AAF Limited

Annual report and financial statements
for the year ended 31 March 2021

Registered number: 875806

AAF Limited
For the year ended 31 March 2021

Contents

AAF Limited
For the year ended 31 March 2021

Officers and professional advisers

Directors

P T Sennett
T Yamanaka
VP Chen
B W K Liow
I P Creasey

Company Secretary

I P Creasey

Registered office

Bassington Industrial Estate
Cramlington
Northumberland
England
NE23 8AF

Bankers

Barclays Bank plc
Percy Street
Newcastle upon Tyne
NE1 4QL

The Bank of Tokyo Mitsubishi UFJ
Ropemaker Place
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Auditor

Deloitte LLP
Statutory Auditor
One Trinity Gardens
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Newcastle upon Tyne
United Kingdom
NE1 2HF

AAF Limited
Strategic report

The directors present their annual report and audited financial statements for the year ended 31 March 2021.

Business review, principal risks and uncertainties and future developments

AAF Limited'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, filtration equipment, and acoustic turbine enclosures and principal customers are manufacturers of gas turbines. In addition, AAF Limited undertakes aftermarket activities, supplying replacement filter consumables and engineered refurbishment and upgrade solutions to the owners of existing power and oil and gas facilities, including on site installation services. AAF Limited also supplies products for the control of emissions from manufacturing and processing industries, and other engineered and fabricated products.

The directors report a decrease in turnover in the year of from £43,690,000 in 2020 to £32,314,000 in the current year. Overall, gas turbine related markets continued to be impacted by poor global economic conditions over recent years including the growth of alternative energy sources, and political factors. AAF Limited is now targeting specific areas within the sector where greater profitability and faster growth are expected.

As described below, a significant proportion of the company's turnover and cost of sales is earned and incurred in foreign currencies. In order to mitigate the risk of exchange gains and losses the company enters into individual foreign exchange contracts for each project. A portion of the gains and losses resulting from the fair valuing each year of those contracts are counteracted by gains and losses on debtors, creditors and bank balances that have arisen in the past, but the gains and losses on the portions of those contracts which relate to future transactions, under FRS102, have been recognised in gross margin. The impact on gross margin in the year to 31 March 2021 was a credit of £2,215,000 (2020: charge of £1,754,000).

Gross profit margin increased from 17% to 26% as a result of the focus on specific more profitable growth areas of work. However, excluding the impact of the fair valuing of forward foreign exchange contracts, gross margin increased from 21.3% in year ended 31 March 2020 to 29.3% in the year to 31 March 2021. Distribution and underlying administration expenses have been maintained as resource levels and capabilities have been held steady to support future growth expectations in more targeted sectors of the market. R&D expenditure has continued with recent new products showing positive signs of a significant contribution to profits.

Operating profit has increased from a loss of £5,102,000 (-12%) for the year ended 31 March 2020, to a profit of £1,482,000 (+4.6%). The 2021 cost is stated after charging a adjustment to the one-off pension equalisation adjustments cost of £212,000 which is not expected to re-occur. Excluding the pension GMP adjustment, the operating profit has increased to £1,694,000 from a loss of £5,102,000 for the previous year.

Working capital (net current assets excluding cash, overdraft, and short-term borrowings) at 9% of annual sales was less than the previous year (2020: 35% of annual sales). Working capital decreased as customer receivables and amounts recoverable on long term contracts were converted to cash more quickly.

During the year the impacts of the COVID 19 pandemic continued to be felt across the world, impacting the company's markets and resources. AAF Limited successfully relocated most staff to work remotely from the company base in order to meet government restrictions and protect the health of employees. At the beginning of the period, AAF Limited saw a reduction in volumes, most of which was due to customers rescheduling work to suit new access arrangements, and this proved to be a timing issue. AAF Limited has continued trading effectively throughout the pandemic period to date with only small numbers of personnel requiring support via the UK government furlough scheme for limited periods when specific areas of work were reduced. Remote working has contributed to savings in overhead costs and travel expenses. AAF Limited has embraced new technology to facilitate remote working and envisages that this will allow much more efficient operations in future. Subcontract manufacturing locations around the world have been impacted by local COVID 19 restrictions but AAF Limited has experienced little disruption to manufacturing progress.

Business review, principal risks and uncertainties and future developments (continued)

Despite the COVD 19 pandemic, it is still expected that markets will start to show signs of recovery from the economic downturn in the long term, and overall volumes are expected to grow from that point for all aspects of the business. Changes in international trade tariffs, international trade sanctions, and political uncertainty in some locations, as well as COVID 19 have all impacted the return to the growth though this has begun to be offset by an increase in the oil price. Gas turbines are seen as having particular advantages in the energy sector and remain essential to the oil and gas distribution industry. AAF Limited will concentrate on the most profitable areas of business and drive the benefits of new products whilst maintaining strict cost control and establishing further efficiencies in project execution. Resources are focussed on the growing and more profitable aftermarket aspects of the business. As a result AAF Limited has seen a return to profitability in the current year and continues to enjoy the support of ultimate parent company, Daikin Industries Limited, in working toward its long term goals. This is most clearly demonstrated by the injection of £30,000,000 of equity by the parent company during the year.

