

Company Registration No. 875806

AAF LIMITED

Report and Financial Statements

31 March 2013

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REPORT AND FINANCIAL STATEMENTS 2013

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Allsopp
C S Wantland
P Kurto
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 15 month period ended 31 March 2013

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

During the period, at the request of the ultimate parent company, Daikin Industries Ltd, the company adopted the accounting period 1 April to 31 March, in order to be aligned with that of the ultimate parent and the directors therefore present financial statements for a 15 month period ended 31 March 2013. The comparative period is for the year ended 31 December 2011.

The profit for the period, after taxation, amounted to £489,000 (2011 £1,602,000)

The directors consider the performance of the company in current market conditions to be satisfactory and expect it to improve in the coming period.

There were no dividends paid during the period (2011 - £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, engineered refurbishment solutions to the owners of existing power plants, and site installation services. 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 period. Gas turbine related markets continued to be impacted by poor global economic conditions, however AAF Ltd achieved pro rata growth in turnover of 11% by continued development of new customers and also by focussing on key industries in the emission control sector. Turnover in the 15 month period was £82,632,000 (compared to year ended December 2011 £59,419,000).

Gross profit margin reduced from 15.2% to 12.1% as strong competition and efforts by customers to drive down prices had an impact, and AAF Ltd has recently put in place initiatives to reduce costs and increase gross profit in light of this. Distribution and administration expenses have decreased from 12.0% to 11.4% of sales, despite a £391,000 increase in expenditure on research and development, product development and engineering improvements, which itself is in proportion to the increase in turnover. Operating profit has decreased from £1,902,000 (3.2%) to £557,000 (0.7%) reflecting the gross profit impact.

Working capital (net current assets excluding cash, overdraft, and short term borrowings) at 14.0% of annualised sales was slightly higher than the previous period (2011 11.2% of annual sales). This is a result of the timing effect of one major contract invoiced prior to the year end awaiting payment, without which working capital would have reflected a lower percentage of annualised sales than the previous period, due to several projects commenced late in the period being at early stages. Working capital is expected to remain at approximately this level into the next financial period, subject to the impact of any recovery in market conditions, which will require additional working capital to support any further growth. Interest expenditure increased compared to the prior period as a result of funding the one-off pension contribution of £2.9m at the end of 2011. Setting this aside the underlying interest cost was lower due to working capital requirements reducing during the current financial period.

DIRECTORS' REPORT (continued)

BUSINESS REVIEW AND PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

It is expected that markets will start to show signs of recovery from the economic downturn later in 2013 and overall volumes will grow at that point for all aspects of the business. AAF Limited's goal is to continue to improve gross profits in the next financial period 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.

The company has undertaken various initiatives during the period 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 Limited 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 2012 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 one defined benefit scheme. The pension fund liabilities are partially matched with a portfolio of assets, which leaves potential risk around the value of the liabilities as a result of changes in life expectancy, inflation, future salary increases, as well as 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 fund.

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 period and subsequently were as follows:

D Allsopp
C S Wantland
K Lynch (resigned 9 November 2012)
P Kurto (appointed 9 November 2012)
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 period 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 March 2013 of £2,361,000 (2011: £1,678,000) were equivalent to 27.23 (2011: 20.15) days' purchases based on the average daily amount invoiced by suppliers during the previous twelve months.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The company made no political contributions during the period. Donations to UK charities amounted to £2,955 (2011: £2,194).

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
16 August 2013

A handwritten signature in black ink, appearing to be 'I Creasey', written over a horizontal line.

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 period. 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 15 month period ended 31 March 2013 which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 23. 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 March 2013 and of its profit for the period 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.

