

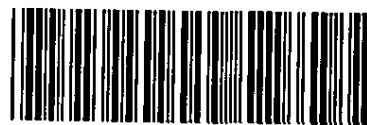
Company Registration No. 3503812

McQUAY (UK) LIMITED

Report and Financial Statements

31 December 2011

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REPORT AND FINANCIAL STATEMENTS 2011

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

C Capozio
K Takagi
J Henley
B Liow
VP Chen
A Profitt
I Creasey

SECRETARY

I Creasey

REGISTERED OFFICE

Bassington Lane
Bassington Industrial Estate
Cramlington
Northumberland
NE23 8AF

BANKERS

Barclays Bank plc
Percy Street
Newcastle upon Tyne
NE1 4QL

AUDITOR

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

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY

The principal activity of the company is the manufacture and marketing of heating, ventilation and air conditioning products

RESULTS AND DIVIDENDS

The result for the financial year amounted to a loss after taxation of £620,000 (2010 profit £468,000)

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

BUSINESS REVIEW

As part of the long term strategy of investment since the acquisition by Daikin Industries Limited of OYL Industries Bhd, investment in equipment, new working practices and systems has been on-going, and is anticipated to continue. Through these investments and the full involvement of employees we aim to increase market share, improve margins, and safeguard our future.

Major markets

AHU (Air Handling Unit) and Chiller product sales still represent the largest proportion of the business, the main applications of these being in large commercial and public sector buildings. The principal customers are main contractors, M&E contractors and end users. After sales service and support is provided by the company for AHU, and managed by the company for Chiller through McQuay Service, (a Division of J&E Hall Limited, a member of the AAF McQuay UK Group).

Subsidiary markets

The manufacture and sale of products is not the sole focus of the business, and as such provision of a range of solutions is what the global market place demands. McQuay (UK) Limited, in conjunction with the Daikin Group of companies, sets out to provide the best solutions. With ongoing investment in facilities and capabilities to look after the requirements of customer with appropriate technical and commercial expertise for large, complex projects involving multi disciplined teams.

Current period performance

2011 was a more challenging year than 2010, although successful in mitigating the anticipated upward pressure from suppliers regarding material prices and downward pressure from customers regarding selling prices. The mitigation was achieved by on-going actions which first gave benefits in 2010 and subsequently in 2011, whereby practical and pragmatic steps were taken to eliminate waste and become more flexible in sourcing of materials and services. Government austerity measures meant that a strategy of obtaining a higher proportion of our work from non-government related projects was implemented but was slow to benefit 2011 and brought new challenges in scheduling manufacturing and logistical resources. However project management improvements meant that contracts realised their planned margins which mitigated the downward pressure on selling prices. In the last quarter of 2011, a lower level of orders received towards the latter part of the year meant that redundancies had to be made, the cost of which amounted to £259,000.

Turnover decreased by £2.2m, and gross profit fell by £1.5m. The gross profit margin of 11.8% is less than the 17.6% achieved in 2010, but is in line with 11.0% achieved in 2008, and 12.9% in 2009. Monitoring projects to reveal potential issues as soon as possible has insured that although lower selling prices had to be accepted, the realised margin was maintained.

Future prospects

While the first quarter of 2012 was poor in terms of sales, the strategy of supplementing Air Handling Unit work, bore fruit in the second quarter, offsetting the reduced market for large scale infrastructure projects largely caused by the continuing Government spending restrictions. At the start of 2011 the Company implemented an ERP (Enterprise Resource Planning) system similar to that used by our European Head Office and this is delivering benefits in 2012. The company has employed more direct sales personnel during 2010 and 2011 and this is providing greater market coverage. On-going research and development into products and processes ensures the Company will continue to be a leader in the UK HVAC applied market.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Cashflow

The overdraft increased by £3m, while total creditors falling due within one year increasing by £1.5m. Debtors increased by £2m. Stock and Work in Progress are broadly in line with 2010.

Principal risks

The UK HVAC market continues to be competitive and challenges us to be proactive in providing leading edge products, anticipating customers' requirements and managing manufacturing and logistical resources.

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.

