 £'000
FIXED ASSETS					
Tangible fixed assets	9		3,792		3,076
Investments	10		4		4
			<u>3,796</u>		<u>3,080</u>
CURRENT ASSETS					
Stocks	11	3,211		2,655	
Debtors	12	22,800		24,908	
Cash at bank and in hand		-		3,729	
		<u>26,011</u>		<u>31,292</u>	
CREDITORS: amounts falling due within one year	13	<u>(20,108)</u>		<u>(24,091)</u>	
NET CURRENT ASSETS			<u>5,903</u>		<u>7,201</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>9,699</u>		<u>10,281</u>
PROVISIONS FOR LIABILITIES	14		<u>(1,971)</u>		<u>(1,550)</u>
NET ASSETS EXCLUDING PENSION LIABILITIES			<u>7,728</u>		<u>8,731</u>
NET PENSION LIABILITY	20		<u>(6,030)</u>		<u>(6,471)</u>
NET ASSETS			<u><u>1,698</u></u>		<u><u>2,260</u></u>
CAPITAL AND RESERVES					
Called up share capital	15		125		125
Profit and loss account	16		1,573		2,135
SHAREHOLDERS' FUNDS	17		<u><u>1,698</u></u>		<u><u>2,260</u></u>

The financial statements of AAF Ltd, registered number 875806 were approved by the Board of Directors and authorised for issue on 26 September 2012

Signed on behalf of the Board of Directors


 J. Creasey
 Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

1 ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and preceding year.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

Under FRS 1, Cashflow Statements, 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.

As the company was a wholly owned subsidiary of Daikin Industries Limited at the year end, the company has taken advantage of the exemption contained in FRS 8, Related Party Disclosures, and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Daikin Industries Limited, within which this company is included, can be obtained from the address given in note 23.

Going Concern

The company's business activities, together with the factors likely to affect its future development, performance and position, risks and uncertainties are set out in the Directors' Report on page 2.

As highlighted in notes 13 and 18 to the financial statements, the company meets its day to day working capital requirements through an overdraft facility which is shared with the rest of the UK resident members of the group of companies to which it belongs ("the UK group") and through inter-company loans from the Holding Company of the UK group, AAF McQuay UK Ltd. The UK group's overdraft and guarantee facility with Bank of Tokyo Mitsubishi-UFJ Ltd was renewed on 1 July 2012 and is due for renewal on 30 June 2013. The UK group overdraft and guarantee facility with Barclays Bank plc was renewed on 14 September 2012 and continues until renewed or cancelled. While the current economic conditions create uncertainty over the level of demand for the company's products, uncertainty over future exchange rates is mitigated by incurring some cost in the same currency as revenue and the company finds that bank finance is more available through being a subsidiary of Daikin Industries Ltd than it would be for an independent company of its size.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance of both itself and the other members of the UK group, show that the company and UK group should be able to operate within the level of its current facilities. The UK group continues to hold discussions with its bankers about its future borrowing needs and no matters have been brought to its attention to suggest that future renewal may not be forthcoming on acceptable terms.

After making enquiries the directors have a reasonable expectation that the company and UK group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost.

Licences purchased by the company are amortised to nil over their useful economic lives, generally their respective unexpired periods. The carrying value of intangible fixed assets is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value is charged to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Freehold buildings	45 years
Plant and machinery	10 years
Fixtures, fittings, tools and equipment	5 - 10 years
Motor vehicles	3 years

No depreciation is provided on freehold land

Investments

Fixed asset investments are shown at cost less provision for impairment

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or 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.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post retirement benefits

The company operates a pension scheme providing benefits based on final pensionable pay. The assets and liabilities of the scheme are held separately from those of the company. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gain and losses, actuarial gains and losses.

The company also participates in a defined contribution pension scheme. For defined contribution schemes, the amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the first in first out purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Provision is made for obsolete, slow-moving or defective items where appropriate.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

1 ACCOUNTING POLICIES (continued)

Long term contracts

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

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

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

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax balances are not discounted.

Financial instruments

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Turnover

In the case of short-term contracts, turnover represents the invoiced value of contracts progressed during the year exclusive of VAT and trade discounts. For long term contracts, see above.