The company has undertaken various initiatives during the year to enhance the working environment and employment conditions and to maximise its relationship with staff through increased internal communication, training and development and new processes, to ensure that it continues to attract the best employees. Such initiatives have been extended and adapted to allow for the impacts of remote working during the COVID 19 pandemic, to ensure that staff are supported as well as engaged.

AAF Limited manufactures and provides goods and services throughout the world, and there is a possibility that performance could be impacted if political or economic changes occur in any region in which the company operates. These changes could include the deterioration of political or economic conditions, raw material price surges, environmental considerations or foreign currency exchange fluctuations.

Even now, impacts from the expected completion of the withdrawal of the United Kingdom from the European Union ('Brexit') cannot be fully assessed as many transition arrangements are persisting and the full implications of the terms of the withdrawal are not yet clear. The company has now registered for VAT in The Netherlands and is addressing issues as they arise. So far impacts have been negative, but not insurmountably or materially so. AAF Limited worked with customers and supply chain partners to prepare for Brexit day as far as was possible and continues to adapt as the need arises. To ensure continued effective operation of manufacturing sites, the company also has a detailed plan for building an appropriate level of critical raw material stocks at sites, thus providing further assurance of continued supply to the company's customers.

Unexpected civil unrest in countries with emerging economies with otherwise increasing power generation requirements, or in oil producing and distributing regions, can impact new investment levels in those areas and the risk of existing projects not being completed, in what would otherwise be strong potential markets for AAF Limited. The company actively seeks to comply with all government restrictions, embargoes or sanctions on trade with different countries or entities, which reduces these risks. However, the company recognises that any changes in such restrictions could also influence access to markets and completion of existing projects.

To minimise the impact of fluctuating raw material prices, specifically steel, the company constantly updates product costs and sales prices, buys materials at early stages in new contracts, and incorporates price escalation agreements in contracts with customers where possible.

Exposure to impact from fluctuations in currency exchange rates arises from operating in international markets. To avoid such currency related risks, the Company undertakes short-term risk hedging via forward exchange contracts. However, exchange rate related risk cannot be completely avoided.

On the 28th September 2020 the ultimate parent funded a capital injection by the Company's immediate parent of £30,000,000 in the form of a share issue of 5,000,000 shares with a face value of £1 at a premium of £5, thereby creating a share premium of £25,000,000.

Following the equity injection during the year the company had net assets of £7,030,000 at the balance sheet date, in contrast to a net liability position of £22,416,000 at 31 March 2020. As shown in the statement of movement in equity the improvement is due to the equity injection of £30,000,000, a profit after tax for the year of £871,000 (2020: loss of £4,980,000) offset by a loss on the re-assessment of the pension liability, net of a deferred tax, of £1,425,000 (2020: £444,000). The company continues to have the support of the ultimate parent as described in Note 1 to the financial statements.

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.

The company continues to invest in the latest engineering and design technology to maintain its position as a strong force in the marketplace.

Section 172 Statement

Stakeholder Engagement

The company has a diverse and global community of stakeholders which includes employees, customers, suppliers and its parent company. Building trust and partnerships with all these stakeholders is key to promoting the success of the company. The stakeholders have different expectations and needs from their relationship with the company and the directors recognise the need to balance these expectations and needs.

People
The company believe its employees are a valuable asset. It aims to treat them fairly and consistently and to communicate with them regularly, to ensure they are engaged and that they understand the importance of role they play. All employees are given a business update every quarterly where the performance of the business and the wider business unit of which is part, is explained in a live webinar. All employees can send questions and comments to the Global Chief Operating Officer of the wider business unit via an email address dedicated to that purpose. These questions are then answered in the quarterly business update.

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 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.

Suppliers

The company seeks to build strong relationships with its suppliers and fabricators worldwide. It seeks to work in partnership while demanding high standards of product performance, quality and on-time delivery. Suppliers must demonstrate that they always operate to a recognised standard while complying with:

- The recognition of Human Rights
- Regulation relating to Health and safety
- The prohibition of modern slavery
- The promotion of sustainable consumption
- Regulation relating to Anti-bribery

Customers, Community and Code of Conduct

The company maintains close communication with its customers and seeks to work with them to provide with solutions that give them maximum value from their investment.

AAF Limited has been part of the Cramlington community for over half a century. In has been one of the largest employers in the town and it still has much to contribute as a local employer supplier and customer. Its apprenticeship training scheme is an important point of engagement with the community

The company adheres to and supports the parent company's Code of Conduct and Ethical Policies and recognises that transparency and honesty are the right way to do business.

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.

Approved by the directors and signed on behalf of the board.

I P Creasey
Director & Company Secretary
4 March 2022
AAF Limited
Bassington Industrial Estate
Cramlington
Northumberland
NE23 8AF

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AAF Limited
Directors' report

The directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 March 2021.

Results and dividends

The profit before tax for the year amounted to £1,048,000 (2020: loss of £5,944,000).

The profit for the year, after taxation, amounted to £871,000 (2020: loss of £4,790,000).

There were no dividends paid during the year (2020: £nil) and the directors are unable to recommend the payment of a final dividend.

The directors consider the net book value of land, buildings, plant and machinery and fixtures to be at market value but the assets under construction to have no realisable value outside of the business.

Principal activity

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

Future developments and Research and development

Details of future developments and Research and development can be found in the Strategic report on pages 2 to 3 and form part of this report by cross reference.