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 the 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 borrowings need and no matters have been brought to its attention to suggest that future renewal may not be forthcoming on acceptable terms. Further details regarding the adoption of the going concern basis can be found in note 1 of the notes to the financial statements.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Cash Flow Risk

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

Credit Risk

The company's principal financial assets are bank balances and trade and other receivables. The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

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

Liquidity Risk

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

Pension risk

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

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

DIRECTORS' REPORT

DIRECTORS

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

K Takagi
C Capozio
J Henley
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

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.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The company made no political contributions during the year. Donations to UK charities amounted to £1,379 (2010 £800).

AUDITORS

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

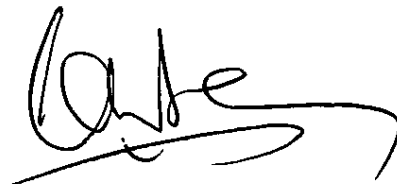
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's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

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

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

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

I Creasey
Director
26 September 2012



DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF McQUAY (UK) LIMITED

We have audited the financial statements of McQuay (UK) Limited for the year ended 31 December 2011 which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 23. The financial reporting framework that has been applied is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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



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

McQUAY (UK) LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2011

	Note	2011 £'000	2010 £'000
TURNOVER	2	18,223	20,395
Cost of sales		(16,078)	(16,797)
GROSS PROFIT		2,145	3,598
Distribution costs		(2,544)	(2,320)
Exceptional items	3	(259)	-
Other administrative expenses		(790)	(1,181)
Total administrative expenses		(1,159)	(1,181)
Other operating income		620	596
OPERATING (LOSS)/PROFIT		(828)	693
Interest payable and similar charges	6	(25)	(5)
Other finance income	19	57	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(796)	688
Tax on (loss)/profit on ordinary activities	7	176	(220)
(LOSS)/PROFIT FOR THE YEAR	15, 16	(620)	468

All of the company's activities relate to continuing operations

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

	2011 £'000	2010 £'000
(Loss)/profit for the financial year	(620)	468
Actuarial loss recognised in the pension scheme	(820)	-
Deferred tax arising on actuarial loss in the pension scheme	137	-
Total recognised gains and losses relating to the financial year	(1,303)	468
Prior period adjustment (as explained in note 23)	(2,516)	-
Total recognised gains and losses since last annual report and financial statements	(3,819)	468

McQUAY (UK) LIMITED

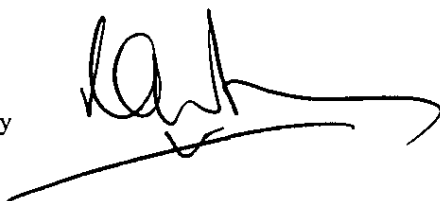
BALANCE SHEET 31 December 2011

	Note	2011 £'000	2011 £'000	Restated (note 23) 2010 £'000	Restated (note 23) 2010 £'000
FIXED ASSETS					
Tangible fixed assets	8		683		573
CURRENT ASSETS					
Stocks	9	1,012		1,188	
Debtors due within one year	10	5,726		6,679	
Debtors due after more than one year	10	1,721		181	
Cash at bank and in hand		-		2	
		<u>8,459</u>		<u>8,050</u>	
CREDITORS amounts falling due within one year	11	<u>(7,052)</u>		<u>(5,565)</u>	
NET CURRENT ASSETS			<u>1,407</u>		<u>2,485</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			2,090		3,058
CREDITORS, amounts falling due after more than one year	12		(5,000)		(4,000)
PROVISIONS FOR LIABILITIES	13		<u>(196)</u>		<u>(271)</u>
NET ASSETS EXCLUDING PENSION LIABILITIES			(3,106)		(1,213)
NET PENSION LIABILITY	19		(1,926)		(2,516)
NET LIABILITIES			<u>(5,032)</u>		<u>(3,729)</u>
CAPITAL AND RESERVES					
Called up share capital	14		2,718		2,718
Profit and loss account	15		<u>(7,750)</u>		<u>(6,447)</u>
SHAREHOLDERS' DEFICIT	16		<u>(5,032)</u>		<u>(3,729)</u>

The financial statements of McQuay (UK) Limited, registered number 3503812 were approved by the Board of Directors and authorised for issue on 26 September 2012

Signed on behalf of the Board of Directors

I Creasey
Director



NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

1. ACCOUNTING POLICIES

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

Basis of preparation

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

Under FRS 1, Cashflow Statements, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company was a wholly owned subsidiary of Daikin Industries Limited at the year end, the company has taken advantage of the exemption contained in FRS 8, Related Party Disclosures, and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Daikin Industries Limited, within which this company is included, can be obtained from the address given in note 22.