Research and development

Research expenditure is written off as incurred. Development expenditure is also written off as incurred.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

2. ANALYSIS OF TURNOVER

The turnover is attributable to the company's principal activity. An analysis of turnover by geographical market is given below

	2011 £'000	2010 £'000
By geographical market		
UK	13,054	17,108
Europe	8,472	12,226
Americas	33,290	23,334
Rest of World	4,603	7,045
	<u>59,419</u>	<u>59,713</u>

All turnover originated in the UK

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation is stated after charging		
Fees payable to the company's auditors for the audit of the company's annual accounts	42	40
Fees payable to the company's auditors for other services	91	5
Depreciation and other amounts written off owned tangible fixed assets	567	401
Hire of plant and machinery – rentals payable under operating leases	83	31
Hire of motor vehicles – rentals payable under operating leases	84	64
Current year expenditure on research and development	<u>1,574</u>	<u>933</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

4 REMUNERATION OF DIRECTORS

	2011 £'000	2010 £'000
Directors' emoluments	575	378
Pension contributions	30	31
	<u>605</u>	<u>409</u>

The aggregate of emoluments of the highest paid director was £352,000 (2010 - £252,000). The highest paid director is a member of a defined benefit scheme, under which his accrued pension at the year end was £32,491 (2010 - £28,634) and his accrued lump sum was £245,725 (2010 - £211,503).

Retirement benefits are accruing for two directors (2010 – two directors) under defined benefit schemes.

5. STAFF NUMBERS AND COSTS

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

	2011 Number	2010 Number
Production	128	119
Sales	67	64
Administration	40	39
	<u>235</u>	<u>222</u>

The aggregate payroll costs of these persons were as follows:

	£'000	£'000
Wages and salaries	9,223	7,901
Social security costs	872	659
Other pension costs – defined benefit scheme	362	1,144
Other pension costs – defined contribution scheme	206	128
	<u>10,663</u>	<u>9,832</u>

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £'000	2010 £'000
Payable to group undertakings	<u>21</u>	<u>89</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

i) Analysis of charge in year

	2011 £'000	2010 £'000
UK corporation tax		
Group relief	55	463
Adjustment in respect of prior years	(91)	(54)
Total current taxation	(36)	409
Deferred taxation		
Origination and reversal of timing differences	135	57
Adjustments in respect of prior years	67	(8)
Pension contributions spread into later years	(485)	-
Timing differences in respect of pension scheme	869	-
Effect of rate change	(11)	(3)
Total deferred taxation	575	46
Total tax charge	539	455

ii) Factors affecting the tax charge for the current and prior years

The current tax credit/charge for the year is lower (2010 – lower) than the standard rate of corporation tax in the UK of 26.5% (2010 – 28%). The differences are explained below

	2011 £'000	2010 £'000
Current tax reconciliation		
Profit on ordinary activities before taxation	2,141	1,722
Tax at 26.5% (2010 – 28%) thereon	567	482
Effects of		
Expenses not deductible for tax purposes	38	39
Depreciation for year in excess of capital allowances	(154)	(38)
Pension costs included in profit on ordinary activities before taxation	96	320
Pension contributions to defined benefit plan	(1,017)	(320)
Pension contributions disallowed in the year and deferred	514	-
Other timing differences	11	-
Utilisation of tax losses	-	(20)
Adjustments to tax credit / charge in respect of prior years	(91)	(54)
Current tax (credit)/charge for the year	(36)	409

iii) Factors that may affect the future tax credit/charge

Deferred tax has not been provided in respect of gains realised that will be rolled over into the acquisition cost of replacement assets. This tax will become payable if the replacement assets are sold and further rollover relief is not obtained. The estimated amount of tax which would become payable in these circumstances is £111,000 (2010 – £125,000).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

8 INTANGIBLE FIXED ASSETS

	Licences £'000
Cost	
At beginning and end of year	221
Amortisation	
At beginning and end of year	221
Net book value	
At beginning and end of year	-

The licences were acquired on 30 June 2003 and were being amortised over three years from that date. They were impaired to £nil at 30 June 2005 as the directors did not expect to receive any future cashflows from related sales.

9. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tools, equipment and vehicles £'000	Total £'000
Cost				
At 1 January 2011	3,321	2,476	1,679	7,476
Additions	778	97	408	1,283
Disposals	-	(202)	(211)	(413)
At 31 December 2011	4,099	2,371	1,876	8,346
Accumulated depreciation				
At 1 January 2011	1,581	1,583	1,236	4,400
Disposals	-	(202)	(211)	(413)
Charge for the year	224	182	161	567
At 31 December 2011	1,805	1,563	1,186	4,554
Net book value				
At 31 December 2011	2,294	808	690	3,792
At 31 December 2010	1,740	893	443	3,076

Included in freehold land and buildings is land at a cost of £58,000 (2010 - £58,000) which is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

10 INVESTMENTS

	Shares in group undertakings £'000
Cost	
At beginning and end of year	4

Details of the investment in which the company's interest is more than 20% is as follows