Going Concern

All members of the AAF McQuay UK Ltd group, of which the company is one, continue to enjoy the support of the ultimate parent company, Daikin Industries Ltd. Further details regarding the adoption of the going concern basis can be found in note 1 of the notes to the financial statements.

The ultimate holding company, Daikin Industries Limited, has provided letters of undertaking to the company's main lender Barclays Bank plc and has confirmed to the Directors that it will provide sufficient financial support, should it be required, to enable the Company to meet its liabilities as they fall due for a period of not less than 12 months from the date of the approval of the financial statements. Daikin Industries Limited continues to be profitable and has the resources to provide the support promised.

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 will 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.

Directors

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

P T Sennett
C M S Wantland (resigned 8 June 2020)
T Yamanaka (appointed 8 June 2020)
V P Chen
B W K Liow
I P Creasey

Director's 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.

AAF Limited
Directors' report (continued)

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.

Charitable contributions

Donations to UK charities amounted to £NIL (2020: £2,020).

Events after the balance sheet date

There were no events after the balance sheet date that require disclosure in the financial statements.

Statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting (SECR)

Statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting (SECR) covering energy use and associated greenhouse gas emissions relating to gas, electricity and transport, intensity ratios and information relating to energy efficiency actions.

Current reporting year	**2021**	**2020**	
		(restated)	
Total energy use covering electricity, gas and transport	1,593,979	1,928,519	kWh
Total emissions generated through combustion of gas	186.73	170.87	tCO2e
Total emissions generated through combustion of other fuel	12.28	14.93	tCO2e
Total emissions generated through use of purchased electricity	112.99	216.92	tCO2e
Total emissions generated through business travel	10.11	20.63	tCO2e
Total gross emissions	322.11	423.34	tCO2e
Intensity ratio - total gross emissions (kgCO2/sqft)	4.22	5.54	kgCO2e per sqft
Intensity ratio - transport emissions (kgCO2/mile)	0.27	0.27	

The 2020 comparative disclosure has been restated to be consistent with the current year.

In the previous financial statements, the carbon impact of the whole site, including that of Daikin Applied UK) Limited was stated, on the basis that AAF Limited owns the whole building. This year the impact of Daikin Applied (UK) Limited is disclosed in its own financial statements and the numbers above relate only to AAF Limited.

Energy efficiency actions

We are committed to responsible energy management and will practise energy efficiency throughout our organisation, wherever it's cost effective. We recognise that climate change is one of the most serious environmental challenges currently threatening the global community and we understand we have a role to play in reducing greenhouse gas emissions.

We have a global group policy committing to carbon neutrality by 2050 with a shorter term aim for a 5% carbon reduction over the next 5 years.

Energy efficiency actions (continued)

We have implemented the policies below for the purpose of increasing the businesses energy efficiency in the relevant financial year.

- Moved to remote home working due to Covid. We will review this when the situation permits.
- Encouraged use of video conferencing.
- Travel reduced due to Covid.

Methodology used in the calculation of disclosures

SECR methodology as specified in "Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting and greenhouse gas reporting" used in conjunction with Government GHG reporting conversion factors.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/850130/Env-reporting-guidance_inc_SECR_31March.pdf

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 debtors. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful debtors.

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 a bank overdraft. Further details can be found in note 1 of the notes to the financial statements.

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
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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 section 418 of the Companies Act 2006.

Deloitte LLP have been deemed re-appointed under section 487 of the 2006 Act.

AAF Limited
Directors' report (continued)

Approval of reduced disclosures

The company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12. Daikin Industries Limited, the company's ultimate shareholder has been notified in writing about the intention to take advantage of the disclosure exemptions and no objections have been received.

The company also intends to take advantage of these exemptions in the financial statements to be issued in the following year. Objections may be served on the company by Daikin Industries Limited, as the ultimate parent of the entity.

Approved by the directors and signed on behalf of the Board by:

/Creasey

I P Creasey
Director & Company Secretary
4 March 2022

AAF Limited
Bassington Industrial Estate
Cramlington
Northumberland
NE23 8AF

AAF Limited
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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland." 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 judgements 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 to 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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of AAF Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31st March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is Financial Reporting Standard 102

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions, and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Completeness and cut-off of contracting revenue
    - Design and implementation testing of relevant controls;
    - Tests of details across the balance, including reviewing the contract orders, testing income and expenditure of the contracts and reviewing forecast margin against actuals for historical accuracy.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in [the strategic report or] the directors' report.

Matters on which we are required to report by exception[1]

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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.

