

Company Registration No. 2296471

AAF McQUAY UK LIMITED

Report and Financial Statements

31 March 2013

THURSDAY



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COMPANIES HOUSE

REPORT AND FINANCIAL STATEMENTS 2013

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Allsopp
P Kurto
K Takagi
B Liow
VP Chen
A Proffitt
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. This directors' report has been prepared in accordance with the special provisions applicable to small companies under section 415(A) of the Companies Act 2006.

PRINCIPAL ACTIVITY

The company acts as a holding company. The principal activities of its subsidiary undertakings are the manufacturing and marketing of products and systems for the control of environmental air and noise and the supply, installation and servicing of heating, ventilation, air conditioning (HVAC), refrigeration and freezer products and systems. No significant changes in activities are expected.

REVIEW OF DEVELOPMENTS

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 to 31 March 2013. The comparative period is for the year ended 31 December 2011.

The loss of the period after tax amounted to £70,000 (2011: £32,000).

During the period, the directors have reviewed the company's investments in its subsidiary undertakings. The review comprised a comparison of the carrying value and recoverable amount of the investments.

As a result, the company has impaired its investment in Air Filters Limited as the carrying amount exceeds the recoverable amount.

In the current period, due to a change in economic conditions of its subsidiary undertaking, J&E Hall Limited, the company has reversed an impairment charged in the preceding period, to increase the investment to its previous carrying value.

During the previous period the company issued Deep Discounted Bonds for net value of £8,500,000 to OYL Manufacturing Bhd, a related company in Malaysia. These bonds are due for redemption in 2016 to 2021.

The principal risks and uncertainties affecting the company's operation are exchange rate fluctuations, financial risk, credit risk, liquidity risk and pension risk. Details of the company's approach to exchange rate fluctuation risk are given on page 8 in note 1 to the financial statements. Details of the company's approach to financial risk, credit risk, liquidity risk and pension risk are given below.

RESULTS AND DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the current financial period (2011: nil).

GOING CONCERN

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.

DIRECTORS' REPORT (continued)

DIRECTORS

The directors who served during the period and subsequently were as follows

D Allsopp
K Takagi
K Lynch (resigned 9 November 2012)
P Kurto (appointed 9 November 2012)
VP Chen
B Liow
A Proffitt
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

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 incurred by its subsidiaries and to balance the group overdrafts across currencies thereby reducing the financial risk of exchange rate fluctuation and offsetting balances in one currency with overdrafts in another.

Credit Risk

The company's principal financial assets are bank balances, intercompany loans, investments and other receivables. The company's credit risk is primarily attributable to its intercompany loans. The amounts presented in the balance sheet are net of allowances for impairment. These are made when there is an identified loss event which, based upon previous experience, is evidence of a reduction in the recoverability of the cash flows.

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 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.

Pension risk

The UK resident members of group headed by this company ('the UK group') operate a number of pension schemes which includes two defined benefit schemes. 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 UK group to the pension fund.

The pension trustees, in consultation with the company, have regularly reviewed 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.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The company made no political or charitable contributions during the current or the previous period.

DIRECTORS' REPORT (continued)

AUDITORS

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

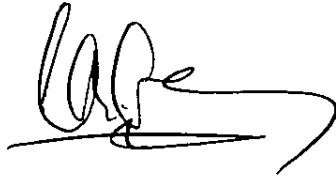
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's 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', with a long horizontal stroke 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 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, 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 FOR THE MEMBERS OF AAF McQUAY UK LIMITED

We have audited the financial statements of AAF McQuay UK Limited for the 15 month period ended 31 March 2013 which comprise the Profit and Loss account, the Balance Sheet and the related notes 1 to 18. 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 loss 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

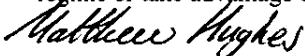
Opinion on other matter prescribed by the Companies Act 2006

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, or
- the directors were not entitled to prepare the financial statements in accordance with the small companies' regime or take advantage of the small companies' exemption in preparing the directors' report.



