

**AAF McQUAY UK LIMITED**

**Annual report and financial statements**

**For the year ended 31 March 2015**

THURSDAY



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**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31  
MARCH 2015**

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**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

D Allsopp  
K Takagi  
B Liow  
VP Chen  
A Proffitt  
I Creasey

**COMPANY 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

**AUDITOR**

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

## STRATEGIC REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2015.

### REVIEW OF DEVELOPMENTS

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 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.

During the year, 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 Daikin Applied (UK) Limited and AAF Ltd as the carrying amount exceeds the recoverable amount. However, due to a change in economic conditions of its subsidiary undertakings, Air Filters Limited and J&E Hall Limited, the company has reversed impairments charged in a prior period, to increase the investments to their original carrying value.

The loss (2014: loss) for the year before tax amounted to £5,125,000 (2014: £117,000) of which £5,217,000 related to the above impairment.

On the 26<sup>th</sup> November 2014, by mutual agreement, the company redeemed all the deep discounted bonds issued to OYL Manufacturing in March 2011 for a total consideration of £9,770,944. The payment was funded by borrowing from Daikin Europe BV, another related company.

On the 31<sup>st</sup> March 2015 Barclays Bank plc released its fixed and floating charge over the assets of the UK Group. A cross-guarantee for the offset overdraft facility remains in place. Daikin Industries Limited issued a letter of undertaking to Barclays Bank plc on that date regarding the overdraft and guarantee facilities.

### 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.

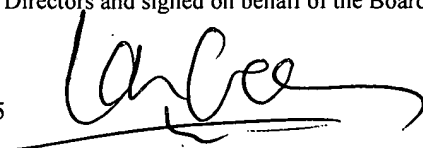
#### Pension risk

The UK resident members of the group headed by this company ("the UK group") operate a number of pension schemes including 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.

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

I Creasey  
Director  
Date 23 December 2015



## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 March 2015.

### **RESULTS AND DIVIDENDS**

The directors present their annual report and the audited financial statements for the year ended 31 March 2015.

The loss for the year after tax amounted to £5,081,000 (2014: £157,000).

The directors do not recommend the payment of a dividend in respect of the current financial year (2014: nil).

### **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.

On 1 April 2015 the company's subsidiary formally known as McQuay (UK) Limited was renamed Daikin Applied (UK) Limited at the request of the ultimate parent, Daikin Industries Limited.

### **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**

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

D Allsopp

K Takagi

P Kurto (resigned 15<sup>th</sup> September 2014)

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 year and remain in force at the date of this report.

### **POLITICAL AND CHARITABLE CONTRIBUTIONS**

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

## DIRECTORS' REPORT (CONTINUED)

### AUDITOR

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

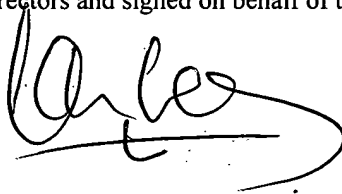
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is 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 auditor 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  
Date: 23 December 2015



## **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 year. 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 FOR THE MEMBERS OF AAF McQUAY UK LIMITED**

We have audited the financial statements of AAF McQuay UK Limited for the year ended 31 March 2015 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2015 and of its loss 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.

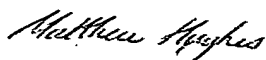
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and 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

Date: 23 December 2015



**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 March 2015**

	Note	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Reversal of previous impairment to the carrying value of subsidiaries	7	1,649	38
Impairment of carrying value of subsidiaries	7	(6,866)	(38)
Other Administrative expenses		(61)	(60)
Loss on foreign exchange		(22)	(27)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE FINANCE CHARGES</b>	2	(5,300)	(87)
Interest payable and similar charges	4	(623)	(707)
Interest receivable and similar income	5	798	677
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(5,125)	(117)
Tax credit /(charge) on loss on ordinary activities	6	44	(40)
<b>LOSS FOR THE YEAR</b>	12	(5,081)	(157)

All of the company's activities relate to continuing operations.