M. L. Lewis

Mark Lewis ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Newcastle, United Kingdom

4 March 2022

AAF Limited
Profit and loss account
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Turnover	3	32,314	43,690
Cost of sales		(20,617)	(36,152)
Gross profit		11,697	7,538
Distribution costs		(5,596)	(5,708)
Reversal of Fixed asset impairment	11	459	-
Pension GMP adjustment	22	(212)	-
Other operating administrative expenses		(4,866)	(6,932)
Total Administrative expenses		(4,619)	(6,932)
Operating Profit/(Loss)		1,482	(5,102)
Interest payable and similar expenses		(476)	(881)
Interest receivable and similar income	4	42	39
Profit/(Loss) before taxation	5	1,048	(5,944)
Tax	9	(177)	1,154
Profit/(Loss) for the financial year attributable to the equity shareholders of the Company		871	(4,790)

AAF Limited
Statement of comprehensive income
For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Profit/(Loss) for the financial year		871	(4,790)
Re-measurement of net defined benefit liability	22	(1,759)	(548)
Tax credit relating to components of other comprehensive expense	9	334	104
Other comprehensive expense		(1,425)	(444)
Total comprehensive expense attributable to equity shareholders of the Company		(554)	(5,234)

AAF Limited
Balance sheet
At 31 March 2021

	Note	2021 £'000	2020 £'000
Fixed assets			
Intangible assets	10	475	510
Tangible assets	11	2,563	2,785
Investments	12	4	4
		3,042	3,299
Current assets			
Stocks	13	2,092	1,490
Debtors			
– amounts falling due within one year	14	14,147	29,123
– amounts falling due after more than one year	14	52	-
Cash at Bank		2,991	13
		19,282	30,626
Creditors: amounts falling due within one year	15	(13,338)	(52,075)
Net current assets/(liabilities)		5,944	(21,449)
Total assets less current assets/(liabilities)		8,986	(18,150)
Creditors falling due after more than one year	16	-	(3,600)
Provisions for liabilities	17	(1,683)	(666)
Pension deficit	22	(273)	-
Net assets/(liabilities)		7,030	(22,416)
Capital and reserves			
Called-up share capital	19	5,125	125
Share premium		25,000	-
Profit and loss account		(23,095)	(22,541)
Shareholder's funds/(deficit)		7,030	(22,416)

The financial statements of AAF Limited (registered number 875806) were approved by the Board of directors and authorised for issue on 4th March 2022. They were signed on its behalf by:

ICreasey

I P Creasey
Director

AAF Limited
Statement of changes in equity
For the year ended 31 March 2021

	Called-up share capital £'000	Share Premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2019	125	-	(17,307)	(17,182)
Loss for the financial year	-	-	(4,790)	(4,790)
Re-measurement of net defined benefit liability	-	-	(548)	(548)
Tax relating to items of other comprehensive expense	-	-	104	104
Total comprehensive expense	-	-	(5,234)	(5,234)
At 31 March 2020	125	-	(22,541)	(22,416)
Shares issued at a premium (note 19)	5,000	25,000	-	30,000
Profit for the financial year	-	-	871	871
Re-measurement of net defined benefit liability (note 22)	-	-	(1,759)	(1,759)
Tax relating to items of other comprehensive income (note 9)	-	-	334	334
Total comprehensive expense	-	-	(554)	(554)
At 31 March 2021	5,125	25,000	(23,095)	7,030

1. Accounting policies

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

a. General information and basis of accounting

AAF Limited is a private limited company, limited by shares, incorporated in the United Kingdom under the Companies Act and registered in England and Wales. The address of the registered office is given on page 2. The nature of the Company's operations and its principal activities are set out in the Directors' report on pages 5 to 6.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of AAF Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

AAF Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. AAF Limited is consolidated in the financial statements of its ultimate parent, Daikin Industries Ltd, which may be obtained at the address given in note 24. Exemptions have been taken in these separate Company financial statements in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

b. 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 pages 3 to 4.

As highlighted in notes 15 and 20 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 Limited. The UK group's borrowing facility provided by Daikin Industries Limited was renewed on 30 June 2021 until 30 June 2022. The UK group overdraft and guarantee facility with Barclays Bank plc was renewed on 16 December 2020 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 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 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.

Due to the net current and net liability position of the AAF McQuay UK Group and the cross guarantee provided to Barclays, the ultimate parent company, Daikin Industries Limited has confirmed that it will provide sufficient financial support, should it be required, to enable the Companies to meet their liabilities as they fall due for a period of not less than 12 months from the date of the approval of the financial statements. The going concern of the company is therefore dependant on the going concern of the Group which has been assessed and has adequate resources to be able to provide this support.

Daikin Industries Limited has also provided letters of undertaking to the company's main lenders, Daikin Europe Coordination Centre NV and Barclays Bank plc.

Having made appropriate enquiries and on the basis of management's forecasts and parental support, the Directors are satisfied that there is sufficient funding available for the Company and the UK group to operate for the foreseeable future. Accordingly, they have continued to adopt the going concern basis in preparing the financial statements. In making their assessment, the Directors have considered future cash flows and borrowing facility availability as well as considering the Company's normal trading, working capital cycles and support from parent companies.

1. Accounting policies (continued)

c. Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost and amortised over their useful economic lives.

Licences and patents 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.

d. Tangible Fixed assets and depreciation

Tangible fixed assets are stated at cost, 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 10 - 45 years straight line
Plant and machinery 7 - 10 years straight line
Fixtures and fittings 5 - 10 years straight line

No depreciation is provided on freehold land or assets in the course of construction.

e. Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

(b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

(c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

(d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

1. Accounting policies (continued)

e. Financial instruments (continued)

(e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

(f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Intercompany loans presented as due in more than one year are repayable on demand and have not therefore been discounted.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Investments

Investments in subsidiaries and associates are measured at cost less impairment. For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

(iii) Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(iv) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

1. Accounting policies (continued)

f. 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.

g. Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

h. 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.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset that is recognised in a business combination is less (more) than the value at which it is recognised, a deferred tax liability (asset) is recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) is recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax.

Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Company is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

1. Accounting policies (continued)

h. Taxation (continued)

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

i. Turnover

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

j. 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.

k. Employee benefits

AAF Limited participates in the AAF McQuay UK Pension Plan, a defined benefit pension plan, and an appropriate share of the net defined benefit cost of the plan and of the present value of the benefit obligation of the plan at the reporting date is therefore recognised in financial statements of AAF Limited. 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 deficit is split between operating charges, finance items and, in the statement of other comprehensive income. The scheme is revalued tri-annually by a fellow of the institute of actuaries and the net deficit is then rolled forward to the balance sheet date.

AAF Limited also participates in the AAF J&E Hall Daikin Applied Retirement Benefits Plan, a defined contribution pension plan. The amount charged to the profit and loss account in respect of pension costs and other retirement benefits under this plan is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

l. Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see above); and
- exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income.

1. Accounting policies (continued)

m. Leases

The Company as lessee

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

n. Research and Development

Research expenditure is written off as incurred. Development expenditure is also written off as incurred. The cost is shown net of "above the line" RDEC tax credit.

o. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

p. Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

q. Finance income and expense

Interest income or expense is recognised when it is probable that the economic benefits or costs will flow to or from the company and the amount of revenue or expense can be measured reliably. Interest income or expenses is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to that asset or liability's net carrying amount on initial recognition.

Other finance income or cost includes interest on the liabilities of the Defined Benefit Pension scheme and is calculated by an actuary. See note 22.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

In the directors' opinion there are no critical judgements. Sources of estimation that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are dealt with below.

Revenue recognition

Recognition of revenue and profit is based on estimations and forecasts made in respect of the ultimate profitability of a contract. Such forecasts are arrived at through the use of estimates in relation to the costs and value of work performed to date and to be performed in bringing contracts to completion. These estimates are made by reference to recovery of pre-contract costs, surveys of progress against timetable, changes in work scope, the contractual terms under which the work is being performed, including the recoverability of any un-agreed income from variations and the likely outcome of discussions on claims and costs incurred.

Impairment of tangible assets

When required by FRS 102 the company will consider whether tangible assets are impaired by estimating their value in use. The value in use is an estimate of the future cash flows expected to arise from the tangible assets, discounted at a suitable rate in order to calculate present value.

Post-Employment Benefits

For the defined benefit scheme, pension valuations have been performed using specialist advice obtained from independent qualified actuaries. In performing these valuations, significant actuarial assumptions have been made to determine the defined benefit obligation, in particular with regard to discount rate, inflation and mortality. Details of assumptions used are set out in note 22 Employee benefits.

3. Turnover

An analysis of the Company's turnover by geographical market is set out below.

	2021 £'000	2020 £'000
Turnover:		
UK	12,077	9,773
Europe	5,172	8,110
Americas	7,000	18,650
Rest of World	8,065	7,157
	32,314	43,690

In the opinion of the Directors, any additional disclosure regarding turnover would be prejudicial to the interests of the Company.

4. Finance costs

	2021 £'000	2020 £'000
Interest payable and similar charges	476	881
Other finance income	(42)	(39)
	434	842

Interest payable and similar charges	2021 £'000	2020 £'000
Payable to group undertakings	476	881

Other finance income	2021 £'000	2020 £'000
Net interest income on defined benefit liability (see note 22)	42	39

5. Profit/(Loss) before taxation

Profit/(Loss) before taxation is stated after charging/(crediting):

	2021 £'000	2020 £'000
Depreciation of tangible fixed assets (note 11)	792	784
Amortisation of intangible fixed assets	35	15
Reversal of impairment of intangible	(459)	-
Cost/(reversal) of impairment of stock through cost of sales	255	(303)
Research and development	1,137	1,501
Operating lease rentals	109	128
Foreign exchange differences (gains)/losses	(2,215)	1,754

The reversal of impairment of tangible assets arose because assets under construction which were previously impaired are now being used and depreciated.

Impairments of fixed assets and reversals are included in administrative expenses.

6. Auditor's remuneration

Fees payable to Deloitte LLP and their associates for the audit of the company's financial statements were £77,931 (2020: £78,000).

Fees payable to Deloitte LLP and their associates for non-audit services of other taxation compliance amounted to £61,142 (2020: £39,000).

7. Staff numbers and costs

The average monthly number of employees (including executive directors) was:	**2021 Number**	**2020 Number**
Production	86	86
Sales	35	42
Administration	41	45
	162	173

Their aggregate remuneration comprised:	**2021 £'000**	**2020 £'000**
Wages and salaries	7,789	8,479
Social security costs	781	830
Other pension costs – defined contribution plan (see note 22)	519	516
Other pension costs – defined benefit (see note 22)	966	968
	10,055	10,793

'Other pension costs' includes only those items included within operating costs. Items reported elsewhere have been excluded.

8. Directors' remuneration and transactions

Directors' remuneration	**2021 £'000**	**2020 £'000**
Emoluments	492	364
Pension contributions	44	43
	536	407

	Number	**Number**
The number of directors who:		
Are members of a defined benefit pension scheme	1	1

	2021 £'000	**2020 £'000**
Remuneration of the highest paid director:		
Emoluments	236	233

The highest paid director is a member of the Company's defined contribution scheme.