	County of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertaking			
AAF McQuay SA de CV	Mexico	Environmental air control equipment	Ordinary 100%

11 STOCKS

	2011 £'000	2010 £'000
Raw materials and consumables	313	550
Work in progress	1,977	1,228
Finished goods and goods for resale	921	877
	<u>3,211</u>	<u>2,655</u>
Work in progress includes the following amounts in respect of long term contracts		
Net cost less foreseeable losses	2,168	1,299
Less applicable payments on account	(191)	(71)
	<u>1,977</u>	<u>1,228</u>

12 DEBTORS

	2011 £'000	2010 £'000
Trade debtors	12,225	10,474
Amounts recoverable on contracts	7,799	12,306
Amounts owed by group undertakings	1,947	1,229
Other debtors	241	527
Deferred tax	145	-
Prepayments and accrued income	443	372
	<u>22,800</u>	<u>24,908</u>

Included in debtors is £323,000 of deferred taxation (2010 NIL) due after more than one year

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

12. DEBTORS (CONTINUED)

The movements on the deferred tax assets during the year are as follows

	Difference between accumulated depreciation and capital allowances £'000	Other timing differences, losses and other deductions £'000	Total deferred tax asset (as above) £'000	Deferred tax asset on pension deficit (see note 20) £'000	Total £'000
At 1 January 2011 (note 14)	(168)	19	(149)	2,394	2,245
(Charge)/credit to the profit and loss account for the year	(145)	10	(135)	-	(135)
(Charge)/ Credit Related to Final salary Scheme	-	485	485	(869)	(384)
(Charge)/credit to profit and loss account in respect of prior years	(75)	8	(67)	-	(67)
Effect of rate change in profit and loss account	13	(2)	11	-	11
Effect of rate change in STRGL	-	-	-	(178)	(178)
Amounts included in STRGL	-	-	-	662	662
At 31 December 2011	(375)	520	145	2,009	2,154

Finance Act 2011, which was substantively enacted in July 2011, included provisions to reduce the rate of corporation tax to 26% with effect from 1 April 2011 and 25% with effect from 1 April 2012. Accordingly, deferred tax balances have been revalued to the lower rate of 25% in these accounts, which has resulted in a credit to the profit & loss account of £11,000.

The government subsequently announced that the rate of corporation tax would be further reduced to 24% with effect from 1 April 2012. This was substantively enacted in March 2012 and is not reflected in the tax provisions reported in these accounts as the legislation was not substantively enacted at 31 December 2011.

The government has also announced that it intends to further reduce the rate of corporation tax to 23% with effect from 1 April 2013 and 22% from 1 April 2014. As this legislation was not substantively enacted by 31 December 2011, the impact of the anticipated rate change is not reflected in the tax provisions reported in these accounts.

If the deferred tax assets and liabilities of the company were all to reverse after 1 April 2014, the effect of the future changes from 25% to 22% would be to reduce the net deferred tax asset by £17,000. To the extent that the deferred tax reverses more quickly than this the impact on the net deferred tax asset will be reduced.

The main tax rate reductions will have an impact on the deferred tax position for the years ended 31 December 2011 to 31 December 2013 although the actual impact will be dependent on the deferred tax position at that time.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

13 CREDITORS. AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011	2010
	£'000	£'000
Bank overdraft (see note 18)	788	-
Payments on account of long term contracts	1,338	2,739
Trade creditors	1,678	1,543
Amounts owed to group undertakings	9,034	12,390
Amounts owed for group relief	46	466
Other taxes and social security costs	470	437
Accruals and deferred income	6,754	6,516
	<u>20,108</u>	<u>24,091</u>

14. PROVISIONS FOR LIABILITIES

	Deferred taxation £'000	Claims provision £'000	Warranty £'000	Total £'000
At 1 January 2011	149	783	618	1,550
Transferred to current assets	(149)	-	-	(149)
Transferred between warranty and claims	-	57	(57)	-
Charged to the profit and loss account	-	(566)	1,455	889
Utilised in the year	-	(234)	(85)	(319)
At 31 December 2011	<u>-</u>	<u>40</u>	<u>1,931</u>	<u>1,971</u>

The warranty provision reflects an estimate of future warranty costs, arising on current and prior year sales. It is expected that the majority of this expenditure will be incurred in the next financial year and that all will be incurred within three years of the balance sheet date.