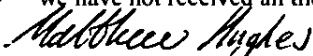
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period 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
16 August 2013

PROFIT AND LOSS ACCOUNT
Period ended 31 March 2013

	Note	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
TURNOVER	2	82,632	59,419
Cost of sales		(72,644)	(50,387)
GROSS PROFIT		9,988	9,032
Distribution costs		(5,317)	(4,592)
Administrative expenses		(4,114)	(2,538)
OPERATING PROFIT		557	1,902
Interest payable and similar charges	6	(84)	(21)
Other finance income	20	18	260
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	491	2,141
Tax charge on profit on ordinary activities	7	(2)	(539)
PROFIT FOR THE PERIOD	16, 17	489	1,602

All of the company's activities relate to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Period ended 31 March 2013

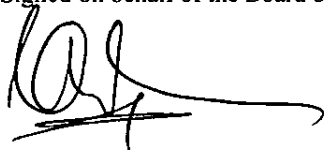
	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
Profit for the financial period	489	1,602
Actuarial loss recognised in the pension scheme	(2,220)	(2,648)
Deferred tax arising on actuarial loss in the pension scheme	280	484
Total recognised gains and losses relating to the financial period	(1,451)	(562)

BALANCE SHEET
31 March 2013

	Note	31 March 2013 £'000	31 March 2013 £'000	31 December 2011 £'000	31 December 2011 £'000
FIXED ASSETS					
Tangible fixed assets	9		3,785		3,792
Investments	10		4		4
			<u>3,789</u>		<u>3,796</u>
CURRENT ASSETS					
Stocks	11	2,496		3,211	
Debtors	12	27,215		22,477	
Debtors due after more than one year	12	149		323	
Cash at bank and in hand		1,010		-	
		<u>30,870</u>		<u>26,011</u>	
CREDITORS. amounts falling due within one year					
	13	(25,592)		(20,108)	
NET CURRENT ASSETS			<u>5,278</u>		<u>5,903</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>9,067</u>		<u>9,699</u>
PROVISIONS FOR LIABILITIES	14		(1,152)		(1,971)
NET ASSETS EXCLUDING PENSION LIABILITIES			<u>7,915</u>		<u>7,728</u>
NET PENSION LIABILITY	20		(7,668)		(6,030)
NET ASSETS			<u>247</u>		<u>1,698</u>
CAPITAL AND RESERVES					
Called up share capital	15		125		125
Profit and loss account	16		122		1,573
SHAREHOLDERS' FUNDS	17		<u>247</u>		<u>1,698</u>

The financial statements of AAF Ltd, registered number 875806 were approved by the Board of Directors and authorised for issue on 16 August 2013

Signed on behalf of the Board of Directors



I Creasey
Director

NOTES TO THE FINANCIAL STATEMENTS**Period ended 31 March 2013****1. ACCOUNTING POLICIES**

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

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 period 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 April 2013 and is due for renewal on 31 March 2014. 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**Period ended 31 March 2013****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**Period ended 31 March 2013****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 periods. 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 period 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

Period ended 31 March 2013

2. ANALYSIS OF TURNOVER

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

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
By geographical market		
UK	22,381	13,054
Europe	15,747	8,472
Americas	36,572	33,290
Rest of World	7,932	4,603
	<u>82,632</u>	<u>59,419</u>

All turnover originated in the UK

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'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 financial statements	84	42
Fees payable to the company's auditors for other services	93	91
Depreciation and other amounts written off owned tangible fixed assets	879	567
Hire of plant and machinery – rentals payable under operating leases	108	83
Hire of motor vehicles – rentals payable under operating leases	107	84
Current period expenditure on research and development	<u>1,965</u>	<u>1,574</u>

4. REMUNERATION OF DIRECTORS

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
Directors' emoluments	611	575
Pension contributions	<u>33</u>	<u>30</u>
	<u>644</u>	<u>605</u>

The aggregate of emoluments of the highest paid director was £330,000 (2011 £352,000). The highest paid director is a member of a defined benefit scheme, under which his accrued pension at the period end was £37,627 (2011 £32,491) and his accrued lump sum was £349,419 (2011 £245,725).

Retirement benefits are accruing for two directors (2011 – two directors) under defined benefit schemes.