Directors not paid by AAF Limited are remunerated by other group companies and it not possible to allocate these emoluments across the various entities.

9. Tax on profit/(loss)

The tax charge/(credit) comprises:

	2021 £'000	2020 £'000
Current tax credit on loss		
Group relief	(76)	(1,113)
R&D deferred tax credit	-	23
Foreign tax	-	-
	(76)	(1,090)
Adjustments in respect of prior years		
- Group relief	(151)	(70)
Total current tax	(227)	(1,160)
Deferred tax		
Origination and reversal of timing differences	282	(105)
R&D deferred tax credit	-	(23)
In respect of defined benefit pension scheme (note 22)	122	104
In respect of the re-assessment of recoverable tax losses	-	-
In respect of prior periods	-	52
In respect of the change in rate applied to opening balances	-	(22)
Total deferred tax (see note 14)	404	6
Total tax charge on profit/(credit on loss)	177	(1,154)
Total deferred tax relating to items of other comprehensive income	(334)	(104)
Total tax credit for the year	(157)	(1,258)

The standard rate of tax applied to reported profit/loss is 19% (2020: 19%).

Finance Act No. 2 2015, which was substantively enacted on 26 October 2015, included provisions to reduce the corporation tax rate to 19% with effect from 1 April 2017. In addition, the Finance Act 2016, which was substantively enacted on 6th September 2016, introduced a further reduction in the main rate of corporation tax to 17% from 1 April 2021 which was reversed by Finance Act 2020. Accordingly, these rates have been taken into account when calculating deferred tax assets, giving consideration to when the assets will reverse.

The Finance Bill 2021 included a provision to increase the standard rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. The increase was not substantively enacted at the balance sheet date and therefore no impact is reflected in these financial statements.

There is no expiry date on timing differences, unused tax losses or tax credits.

9. Tax on profit/loss (continued)

The difference between the total tax charge/(credit) shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax is as follows:

	2021 £'000	2020 £'000
Profit/(Loss) before tax	1,048	(5,944)
Tax on profit/(loss) at standard UK corporation tax rate of 19% (2020: 19%)	199	(1,129)
Effects of:		
- Expenses not deductible for tax purposes	45	31
- Chargeable gain	-	-
- Foreign tax	-	-
- Effect of differences between corporate and deferred tax rates	-	(16)
- Effect of rate change in opening balances	-	(104)
- In respect of defined benefit pension scheme	-	-
- In respect of R&D credits	-	-
- Adjustments to tax charge in respect of previous periods	(151)	(18)
- Re-assessment of recoverable tax losses	84	82
- Adjustment to brought forward balances	-	-
Total tax charge/(credit)	177	(1,154)

During the year beginning 1 April 2021, the net reversal of deferred tax assets and liabilities is expected to decrease the corporation tax charge for the year by £264,000 (2020 £293,000). This is due to contributions to the pension scheme exceeding the service charge and capital allowances exceeding depreciation for allowable fixed assets.

At the balance sheet date, there were unused tax profit/losses of £3,299,000 (2020 loss of £5,092,000) available for offset against future profits. A deferred tax asset has not been recognised in respect of such losses.

10. Intangible fixed assets

	Licences £'000	Patents £'000	Total £'000
Cost			
On 1 April 2020	221	525	746
As at 31 March 2021	221	525	746
Amortisation			
On 1 April 2020	221	15	236
Charge for the year	-	35	35
As at 31 March 2021	221	50	271
Net book value			
At 31 March 2021	-	475	475
At 31 March 2020	-	510	510

AAF Limited
Notes to the financial statements (continued)
For the year ended 31 March 2021

11. Tangible fixed assets

	Freehold land and buildings £'000	Fixtures and fittings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 April 2020	5,000	4,813	3,273	13,086
Additions	46	73	11	130
Transfers	2	(2)	-	-
Disposals	(38)	(507)	(173)	(718)
At 31 March 2021	5,010	4,377	3,111	12,498
Depreciation				
At 1 April 2020	3,704	4,708	1,889	10,301
Disposals	(33)	(504)	(162)	(699)
Impairment reversal	-	(459)	-	(459)
Charge for the year	180	348	264	792
At 31 March 2021	3,851	4,093	1,991	9,935
Net book value				
At 31 March 2021	1,159	284	1,120	2,563
At 31 March 2020	1,296	105	1,384	2,785

Included in freehold land and buildings is land at a cost of £58,000 (2020: £58,000) which is not depreciated.

12. Fixed asset investments

	2021 £'000	2020 £'000
Subsidiary undertakings	4	4

Investments

The Company has investments in the following subsidiary undertaking.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity		%
AAF McQuay SA de CV	Av Primero De Mayo No 85, Col San Andres Antenco, Tlalnepantla, Estado De Mexico	Environmental air control equipment	Ordinary	100%

Subsidiary undertakings

	£'000
Cost	
At 1 April 2020 and 31 March 2021	4
Provisions for impairment	
At 1 April 2020 and 31 March 2021	-
Carrying value at 31 March 2020 and 31 March 2021	4

The subsidiary undertaking has not been consolidated by AAF Limited as permitted by section 400 of the Companies Act 2006 as it is consolidated in the financial statements of Daikin Industries Limited, which can be obtained from the address in note 24.