15. CALLED UP SHARE CAPITAL

	2011	2010
	£'000	£'000
Allotted, called up and fully paid 125,100 ordinary shares of £1 each	<u>125</u>	<u>125</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

16 RESERVES

	Profit and loss account £'000
At 1 January 2011 as originally stated	8,606
Prior year adjustment (note 24)	(6,471)
At 1 January 2011 as re-stated	2,135
Profit for the financial year	1,602
Net reduction in respect of FRS17	(2,164)
	<hr/>
At 31 December 2011	<u>1,573</u>

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £'000	2010 £'000
Profit for the financial year	1,602	1,267
Net reduction in respect of FRS17	(2,164)	-
	<hr/>	<hr/>
Net (decrease)/increase in shareholders' funds	(562)	1,267
	<hr/>	<hr/>
Opening shareholders' funds as previously stated	2,260	7,464
Prior year adjustment (note 24)	-	(6,471)
	<hr/>	<hr/>
Opening shareholders' funds as restated	2,260	993
	<hr/>	<hr/>
Closing shareholders' funds	<u>1,698</u>	<u>2,260</u>

18 CONTINGENT LIABILITIES

At 31 December 2011 bank bonds, indemnities guarantees issued by Barclays Bank Plc on behalf of the company, amounting to £5,027,000 (2010 - £6,445,000), were outstanding with recourse to the company. These guarantees and all indebtedness to Barclays Bank Plc incurred by the UK resident group companies is secured on the land and buildings at Bassington Lane, Cramlington, England, belonging to the company and by a fixed and floating charge over all the assets of the UK group companies by a cross guarantee. A list of UK group companies is disclosed in the accounts of the UK parent company, AAF McQuay UK Limited. The total UK group liability to Barclays Bank Plc, at 31 December 2011, comprising contingent liabilities plus total overdrawn balances less positive account balances amounted to £10,103,000 (2010 - £8,070,000).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

19 COMMITMENTS

- (a) There were no capital commitments at the balance sheet date (2010 – none)
 (b) Annual commitments under non-cancellable operating leases in respect of assets, are as follows

	2011 £'000	2010 £'000
Operating leases which expire		
Within one year	9	5
In the second to fifth years inclusive	75	72
	<u>84</u>	<u>77</u>

20 PENSION SCHEME

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £206,000 (2010 - £128,000).

The company participates in a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with group companies. This scheme is for the employees of AAF McQuay UK Ltd, AAF Ltd, Air Filters Ltd and McQuay UK Ltd. At the previous year end there were two such schemes which were merged on the 1 July 2011. The defined benefit schemes were closed to new members on 1 August 2005. The schemes were replaced with a defined contribution scheme on that date.

The assets and liabilities of the defined benefit scheme are held separately from those of the company in independently administered funds. Contributions to the defined benefit scheme are paid in accordance with the advice of a qualified actuary on the basis of triennial valuations using the projected unit method.

There exists a deficit in the scheme and so, following advice of the Scheme Actuary, the Trustees and the participating employers have agreed increased company contribution rates.

The following employer contribution rates will apply in future years:

**AAF
McQuay
Pension Plan**

Contribution rates at 31 December 2011 9.0%

In addition to the above contribution rates the participating employers in the AAF McQuay Pension Plan are paying £631,000 (2010 - £709,000) per annum as fixed contributions. On the 30 December 2011 the participating employers made a one off deficit reducing contribution of £4,500,000.

The latest full actuarial valuations were carried out at 1 January 2010 and were updated for FRS17 purposes to 31 December 2011 by a qualified independent actuary. The total contributions for the year by AAF Ltd were £3,836,000 (2010 - £1,144,000).

	2011	2010	2009	2008
The major assumptions used in this valuation were:				
Rate of increases in salaries	4.1%	4.6%	4.6%	4.0%
Rate of increase in pensions in payment	3.0%	3.5%	3.5%	2.9%
Rate of increase in pensions deferred pensions	2.35%	3.0%	3.5%	2.9%
Discount rate applied to scheme liabilities	4.7%	5.4%	5.8%	6.5%
Inflation assumption	3.1%	3.6%	3.6%	3.0%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

20. PENSION SCHEME (continued)

Scheme assets and liabilities

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice

For the year ended 31 December 2011 the company has allowed for Consumer Price Index increases for the valuation of deferred pensions, but not for pension in payment increases in line with the scheme rules. Overall this led to a lower value being placed on liabilities at the year end than expected at the beginning of the year resulting in a gain of approximately £1,000,000

The fair value of the schemes' assets that relate to the company, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were

	Value at 31 December 2011 £'000	Value at 31 December 2010 £'000
Equities and Diversified Growth Fund	9,187	19,537
Bonds and Gilts	16,323	6,149
Property	1,260	-
Cash and other assets	3,221	245
Total market value of assets	29,991	25,931
Present value of scheme liabilities	(38,030)	(34,796)
Deficit in the scheme – Pension liability	(8,039)	(8,865)
Related deferred tax asset	2,009	2,394
Net pension liability	(6,030)	(6,471)