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
Administrative expenses		(80)	(51)
(Loss)/gain on foreign exchange		(2)	104
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE FINANCE CHARGES	2	(82)	53
Interest payable and similar charges	4	(921)	(742)
Interest receivable and similar income	5	913	646
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(90)	(43)
Tax on loss on ordinary activities	6	20	11
LOSS FOR THE PERIOD	12	(70)	(32)

All of the company's activities relate to continuing operations

There are no recognised gains and losses other than the loss for the current financial period and for the preceding financial period and therefore a separate statement of total recognised gains and losses has not been prepared

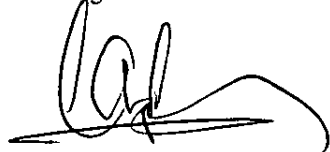
BALANCE SHEET
31 March 2013

	Note	31 March 2013 £'000	31 March 2013 £'000	31 December 2011 £'000	31 December 2011 £'000
FIXED ASSETS					
Fixed asset investments	7		14,434		14,434
CURRENT ASSETS					
Debtors due within 1 year	8	10,565		7,046	
Debtors due after more than 1 year	8	16,223		15,500	
Cash at bank		2,740		2,947	
		29,528		25,493	
CREDITORS: amounts falling due within one year	9	(13,883)		(10,231)	
NET CURRENT ASSETS			15,645		15,262
TOTAL ASSETS LESS CURRENT LIABILITIES			30,079		29,696
CREDITORS amounts falling due after more than one year	10		(10,615)		(10,162)
NET ASSETS			19,464		19,534
CAPITAL AND RESERVES					
Called up share capital	11		10,320		10,320
Profit and loss account	12		9,144		9,214
SHAREHOLDERS' FUNDS	13		19,464		19,534

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime

The financial statements of AAF McQuay UK Ltd, registered number 2296471, 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 following accounting policies have been applied consistently in both the current and prior periods in dealing with items which are considered material in relation to the financial statements

Basis of preparation

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

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

The company is exempt from preparing group financial statements under section 401 of the Companies Act 2006, as it is itself a subsidiary undertaking of Daikin Industries Limited. Therefore information is presented in the financial statements about the company as an individual undertaking and not about its group.

The consolidated financial statements of Daikin Industries Limited, within which this company is included, can be obtained from the address given in note 18

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 9 and 14 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 headed by AAF McQuay UK Limited ("the UK Group") and through inter-company loans. 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. 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 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 the 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.

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 rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss 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 group'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.

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 March 2013

1. ACCOUNTING POLICIES (continued)

Investments

Fixed asset investments are shown at cost less provision for impairment

Post retirement benefits

The company is the principal employer of a multi-employer pension schemes 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.

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.

Classification of financial instruments issued by the company

Following the adoption of FRS 25, Financial Instruments: Disclosure and Presentation, financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company, and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists, these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

NOTES TO THE FINANCIAL STATEMENTS**Period ended 31 March 2013****1. ACCOUNTING POLICIES (continued)****Dividends on shares presented within shareholders' funds**

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and declared and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Deep Discounted Bonds

The discount on discounted bonds is recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

2. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Fees payable to the company's auditors for the audit of the company's annual financial statements	8	8
Foreign exchange (gains)/losses on translation of balances and realisation of assets and liabilities denominated in foreign currencies	2	(104)
	<u>2</u>	<u>(104)</u>

3. REMUNERATION OF DIRECTORS

No emoluments were received or are receivable by any director in respect of services during the current or preceding period. There are no other employees of the company.

4. INTEREST PAYABLE AND SIMILAR CHARGES

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
On bank loans and overdrafts	153	49
Interest payable to group undertakings	313	416
Interest payable to HMRC	2	4
Accrued discount on deep discounted bonds	453	273
	<u>921</u>	<u>742</u>

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 March 2013

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
Interest received from group undertakings	913	645
Interest received from HMRC	-	1
	<u>913</u>	<u>646</u>

6. TAX ON LOSS ON ORDINARY ACTIVITIES

i) Analysis of credit in period

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
UK corporation tax		
Group relief receivable on loss for the period	22	11
Adjustment in respect of prior periods	(2)	-
Total current taxation	<u>20</u>	<u>11</u>
Total tax credit	<u>20</u>	<u>11</u>

ii) Factors affecting the tax credit for the current period and prior periods

The current tax credit for the period is lower than (2011 – the same as) 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		
Loss on ordinary activities before tax	(90)	(43)
Tax at 24.4% (2011 26.5%) thereon	22	11
Adjustment in respect of prior periods	(2)	-
Current tax credit for period	<u>20</u>	<u>11</u>

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

7. FIXED ASSET INVESTMENTS

	31 March 2013 £'000
Cost	
At 1 January 2012 and 31 March 2013	16,083
Provisions for impairment	
At 1 January 2012	(1,649)
Reversal of impairment	369
Impairment provision charged	(369)
At 1 January 2012 and 31 March 2013	14,434
Net book value at 1 January 2012 and 31 March 2013	14,434

During the period, the directors have reviewed the company's investments in its subsidiary undertakings. The review comprised a comparison of the carrying value and recoverable amount of the investments.