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 March 2013

5. STAFF NUMBERS AND COSTS

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

	15 months ended 31 March 2013 Number	Year ended 31 December 2011 Number
Production	171	128
Sales	56	67
Administration	52	40
	<u>279</u>	<u>235</u>

The aggregate payroll costs of these persons were as follows

	£'000	£'000
Wages and salaries	13,450	9,223
Social security costs	1,279	872
Other pension costs – defined benefit scheme (see note 20)	831	362
Other pension costs – defined contribution scheme (see note 20)	316	206
	<u>15,876</u>	<u>10,663</u>

6 INTEREST PAYABLE AND SIMILAR CHARGES

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
Payable to group undertakings	<u>84</u>	<u>21</u>

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

i) Analysis of charge in period

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
UK corporation tax		
Group relief	(75)	55
Adjustment in respect of prior periods	(96)	(91)
Total current taxation	(171)	(36)
Deferred taxation.		
Origination and reversal of timing differences	(2)	135
Adjustments in respect of prior periods	15	67
Pension contributions spread into later periods	149	(485)
Timing differences in respect of pension scheme	69	869
Effect of rate change	(58)	(11)
Total deferred taxation	173	575
Total tax charge	2	539

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

The current tax credit for the period is higher (2011 – higher) than the standard rate of corporation tax in the UK of 24.4% (2011 26.5%). The differences are explained below

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
Current tax reconciliation		
Profit on ordinary activities before taxation	491	2,141
Tax at 24.4% (2011 26.5%) thereon	120	567
Effects of		
Expenses not deductible for tax purposes	10	38
Depreciation for period in excess of capital allowances	71	(154)
Additional deduction for R&D expenditure	(50)	-
Pension costs included in profit on ordinary activities before taxation	207	96
Pension contributions to defined benefit plan	(276)	(1,017)
Pension contributions deferred from prior periods (2011 disallowed in the period and deferred)	(158)	514
Other timing differences	1	11
Adjustment in respect of prior periods	(96)	(91)
Current tax credit for the period	(171)	(36)

iii) Factors that may affect the future tax 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 £102,000 (2011 £111,000).

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

8. INTANGIBLE FIXED ASSETS

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

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 2012	4,099	2,371	1,876	8,346
Additions	168	367	337	872
At 31 March 2013	4,267	2,738	2,213	9,218
Accumulated depreciation				
At 1 January 2012	1,805	1,563	1,186	4,554
Charge for the period	325	266	288	879
At 31 March 2013	2,130	1,829	1,474	5,433
Net book value				
At 31 March 2013	2,137	909	739	3,785
At 31 December 2011	2,294	808	690	3,792

Included in freehold land and buildings is land at a cost of £58,000 (2011 £58,000) which is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

10 INVESTMENTS

	Shares in group undertakings £'000
Cost	
At beginning and end of period	<u>4</u>

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

	31 March 2013 £'000	31 December 2011 £'000
Raw materials and consumables	324	313
Work in progress	1,812	1,977
Finished goods and goods for resale	360	921
	<u>2,496</u>	<u>3,211</u>
Work in progress includes the following amounts in respect of long term contracts		
Net cost less foreseeable losses	2,444	2,168
Less applicable payments on account	(632)	(191)
	<u>1,812</u>	<u>1,977</u>

12. DEBTORS

	31 March 2013 £'000	31 December 2011 £'000
Trade debtors	9,257	12,225
Amounts recoverable on contracts	15,743	7,799
Amounts owed by group undertakings	1,449	1,947
Other debtors	636	241
Corporation tax	77	-
Deferred tax	-	145
Prepayments and accrued income	202	443
	<u>27,364</u>	<u>22,800</u>

Included in debtors is £149,000 (2011 £323,000) of deferred taxation due after more than one year

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2013 £'000	31 December 2011 £'000
Bank overdraft (see note 18)	4,971	788
Payments on account of long term contracts	910	1,338
Trade creditors	2,361	1,678
Amounts owed to group undertakings	7,126	9,034
Amounts owed for group relief	-	46
Other taxes and social security costs	303	470
Accruals and deferred income	9,921	6,754
	<u>25,592</u>	<u>20,108</u>

14. PROVISIONS FOR LIABILITIES

	Deferred taxation £'000	Claims provision £'000	Warranty £'000	Total £'000
At 1 January 2012	-	40	1,931	1,971
Transferred from current assets	(145)	-	-	(145)
Transferred between warranty and claims	-	(40)	40	-
Charged to the profit and loss account	174	-	115	289
Utilised in the period	-	-	(963)	(963)
	<u>29</u>	<u>-</u>	<u>1,123</u>	<u>1,152</u>
At 31 March 2013				

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

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

14. PROVISIONS FOR LIABILITIES (CONTINUED)

The movements on the deferred tax liabilities (2011 assets) during the period are as follows