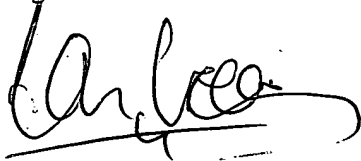
There are no recognised gains and losses other than the loss for the current financial year and the loss for the preceding financial year and therefore a separate statement of total recognised gains and losses has not been prepared.

**BALANCE SHEET**  
**As at 31 March 2015**

	Note	31 March 2015 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2014 £'000
<b>FIXED ASSETS</b>					
Fixed asset investments	7		9,217		14,434
<b>CURRENT ASSETS</b>					
Debtors: due within 1 year	8	1,316		900	
Debtors: due after more than 1 year	8	21,500		16,563	
Cash at bank		16,210		16,426	
		39,026		33,889	
<b>CREDITORS: amounts falling due within one year</b>	9	(32,628)		(18,038)	
<b>NET CURRENT ASSETS</b>			6,398		15,851
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			15,615		30,285
<b>CREDITORS: amounts falling due after more than one year</b>	10		(1,389)		(10,978)
<b>NET ASSETS</b>			14,226		19,307
<b>CAPITAL AND RESERVES</b>					
Called up share capital	11		10,320		10,320
Profit and loss account	12		3,906		8,987
<b>SHAREHOLDER'S FUNDS</b>	13		14,226		19,307

The financial statements of AAF McQuay UK Limited, registered number 02296471, were approved by the Board of Directors and authorised for issue on 23 December 2015

Signed on behalf of the Board of Directors



I Creasey

Director

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

**1. ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in both the current and prior years 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 Strategic 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 Limited was renewed on 1 April 2014 and closed on 31 March 2015 when it was replaced by a cash pool facility provided by Daikin Industries Limited through Citibank. The UK group overdraft and guarantee facility with Barclays Bank plc was renewed on 9 October 2014 and continues until renewed or cancelled. The company finds that bank finance is more available through being a subsidiary of Daikin Industries Limited 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. Daikin Industries Ltd have stated their intention to provide borrowing facilities to the UK group for 1 year beyond the issue date of these financial statements.

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### For the year ended 31 March 2015

#### 1. ACCOUNTING POLICIES (continued)

##### 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.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

##### 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.

No member of the pension scheme has ever worked for the Company and therefore no portion of the scheme's assets and liabilities are accounted for in its financial statements.

##### 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 shareholder's 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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

**1. ACCOUNTING POLICIES (continued)**

**Classification of financial instruments issued by the company**

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 shareholder's funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholder's funds.

**Dividends on shares presented within shareholder's 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**

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
<b>Loss on ordinary activities before taxation is stated after charging:</b>		
Fees payable to the company's auditor for the audit of the company's annual financial statements	8	8
Reversal of previous impairment to the carrying value of subsidiaries	(1,649)	(38)
Impairment of carrying value of subsidiary undertakings	6,866	38
Foreign exchange losses on translation of balances and realisation of assets and liabilities denominated in foreign currencies	22	27
	<u>          </u>	<u>          </u>

**3. REMUNERATION OF DIRECTORS**

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

**4. INTEREST PAYABLE AND SIMILAR CHARGES**

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
On bank loans and overdrafts	209	135
Interest payable to group undertakings	232	209
Accrued discount on deep discounted bonds	182	363
	<u>623</u>	<u>707</u>

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
Interest received from group undertakings	798	677
	<u>798</u>	<u>677</u>

**6. TAX ON LOSS ON ORDINARY ACTIVITIES**

*i) Analysis of (credit)/charge in year*

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
<b>UK corporation tax</b>		
Group relief	19	(25)
Adjustment in respect of prior years	(63)	65
Total current taxation	<u>(44)</u>	<u>40</u>
Total tax (credit)/charge	<u>(44)</u>	<u>40</u>

*ii) Factors affecting the tax credit/(charge) for the current and prior years*

The current tax (credit)/charge for the year is lower (2014 – higher) than the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
<b>Current tax reconciliation</b>		
Loss on ordinary activities before tax	(5,125)	(117)
Tax at 21% (2014: 23%) thereon:	(1,076)	(27)
Amounts not deductible for corporation tax	1,095	-
Adjustment in recoverable value of tax losses	-	2
Adjustment in respect of prior years	(63)	65
Current tax (credit)/charge for the year	<u>(44)</u>	<u>40</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