As a result, the company has impaired its investment in Air Filters Limited as the carrying amount exceeds the recoverable amount.

In the current period, due to a change in economic conditions of its subsidiary undertaking, J&E Hall Limited, the company has reversed an impairment charged in the preceding period, to increase the investment to its previous carrying value.

The principal undertakings in which the company holds more than 20% of the nominal value of any class of share capital are as follows:

	County of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings:			
AAF Limited	England	Environmental air control equipment	Ordinary 100%
Air Filters Limited	England	Air filter equipment	Ordinary 100%
McQuay (UK) Limited	England	Air conditioning equipment	Ordinary 100%
AAF McQuay SA de CV	Mexico	Dormant	Ordinary 100% *
J & E Hall Limited	England	Installation and service of refrigeration systems	Ordinary 100%
Coulstock & Place Engineering Co Ltd	England	Electric motor rewinding and cable preparation	Ordinary 100% **
Balmsound Limited	England	Dormant	Ordinary 100% **

* Shares are owned by AAF Limited

** Shares are owned by J & E Hall Limited

NOTES TO THE FINANCIAL STATEMENTS
Period ended 31 March 2013

8 DEBTORS

	31 March 2013 £'000	31 December 2011 £'000
Amounts owed by group undertakings	26,751	22,401
Group relief receivable	23	14
Prepayments and accrued income	14	131
	<u>26,788</u>	<u>22,546</u>

Debtors include £16,223,000 (2011 £15,500,000) of amounts owed by group undertakings due after more than one year

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2013 £'000	31 December 2011 £'000
Bank overdraft – Barclays Bank plc (see note 14)	3,107	-
Bank borrowing – Bank of Tokyo Mitsubishi	6,773	3,009
Amounts owed to group undertakings	3,900	7,190
Accruals and deferred income	103	32
	<u>13,883</u>	<u>10,231</u>

The bank overdraft with Barclays Bank plc is secured by a fixed and floating charge over the assets of the company and its UK subsidiaries

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

10. CREDITORS. AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 March 2013 £'000	31 December 2011 £'000
Amounts owed to group undertakings	1,389	1,389
Unsecured deep discounted bonds issued to a related company and accrued discount		
- Due for repayment in March 2016, discount rate 3.4585%	1,515	1,453
- Due for repayment in March 2017, discount rate 3.9604%	1,529	1,459
- Due for repayment in March 2018, discount rate 4.2104%	1,536	1,462
- Due for repayment in March 2019, discount rate 4.4604%	1,543	1,464
- Due for repayment in March 2020, discount rate 4.6790%	1,549	1,467
- Due for repayment in March 2021, discount rate 4.8304%	1,554	1,468
	<u>10,615</u>	<u>10,162</u>

Discount accrued on deep discounted bonds amounted to £726,000, (2011: 273,000)

11. CALLED UP SHARE CAPITAL

	31 March 2013 £'000	31 December 2011 £'000
Allotted, called up and fully paid		
10,320,085 ordinary shares	10,320	10,320
	<u>10,320</u>	<u>10,320</u>

12. PROFIT AND LOSS ACCOUNT

	15 months ended 31 March 2013 £'000
At beginning of the period	9,214
Loss for the period	(70)
At end of the period	<u>9,144</u>

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	15 months ended 31 March 2013 £'000	Year ended 31 December 2011 £'000
Loss for the financial period	(70)	(32)
Opening shareholders' funds	19,534	19,566
Closing shareholders' funds	19,464	19,534

14. CONTINGENT LIABILITIES

At 31 March 2013 bank bonds, indemnities and guarantees amounting to £NIL (2011 £NIL) were outstanding with recourse to the company by The Bank of Tokyo-Mitsubishi UFJ Guarantees issued by Barclays Bank plc and all indebtedness to Barclays Bank Plc incurred by the UK resident group companies are secured by a fixed and floating charge over all the assets of the UK group by a cross guarantee 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)

15. PENSION SCHEME

At the beginning of the prior period the company was principal employer to two pension schemes 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 These schemes are for the employees of AAF McQuay UK Ltd, AAF Ltd, Air Filters Ltd and McQuay UK Ltd The defined benefit schemes were closed to new members on 1 August 2005 These two schemes merged on the 1 July 2011

The assets of the defined benefit scheme are held separately from those of the group 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