13. Stocks

	2021 £'000	2020 £'000
Raw materials and consumables	493	336
Work in progress	1,130	704
Finished goods and goods for resale	469	450
	2,092	1,490

There is no material difference between the carrying amount and replacement cost of stock.

14. Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Trade debtors	8,100	12,040
Gross amount due from customers for contract work	3,573	12,605
Amounts owed by group undertakings	1,446	2,363
VAT	-	49
Other debtors	76	306
Prepayments and accrued income	246	301
Derivative financial instruments (see note 18)	418	12
Group relief	76	1,113
Deferred tax	212	334
	14,147	29,123

	2021 £'000	2020 £'000
Amounts falling due after more than one year		
Deferred tax on pension deficit	52	-

Amounts owed by group undertakings include amounts owed for goods and services sold to other members of the Daikin Industries Limited Group.

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

	Difference between accumulated depreciation and capital allowances £'000	Other timing differences, losses and other deductions £'000	Deferred R&D tax credit £'000	Total Deferred (liability)/asset £'000	Deferred tax asset on pension deficit (see note 22 and note 17) £'000	Total £'000
At 1 April 2020	14	177	143	334	-	334
Credit to the profit and loss account for the year	(69)	(53)	-	(122)	-	(122)
Charge Related to Final salary Scheme	-	-	-	-	(282)	(282)
Credit/(charge) to the profit and loss account in respect of prior periods	-	-	-	-	-	-
Effect of rate change on opening balances in the profit and loss account	-	-	-	-	-	-
Amounts included in OCI	-	-	-	-	334	334
Effect of rate change in OCI	-	-	-	-	-	-
At 31 March 2021	(55)	124	143	212	52	264

15. Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Bank loans and overdrafts (see note 20)	-	20,741
Payments received on account	3,710	290
Trade creditors	4,466	1,402
Amounts owed to group undertakings	2,048	17,805
Corporation tax	-	73
VAT	342	-
Other taxation and social security	205	68
Accruals and deferred income	2,449	11,322
Derivative financial instruments (see note 18)	118	374
	13,338	52,075

Amounts owed to group undertakings falling due within one year includes amounts owed for goods and services purchased from other members of the Daikin Industries Limited Group. At 31 March 2020 they also included a loan from the ultimate parent company, Daikin Industries Limited, of £16,000,000, which was repaid following the share issue.

16. Creditors: amounts falling due after more than one year

	2021 £'000	2020 £'000
Amounts owed to group undertakings	-	3,600

Amounts owed to group undertakings falling due after more than one year at 31 March 2020 comprised a variable interest rate loan of £3,600,000 from AAF McQuay UK Limited. On the 31 March 2020 the interest rates applicable was 1.9% per annum. The loan was repaid on the 30 September 2020 following the equity injection by share issue.

17. Provisions for liabilities

	Product warranties £'000
At 1 April 2020	666
Charged to profit and loss account	2,055
Utilisation of provision	(1,038)
At 31 March 2021	1,683

Product warranties

The provision for product warranties reflects an estimate of future warranty costs, arising on current year and prior period sales. It is expected that the majority of this expenditure will be incurred in the next financial year and if not that it will all be incurred within three years of the balance sheet date.

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18. Derivative financial instruments

Derivatives that are designated measured at fair value through profit or loss

	Due within one year	
	2021	**2020**
	£'000	**£'000**
Assets		
Forward foreign currency contracts	418	12
Liabilities		
Forward foreign currency contracts	(118)	(374)
Net asset	300	(362)

Forward foreign currency contracts are valued using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Forward foreign currency contracts

The following table details the forward foreign currency contracts outstanding as at the year-end:

Outstanding contracts	Average contractual exchange rate		Notional value		Fair value	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
			£'000	**£'000**	**£'000**	**£'000**
Sell Euros	1.15585	1.12253	(10,844)	(2,413)	163	12
Buy Euros	1.08418	-	1,595	-	(118)	-
Sell USD	1.36384	1.27733	(26,552)	(10,893)	255	(374)
			(35,801)	(13,306)	300	(362)

The Company has entered into contracts to supply goods to customers all over the world. The Company has entered into forward foreign currency contracts to hedge the exchange rate risk arising from these anticipated future transactions. The hedged cash flows are expected to occur and to affect profit or loss within the next financial year.

19. Called-up share capital and reserves

	2021	**2020**
	£'000	**£'000**
Allotted, called-up and fully-paid		
5,125,100 ordinary shares of £1each	5,125	125

The Company has one class of ordinary shares which carry no right to fixed income.

On the 28th September 2020 the Company's immediate parent, AAF McQuay UK Limited, subscribed and paid for 5,000,000 shares in the Company with a nominal value of £1 per share, at a consideration of £6 per share giving rise to a share premium of £25,000,000, which was credited to the share premium account.

20. Contingent liabilities

At 31 March 2021 bank bonds, indemnities and guarantees issued by Barclays Bank Plc on behalf of the company, amounting to £8,831,000 (2020: £6,987,000), 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. 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 2021, comprising contingent liabilities plus total overdrawn balances less positive account balances amounted to £17,754,000 (2020: £19,801,000).