**7. FIXED ASSET INVESTMENTS**

	<b>31 March 2015 £'000</b>
<b>Cost</b>	
At 1 April 2014 and 31 March 2015	16,083
<b>Provisions for impairment</b>	
At 1 April 2014	(1,649)
Reversal of impairment	1,649
Impairment provision charged	(6,866)
At 31 March 2015	(6,866)
Net book value at 31 March 2015	9,217
Net book value at 31 March 2014	14,434

During the year, 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 Daikin Applied (UK) Limited and AAF Ltd as the carrying amount exceeds the recoverable amount. However, due to a change in economic conditions of its subsidiary undertakings, Air Filters Limited and J&E Hall Limited, the company has reversed impairments charged in a prior period, to increase the investments to their original carrying value.

In the year ending 31<sup>st</sup> March 2015 the subsidiary companies reported the following profit after tax and their aggregate capital and reserves (shareholder's funds) were as follows:

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

	County of incorpora- tion	Principal activity	Class and percentage of shares held	Profit after Tax £'000	Shareholder's funds £'000
<b>Subsidiary undertakings:</b>					
AAF Limited	England	Environmental air control equipment	Ordinary 100%	4,278	2,133
Air Filters Limited	England	Air filter equipment	Ordinary 100%	443	946
Daikin Applied (UK) Limited	England	Air conditioning equipment	Ordinary 100%	56	5,644
(formally McQuay (UK) Limited)	Mexico	Dormant	Ordinary 100% *	NIL	
AAF McQuay SA de CV	England	Installation and service of refrigeration systems	Ordinary 100%	379	(15,885)
J & E Hall Limited	England	Electric motor rewinding and cable preparation	Ordinary 100% **	182	1,704
Coulstock & Place Engineering Co Ltd	England	Dormant	Ordinary 100% **	NIL	
Balmsound Limited	England	Dormant	Ordinary 100% **	NIL	

\* Shares are owned by AAF Limited

\*\* Shares are owned by J & E Hall Limited

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

**8. DEBTORS**

	<b>31 March 2015 £'000</b>	<b>31 March 2014 £'000</b>
Amounts owed by group undertakings	21,745	15,500
Group relief receivable	838	679
Prepayments and accrued income	233	1,284
	<u>22,816</u>	<u>17,463</u>

Debtors include £21,500,000 (2014: £16,563,000) of amounts owed by group undertakings due after more than one year.

**9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>31 March 2015 £'000</b>	<b>31 March 2014 £'000</b>
Bank borrowing – Bank of Tokyo Mitsubishi UFJ Ltd	-	9,000
Amounts owed to group undertakings	32,617	9,020
Accruals and deferred income	11	18
	<u>32,628</u>	<u>18,038</u>



**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

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

	31 March 2015 £'000	31 March 2014 £'000
Amounts owed to group undertakings	1,389	1,389
Loan note at 5.98%. No fixed repayment date		
Unsecured deep discounted bonds issued to a related company and accrued discount:		
- Due for repayment in March 2016, discount rate 3.4585%	-	1,564
- Due for repayment in March 2017, discount rate 3.9604%	-	1,585
- Due for repayment in March 2018, discount rate 4.2104%	-	1,596
- Due for repayment in March 2019, discount rate 4.4604%	-	1,606
- Due for repayment in March 2020, discount rate 4.6790%	-	1,616
- Due for repayment in March 2021, discount rate 4.8304%	-	1,622
	<u>1,389</u>	<u>10,978</u>

Discount accrued on deep discounted bonds amounted to £NIL (2014: £1,089,000).