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 McQuay UK Limited were £NIL (2011 - £NIL)

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

15. PENSION SCHEME (continued)

	31 March 2013	31 December 2011	31 December 2010	31 December 2009
The major assumptions used in this valuation were:				
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%

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

Scheme assets and liabilities

The fair value of the schemes' assets, 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	Value at 31 December 2010 £'000	Value at 31 December 2009 £'000
Equities and Diversified Growth Fund	18,758	12,760	26,581	23,913
Bonds and Gilts	27,658	22,670	8,365	7,483
Property	1,820	1,750	-	-
Cash and other assets	73	4,474	334	544
Total market value of assets	48,309	41,654	35,280	31,940
Present value of scheme liabilities	(62,053)	(52,820)	(48,157)	(44,206)
Deficit in the scheme – Pension liability	(13,744)	(11,166)	(12,877)	(12,266)
Related deferred tax asset	3,161	2,792	3,477	3,434
Net pension liability	(10,583)	(8,374)	(9,400)	(8,832)

The expected long term rate of return in the AAF McQuay Pension Plan at 31 March 2013 was 6.0% (2011 7.8%)

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

15. PENSION SCHEME (continued)

Movement in deficit during the period	15 months ended 31 March 2013	Year ended 31 December 2011
Deficit in schemes at beginning of the period	11,166	12,877
Current service cost	1,179	915
Contributions paid	(1,652)	(5,941)
Other finance (income)/costs	(28)	(338)
Actuarial loss	3,079	3,653
Deficit in schemes at end of the period	13,744	11,166

Movements in fair value of Scheme Assets were as follows:-	15 months ended 31 March 2013	Year ended 31 December 2011
At beginning of the period	41,654	35,280
Expected return on scheme assets	3,095	2,915
Contributions paid by employers	1,652	5,941
Contributions paid by members	3	235
Benefits paid	(2,428)	(2,005)
Actuarial gain/(loss)	4,333	(712)
At end of the period	48,309	41,654

Movements in the present value of Scheme Liabilities were as follows -	15 months ended 31 March 2013	Year ended 31 December 2011
At beginning of the period	52,820	48,157
Current service cost	1,179	915
Interest cost	3,067	2,577
Contributions paid by members	3	235
Benefits paid	(2,428)	(2,005)
Actuarial (gain)/loss – experience	(213)	295
Actuarial loss – assumptions	7,625	2,646
At end of the period	62,053	52,820

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 March 2013

15. PENSION SCHEME (continued)

Five Year History of Experience Adjustments is as follows -	March 2013 £'000	December 2011 £'000	December 2010 £'000	December 2009 £'000	December 2008 £'000
Present value of Defined Benefit Obligations	62,053	52,820	48,157	44,206	34,212
Fair value of schemes' assets	48,309	41,654	35,280	31,940	25,805
Deficit in the schemes	(13,744)	(11,166)	(12,877)	(12,266)	(8,407)
Actual return less expected return on scheme assets	4,333	(712)	1,456	3,994	(7,345)
Percentage of period end scheme assets	9.0%	1.7%	4.1%	12.5%	28.5%
Experience gains and losses arising on scheme liabilities	213	(295)	789	(313)	(349)
Percentage of present value of period end scheme liabilities	0.3%	0.6%	1.6%	0.7%	1.0%
Changes in assumptions underlying the present value of scheme liabilities	(7,625)	(2,646)	(3,336)	(8,153)	1,776
Percentage of present value of period end scheme liabilities	12.3%	5.0%	6.9%	18.4%	5.2%
Total Experience Adjustments	(3,079)	(3,653)	(1,091)	(4,472)	(5,918)
Percentage of present value of period end scheme liabilities	5.0%	6.96%	2.3%	10.1%	17.3%

16. 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 18.

17. 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	1,645	1,328	1,394	1,500	1,258	1,251
Company sells, Bank buys – EUR	2,780	2,368	2,357	-	-	-
Company buys, Bank sells – CAD	730	458	476	-	-	-
Company buys, Bank sells – USD	1,808	1,162	1,199	1,926	1,227	1,214
Company sells, Bank buys – USD	11,372	7,130	7,525	1,459	919	947

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

18. PARENT COMPANIES AND ULTIMATE CONTROLLING PARTY

The company's immediate parent undertaking and controlling party is AAF McQuay Group Inc, incorporated in the USA. The ultimate controlling party is Daikin Industries Limited, incorporated in Japan, the company's ultimate parent undertaking.

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.