	Difference between accumulated depreciation and capital allowances £'000	Other timing differences, losses and other deductions £'000	Total deferred tax liability / (asset) (as above) £'000	Deferred tax liability / (asset) on pension deficit (see note 20) £'000	Total £'000
At 1 January 2012 (note 12)	-	-	-	-	-
Transferred from debtors	375	(520)	(145)	(2,009)	(2,154)
Credit to the profit and loss account for the period	-	(2)	(2)	-	(2)
Charge Related to Final salary Scheme	-	149	149	69	218
Charge to the profit and loss account in respect of prior periods	15	-	15	-	15
Effect of rate change in profit and loss account	(30)	42	12	(70)	(58)
Effect of rate change in STRGL	-	-	-	231	231
Amounts included in STRGL	-	-	-	(511)	(511)
At 31 March 2013	<u>360</u>	<u>(331)</u>	<u>29</u>	<u>(2,290)</u>	<u>(2,261)</u>

The UK Government announced in March 2012 that it intended to reduce the main rate of UK corporation tax from 25% to 23% and Finance Act 2012, which was substantively enacted on 3 July 2012, included provisions to reduce the rate of corporation tax to 23% with effect from 1 April 2013. Accordingly, deferred tax balances have been revalued to the lower rate of 23% in these accounts, which has resulted in a credit to the profit and loss account of £59,000.

The UK Government announced in March 2013 that it intends to enact further reductions of the main rate of corporation tax, reducing it to 21% with effect from 1 April 2014 and then by a further 1% to 20% by 1 April 2015. As this legislation was not substantively enacted by 31 March 2013, 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 changes from 23% to 20% would be to reduce the net deferred tax asset by £295,000. To the extent that the deferred tax asset reverses more quickly than this, the impact on the net deferred tax asset will be reduced.

15. CALLED UP SHARE CAPITAL

	31 March 2013 £'000	31 December 2011 £'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

Period ended 31 March 2013

16 RESERVES

	Profit and loss account £'000
At 1 January 2012	1,573
Profit for the financial period	489
Net reduction in respect of FRS17	(1,940)
	<hr/>
At 31 March 2013	122
	<hr/>

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 March 2013 £'000	31 December 2011 £'000
Profit for the financial period	489	1,602
Net reduction in respect of FRS17	(1,940)	(2,164)
	<hr/>	<hr/>
Net decrease in shareholders' funds	(1,451)	(562)
	<hr/>	<hr/>
Opening shareholders' funds	1,698	2,260
	<hr/>	<hr/>
Closing shareholders' funds	247	1,698
	<hr/>	<hr/>

18 CONTINGENT LIABILITIES

At 31 March 2013 bank bonds, indemnities guarantees issued by Barclays Bank Plc on behalf of the company, amounting to £5,623,000 (2011 £5,027,000), 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 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 financial statements of the UK parent company, AAF McQuay UK Limited. The total UK group liability to Barclays Bank Plc, at 31 March 2013, comprising contingent liabilities plus total overdrawn balances less positive account balances amounted to £13,776,000 (2011 £10,103,000).

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

19. COMMITMENTS

- (a) There were no capital commitments at the balance sheet date (2011 – none)
- (b) Annual commitments under non-cancellable operating leases in respect of assets, are as follows

	31 March 2013 £'000	31 December 2011 £'000
Operating leases which expire		
Within one year	14	9
In the second to fifth years inclusive	108	75
	<u>122</u>	<u>84</u>

20. PENSION SCHEME

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £316,000 (2011 £206,000).

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 beginning of the previous period 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 periods:

AAF
McQuay
Pension Plan

Contribution rates at 31 March 2013 9.0%

In addition to the above contribution rates the participating employers in the AAF McQuay Pension Plan are paying £631,000 (2011 £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 2011 and were updated for FRS17 purposes to 31 March 2013 by a qualified independent actuary. The total contributions for the period by AAF Ltd were £1,132,000 (2011 £3,836,000).

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 March 2013

20 PENSION SCHEME (continued)

The major assumptions used in this valuation were.