21. Financial commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2021		2020	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
- within one year	-	87	-	85
- between one and five years	-	90	-	80
	-	177	-	165

22. Employee benefits

Defined contribution schemes

The Company operates defined contribution retirement benefit schemes for all qualifying employees in the UK. The total expense charged to profit or loss in the year ended 31 March 2021 was £519,000 (2020: £516,000).

Defined benefit schemes

The Company operates a funded defined benefit scheme for qualifying employees. Under the scheme, the members are entitled to retirement benefits of 1/50th of final pensionable salary for the first 25 years of pensionable service and 1/100th for each year beyond that. No other post-retirement benefits are provided.

This scheme is for the employees of AAF McQuay UK Limited, AAF Limited, Air Filters Limited and Daikin Applied (UK) Limited. The defined benefit scheme was closed to new members on 1 August 2005. The scheme was 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.

The most recent actuarial valuations of scheme assets and the present value of the defined benefit obligation were carried out at 1 April 2018 and rolled forward to 31 March 2021 by an independent actuary, who is a Fellow of the Institute and Faculty of Actuaries. The present value of the defined benefit obligation, the related current service cost and past service cost, were measured using the projected unit credit method.

The contributions, assets and liabilities of the scheme are approximately apportioned between the employers by the actuary by reference to the liability attributable to each member and to the company that employs, or was to last to employ, the member. There is no formal agreement between the employers for this allocation.

In the prior year, the decision in, and guidance arising from, the Lloyds Plc GMP case resulted in a one-off charge to the profit and loss account of £1,310,000. The Trustees also reviewed their provision for the effect of the Barbour window which resulted in a charge to the profit and loss account of £1,738,000. Following a further clarification by the Court in the Lloyds Plc case, provision has been made for GMP equalisation in respect of former members who have transferred their benefits out of the scheme. This resulted in a cost of £212,000 to the profit and loss account. These charges are not expected to re-occur.

The company's share of contributions forecast to be paid in the next 12 months is £1,313,000 (2020: £2,910,000).

22. Employee benefits (continued)

	Valuation at	
	2021	**2020**
Key assumptions used:		
Discount rate	2.00%	2.35%
Future pension increases		
LPI5% (RPI)	3.15%	2.50%
LPI2.5% (RPI)	2.25%	2.00%
LPI3% (CPI)	2.10%	1.60%
Inflation (RPI)	3.30%	2.60%
Inflation (CPI)	2.50%	1.80%
Salary Increases	3.30%	2.60%
Mortality assumptions:		
120% of S2PA tables with a long-term rate of improvement of 1% per annum	CMI 2019 projections	CMI 2019 projections

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows:

	2021 £'000	**2020 £'000**
Current service cost	691	914
Administration cost	63	54
Net interest cost	(42)	(39)
Plan introductions, changes, curtailments and settlements	212	-
Total cost recognised in the Profit and Loss account	924	929
(Gain)/loss on scheme assets in excess of interest	(5,776)	4,536
Experience gain on liabilities	(598)	(244)
Loss/(gain) from changes to assumptions	8,774	(3,455)
Movement in unrecognised surplus	(641)	(289)
Loss recognised in Other comprehensive income	1,759	548
Total expense relating to defined benefit scheme	2,683	1,477

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit schemes is as follows:

	2021 £'000	**2020 £'000**
Present value of defined benefit obligations	(60,451)	(53,144)
Fair value of scheme assets	60,178	53,144
Net liability recognised in the balance sheet	(273)	-

22. Employee benefits (continued)

Movements in the present value of defined benefit obligations were as follows:

	2021 £'000	2020 £'000
At 1 April 2020	53,144	57,965
Service cost	691	914
Interest cost	1,207	1,332
Actuarial losses/(gains)	7,535	(3,988)
Benefits paid	(2,338)	(3,079)
Past Service	212	-
At 31 March 2021	60,451	53,144

Movements in the fair value of scheme assets were as follows:

	2021 £'000	2020 £'000
At 1 April 2020	53,144	57,965
Interest income	1,249	1,371
Return on plan assets (excluding amounts included in net interest cost)	5,776	(4,536)
Contributions from the employer	2,410	1,477
Benefits paid	(2,338)	(3,079)
Administration cost	(63)	(54)
At 31 March 2021	60,178	53,144

The analysis of the fair value of scheme assets at the balance sheet date was as follows:

	2021 £'000	2020 £'000
Equity instruments	38,967	18,504
Debt instruments	2,626	1,546
Property	2,690	2,654
Bonds	14,957	29,521
Cash	938	919
	60,178	53,144

The actual return on the company's share of the scheme's assets over the year was a profit of £7,024,000 (2020: loss of £3,182,000). The assets do not include any investment in shares of the Company.

23. Related party transactions

The company has taken advantage of the exemption available in FRS 102 33.1A, not to disclose transactions with other wholly owned members of Daikin Industries Limited. The consolidated financial statements of Daikin Industries Limited, within which this company is included, can be obtained from the address given in note 24.

24. Parent companies and ultimate controlling party

The company's immediate parent undertaking is AAF McQuay UK Limited, incorporated in England, registered address c/o AAF Ltd, Bassington Industrial Estate, Cramlington, Northumberland, NE23 8AF. 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 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.