**11. CALLED-UP SHARE CAPITAL**

	31 March 2015 £'000	31 March 2014 £'000
Allotted, called-up and fully paid		
10,320,085 ordinary shares of £1 each	10,320	10,320
	<u>10,320</u>	<u>10,320</u>

**12. PROFIT AND LOSS ACCOUNT**

	31 March 2015 £'000
At beginning of the year	8,987
Loss for the year	(5,081)
	<u>3,906</u>
At end of the year	<u>3,906</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

**13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS**

	31 March 2015 £'000	31 March 2014 £'000
Loss for the financial year	(5,081)	(157)
Opening shareholder's funds	19,307	19,464
Closing shareholder's funds	14,226	19,307

**14. CONTINGENT LIABILITIES**

At 31 March 2015 bank bonds, indemnities and guarantees amounting to £NIL (2014: £NIL) were outstanding with recourse to the company. All the UK resident group companies are jointly and severally liable for all guarantees and all indebtedness to Barclays Bank Plc incurred by the UK Group via a cross guarantee. The total UK group liability to Barclays Bank Plc, at 31 March 2015, comprising contingent liabilities plus total overdrawn balances less positive account balances amounted to £13,779,000 (2014: £18,073,000).

On the 31 March 2015 Barclays Bank plc released its fixed and floating charge over the assets of the UK Group. A cross-guarantee for the offset overdraft facility remains in place. Daikin Industries Limited issued a letter of undertaking to Barclays Bank plc on that date regarding the overdraft and guarantee facilities.

**15. PENSION SCHEME**

At the beginning of the prior year the company was principal employer to one 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 Daikin Applied (UK) Ltd (formally McQuay (UK) Limited). The defined benefit scheme was closed to new members on 1 August 2005.

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 years:

**AAF McQuay UK  
Pension Plan**

Contribution rates at 31 March 2015	18.0%
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In addition to the above contribution rates the participating employers in the AAF McQuay Pension Plan are paying £109,200 (2014: £631,000) per annum as fixed contributions. On the 31 March 2014 the participating employers made a one off deficit reducing contribution of £5,000,000.

The latest full actuarial valuations were carried out at 1 January 2013 and were updated for FRS17 purposes to 31 March 2015 by a qualified independent actuary. The total contributions to the scheme by the participating employers during the year were £1,187,000 (2014 : £6,424,000). The total contributions for the year ended 31 March 2016 are forecast to be £1,052,000.

The scheme is a funded scheme.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

**15. PENSION SCHEME (continued)**

	31 March 2015	31 March 2014	31 March 2013	31 December 2011	31 December 2010
<b>The major assumptions used in this valuation were:</b>					
Rate of increases in salaries	4.1%	4.4%	4.4%	4.1%	4.6%
Rate of increase in pensions in payment	3.0%	3.3%	3.3%	3.0%	3.5%
Rate of increase in pensions deferred pensions	3.1%	3.4%	2.65%	2.35%	3.0%
Discount rate applied to scheme liabilities	3.4%	4.5%	4.3%	4.7%	5.4%
Inflation assumption	3.1%	3.4%	3.4%	3.1%	3.6%
Post retirement mortality	120% SIPXA	120% SIPXA	120% SIPXA	120% SIPXA	120% SIPXA
	CMI 2014 mortality	CMI 2013 mortality	CMI 2011 mortality	CMI 2010 mortality	CMI 2009 mortality

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.

Up to and including the period ended 31 March 2013 the company 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. From the year ended 31 March 2015, the company has allowed for Retail Price Index increases in the valuation of deferred pensions.

**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 2015 £'000	Value at 31 March 2014 £'000	Value at 31 March 2013 £'000	Value at 31 December 2011 £'000	Value at 31 December 2010 £'000
Equities and Diversified Growth Fund	25,450	18,491	18,758	12,760	26,581
Bonds and Gilts	36,954	27,592	27,658	22,670	8,365
Property	2,831	2,451	1,820	1,750	-
Cash and other assets	90	5,164	73	4,474	334
<b>Total market value of assets</b>	<b>65,325</b>	<b>53,698</b>	<b>48,309</b>	<b>41,654</b>	<b>35,280</b>
<b>Present value of scheme liabilities</b>	<b>(69,861)</b>	<b>(64,650)</b>	<b>(62,053)</b>	<b>(52,820)</b>	<b>(48,157)</b>
<b>Deficit in the scheme – Pension liability</b>	<b>(4,536)</b>	<b>(10,952)</b>	<b>(13,744)</b>	<b>(11,166)</b>	<b>(12,877)</b>
Related deferred tax asset	907	2,190	3,161	2,792	3,477
<b>Net pension liability</b>	<b>(3,629)</b>	<b>(8,762)</b>	<b>(10,583)</b>	<b>(8,374)</b>	<b>(9,400)</b>