The expected long term rate of return in the AAF McQuay Pension Plan at 31 December 2011 was 7.8% (2010 7.80%)

	2011 £'000
Movement in deficit during the year	
Deficit in schemes at beginning of the year	8,865
Current service cost	622
Contributions paid	(3,836)
Other finance (income)/costs	(260)
Actuarial loss	2,648
Deficit in schemes at end of the year	8,039

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

20. PENSION SCHEME (continued)

Movements in fair value of Scheme Assets were as follows:-	2011
	£'000
At beginning of the year	25,931
Expected return on scheme assets	2,119
Contributions paid by employers	3,836
Contributions paid by members	152
Benefits paid	(1,524)
Actuarial (loss)/gain	(523)
	<hr/>
At end of the year	29,991
	<hr/>

Movements in the present value of Scheme Liabilities were as follows:-	2011
	£'000
At beginning of the year	34,796
Current service cost	622
Interest cost	1,859
Contributions paid by members	152
Benefits paid	(1,524)
Actuarial (gain)/loss – experience	213
Actuarial loss – assumptions	1,912
	<hr/>
At end of the year	38,030
	<hr/>

History of Experience Adjustments is as follows -	2011	2010
	£'000	£'000
Present value of Defined Benefit Obligations	38,030	34,796
	<hr/>	<hr/>
Fair value of schemes assets	29,991	25,931
	<hr/>	<hr/>
Deficit in the schemes	(8,039)	(8,865)
	<hr/>	<hr/>
Actual return less expected return on scheme assets	(523)	
Percentage of year end scheme assets	1.7%	
Experience gains and losses arising on scheme liabilities	(213)	
Percentage of present value of year end scheme liabilities	0.6%	
Changes in assumptions underlying the present value of scheme liabilities	(1,912)	
Percentage of present value of year end scheme liabilities	5.0%	
	<hr/>	
Total Experience Adjustments	(2,648)	
Percentage of present value of year end scheme liabilities	7.0%	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

21 RELATED PARTY DISCLOSURES

As the company is a wholly owned subsidiary of Daikin Industries Limited, the company has taken advantage of the exemption contained in FRS 8, Related Party Disclosures, and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Daikin Industries Limited, within which this company is included, can be obtained from the address given in note 23

22 DERIVATIVES NOT INCLUDED AT FAIR VALUE

The company has derivatives which are not included at fair value in the accounts

	Currency Amount 2011 '000	Deal Value 2011 £'000	Fair Value 2011 £'000	Currency Amount 2010 '000	Deal Value 2010 £'000	Fair Value 2010 £'000
Forward foreign exchange contracts						
Company buys, Bank sells – EUR	375	328	314	638	538	551
Company sells, Bank buys – Euros	5,061	4,412	4,266	971	825	838
Company buys, Bank sells – USD	1,131	715	733	2,217	1,417	1,433
Company sells, Bank buys – USD	15,624	9,764	10,132	14,272	9,172	9,227

The company uses the derivatives to hedge its exposures to changes in foreign currency exchange rates
The fair values are based on market values of equivalent instruments at the balance sheet date

23 PARENT COMPANIES AND ULTIMATE CONTROLLING PARTY

The company's immediate parent undertaking and controlling party is AAF McQuay UK Limited, incorporated in England The ultimate parent undertaking and controlling party is Daikin Industries Limited, incorporated in Japan

The largest and smallest group in which the results of the company are consolidated is that headed by Daikin Industries Ltd The consolidated accounts of this group are available to the public and may be obtained from Daikin Industries Limited, Umeda Centre Bldg, 2-4-12 Nakazaki Nishi, Kita-Ku, Osaka 530-8323, Japan

24 PRIOR PERIOD ADJUSTMENT

In the prior year, the company participated in two multi-employer pension schemes providing benefits based on final pensionable pay and the assets and liabilities of the schemes were held separately from those of the company The company was unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore, accounted for the schemes as if they were defined contribution schemes

In the current year, the two schemes merged into one defined benefit scheme In conjunction with its actuaries, the company has been able to identify its share of the underlying assets and liabilities of the scheme and as required by FRS 17 'Retirement benefits' has accounted for the scheme as if it were a defined benefit pension scheme The restatement relates to the fact that the company has also been able to identify its share of the underlying assets and liabilities of the scheme for the prior year only A pension liability of £6.5m has been recognised in the Statement of Total Recognised Gains and Losses