	31 March 2013	31 December 2011	31 December 2010	31 December 2009
Rate of increases in salaries	4.4%	4.1%	4.6%	4.6%
Rate of increase in pensions in payment	3.3%	3.0%	3.5%	3.5%
Rate of increase in pensions deferred pensions	2.65%	2.35%	3.0%	3.5%
Discount rate applied to scheme liabilities	4.3%	4.7%	5.4%	5.8%
Inflation assumption	3.4%	3.1%	3.6%	3.6%

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 period ended 31 March 2013 the company has allowed for Consumer Price Index increases for the valuation of deferred pensions, but not for increases in pension in payment. Overall this led to a lower value being placed on liabilities by 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 March 2013 £'000	Value at 31 December 2011 £'000
Equities and Diversified Growth Fund	13,438	9,187
Bonds and Gilts	19,813	16,323
Property	1,304	1,260
Cash and other assets	52	3,221
Total market value of assets	34,607	29,991
Present value of scheme liabilities	(44,565)	(38,030)
Deficit in the scheme – Pension liability	(9,958)	(8,039)
Related deferred tax asset	2,290	2,009
Net pension liability	(7,668)	(6,030)

The expected long term rate of return in the AAF McQuay Pension Plan at 31 March 2013 was 6% (2011 7.80%)

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

20. PENSION SCHEME (continued)

	15 months to 31 March 2013 £'000	Year to 31 December 2011 £'000
Movement in deficit during the period		
Deficit in schemes at beginning of the period	8,039	8,865
Current service cost	849	622
Contributions paid	(1,132)	(3,836)
Other finance income	(18)	(260)
Actuarial loss	2,220	2,648
Deficit in schemes at end of the period	<u>9,958</u>	<u>8,039</u>
	15 months to 31 March 2013 £'000	Year to 31 December 2011 £'000
Movements in fair value of Scheme Assets were as follows -		
At beginning of the period	29,991	25,931
Expected return on scheme assets	2,223	2,119
Contributions paid by employers	1,132	3,836
Contributions paid by members	3	152
Benefits paid	(1,845)	(1,524)
Actuarial gain/(loss)	3,103	(523)
At end of the period	<u>34,607</u>	<u>29,991</u>
Movements in the present value of Scheme Liabilities were as follows:-	15 months to 31 March 2013 £'000	Year to 31 December 2011 £'000
At beginning of the period	38,030	34,796
Current service cost	849	622
Interest cost	2,205	1,859
Contributions paid by members	3	152
Benefits paid	(1,845)	(1,524)
Actuarial (gain)/loss – experience	(153)	213
Actuarial loss – assumptions	5,476	1,912
At end of the period	<u>44,565</u>	<u>38,030</u>

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since the adoption of FRS 17 is £4,868,000 (2011 £2,648,000)

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 March 2013

20 PENSION SCHEME (continued)

	31 March 2013 £'000	31 December 2011 £'000
History of Experience Adjustments is as follows -		
Present value of Defined Benefit Obligations	44,565	38,030
Fair value of schemes' assets	34,607	29,991
Deficit in the schemes	(9,958)	(8,039)
Actual return less expected return on scheme assets	3,103	(523)
Percentage of period end scheme assets	9.0%	1.7%
Experience gains and losses arising on scheme liabilities	153	(213)
Percentage of present value of period end scheme liabilities	0.3%	0.6%
Changes in assumptions underlying the present value of scheme liabilities	(5,476)	(1,912)
Percentage of present value of period end scheme liabilities	12.3%	5.0%
Total Experience Adjustments	(2,220)	(2,648)
Percentage of present value of period end scheme liabilities	5.0%	7.0%

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 financial statements

	Currency Amount 31 March 2013 '000	Deal Value 31 March 2013 £'000	Fair Value 31 March 2013 £'000	Currency Amount 31 December 2011 '000	Deal Value 31 December 2011 £'000	Fair Value 31 December 2011 £'000
Forward foreign exchange contracts						
Company buys, Bank sells – EUR	2,370	1,995	2,010	375	328	314
Company sells, Bank buys – EUR	979	806	829	5,061	4,412	4,266
Company buys, Bank sells – USD	426	282	283	1,131	715	733
Company sells, Bank buys – USD	2,884	1,859	1,909	15,624	9,764	10,132

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.

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

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 financial statements 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.