The expected long term rate of return in the AAF McQuay Pension Plan at 31 March 2015 was 6.25% (2014: 5.75%). This is a weighted average of the assumed long term returns for the various asset classes. During the year the actual return of the plan's assets was £12,508,000 (2014: £910,000).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

**15. PENSION SCHEME (continued)**

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
<b>Movement in deficit during the year</b>		
Deficit in schemes at beginning of the year	10,952	13,744
Current service cost	1,168	1,161
Past service (credit)/cost	(8,191)	170
Contributions paid	(1,187)	(6,424)
Other finance income	(466)	(281)
Actuarial loss	2,260	2,582
Deficit in schemes at end of the year	<u>4,536</u>	<u>10,952</u>

For the year ended 31 March 2015, the company has allowed for the reduction in the allowance for discretionary pre-1997 Staff Plan benefits in the valuation of deferred pensions. 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 total gain of approximately £8,191,000.

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
<b>Movements in fair value of scheme assets were as follows:-</b>		
At beginning of the year	53,698	48,309
Expected return on scheme assets	3,329	2,907
Contributions paid by employers	1,187	6,424
Benefits paid	(2,068)	(1,945)
Actuarial gain/(loss)	9,179	(1,997)
At end of the year	<u>65,325</u>	<u>53,698</u>

	Year ended 31 March 2015 £'000	Year ended 31 March 2014 £'000
<b>Movements in the present value of scheme liabilities were as follows:-</b>		
At beginning of the year	64,650	62,053
Current service cost	1,168	1,161
Past service (credit)/cost	(8,191)	170
Interest cost	2,863	2,626
Benefits paid	(2,068)	(1,945)
Actuarial loss – experience	-	2,492
Actuarial loss/(gain) – assumptions	11,439	(1,907)
At end of the year	<u>69,861</u>	<u>64,650</u>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

**15. PENSION SCHEME (continued)**

Five Year History of Experience Adjustments is as follows:-	March 2015 £'000	March 2014 £'000	March 2013 £'000	December 2011 £'000	December 2010 £'000
Present value of Defined Benefit Obligations	69,861	64,650	62,053	52,820	48,157
Fair value of schemes' assets	65,325	53,696	48,309	41,654	35,280
Deficit in the schemes	(4,536)	(10,954)	(13,744)	(11,166)	(12,877)
Actual return less expected return on scheme assets	9,179	(1,997)	4,333	(712)	1,456
Percentage of year/period end scheme assets	14.1%	3.7%	9.0%	1.7%	4.1%
Experience gains and losses arising on scheme liabilities	-	(2,492)	213	(295)	789
Percentage of present value of year/period end scheme liabilities	0%	3.9%	0.3%	0.6%	1.6%
Changes in assumptions underlying the present value of scheme liabilities	(11,439)	1,907	(7,625)	(2,646)	(3,336)
Percentage of present value of year/period end scheme liabilities	16.4%	2.9%	12.3%	5.0%	6.9%
<b>Total Experience Adjustments</b>	<b>(2,260)</b>	<b>(2,582)</b>	<b>(3,079)</b>	<b>(3,653)</b>	<b>(1,091)</b>
Percentage of present value of year/period end scheme liabilities	3.2%	4.0%	5.0%	6.92%	2.3%

**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.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 March 2015**

**17. DERIVATIVES NOT INCLUDED AT FAIR VALUE**

The company has derivatives which are not included at fair value in the financial statements:

	Currency Amount	Deal Value	Fair Value	Currency Amount	Deal Value	Fair Value
	31	31	31	31	31	31
	March	March	March	March	March	March
	2015	2015	2015	2014	2014	2014
	'000	£'000	£'000	'000	£'000	£'000
Forward foreign exchange contracts						
Company buys, Bank sells – EUR	5,000	3,628	3,650	3,198	2,647	2,645
Company sells, Bank buys – USD	6,400	4,293	4,290	16,796	10,427	10,082
Company buys, Bank sells - NOK	-	-	-	1,488	149	149
Company sells, Bank buys - NOK	-	-	-	1,488	149	149

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.

**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 Limited. 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.