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 Business Review on page 2.

As highlighted in notes 11, 12 and 17 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 from AAF McQuay UK Limited. The UK group's overdraft and guarantee facility with Bank of Tokyo Mitsubishi-UFJ Limited was renewed on 1 July 2012 and is due for renewal on 30 June 2013. The UK group overdraft and guarantee facility with Barclays Bank plc was renewed on 14 September 2012 and continues until renewed or cancelled. While the current economic conditions create uncertainty over the level of demand for the company's products and uncertainty over future exchange rates creates some uncertainty in some manufacturing cost, 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 parent undertaking, AAF McQuay UK Limited, has agreed to continue to provide financial and other support to the company for at least 12 months from the date of approval of these financial statements and accordingly the financial statements have been prepared on a going concern basis.

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 the UK group should be able to operate within the level of its current facilities. The UK group continues to hold discussions with its bankers about its future borrowing needs and no matters have been brought to its attention to suggest that future renewal may not be forthcoming on acceptable terms.

After making enquiries the directors have a reasonable expectation that the company and 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 accounts.

Tangible fixed assets and depreciation

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

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

Fixtures, fittings, tools and equipment 3-10 years

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

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

Post retirement benefits

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

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

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

Stocks

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

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

Long term contracts

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

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

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

Taxation

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

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Financial instruments

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

Classification of financial instruments issued by the company

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

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

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

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

Turnover

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

Dividends on shares presented within shareholders' funds

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

2 ANALYSIS OF TURNOVER

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

	2011 £'000	2010 £'000
By geographical market		
UK	15,986	20,018
Europe	626	135
Rest of World	1,611	242
	<u>18,223</u>	<u>20,395</u>

All turnover originated in the UK

3. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2011 £'000	2010 £'000
(Loss)/profit on ordinary activities before taxation is stated after charging		
Fees payable to the company's auditors for the audit of the company's annual accounts	27	27
Depreciation and other amounts written off owned tangible fixed assets	266	207
Hire of motor vehicles – rentals payable under operating leases	104	91
Exceptional redundancy costs	259	-
Foreign exchange losses on translation of balances and realisation of assets and liabilities denominated in foreign currencies	108	71
	<u>108</u>	<u>71</u>

4 REMUNERATION OF DIRECTORS

	2011 £'000	2010 £'000
Directors' emoluments	115	84
Pension contributions	17	13
	<u>132</u>	<u>97</u>

Retirement benefits are accruing for one director (2010 one director) under defined benefit schemes

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

5. STAFF NUMBERS AND COSTS

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

	2011	2010
	No.	No
Production	84	82
Sales	30	27
Administration	11	11
	<u>125</u>	<u>120</u>

The aggregate payroll costs of these persons were as follows

	2011	2010
	£'000	£'000
Wages and salaries	3,862	3,670
Social security costs	394	345
Other pension costs – defined benefit scheme (see note 19)	227	608
Other pension costs – defined contribution scheme (see note 19)	56	42
	<u>4,539</u>	<u>4,665</u>

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2011	2010
	£'000	£'000
Payable to group undertakings	<u>25</u>	<u>5</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

7. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

i) Analysis of charge in year

	2011 £'000	2010 £'000
UK corporation tax		
Group relief	(369)	-
Adjustment in respect of prior years	-	-
Total current taxation	(369)	-
Deferred taxation*		
Origination and reversal of timing differences	(2)	208
Adjustments in respect of prior years	-	1
Pension contributions spread into later years	(236)	-
Other timing differences in respect of pension scheme	424	-
Effect of rate change	7	11
Total deferred taxation	193	220
Total tax (credit)/charge	(176)	220

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

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

	2011 £'000	2010 £'000
Current tax reconciliation		
(Loss)/profit on ordinary activities before taxation	(796)	688
Tax at 26.5% (2010 – 28%) thereon	(210)	193
Effects of		
Expenses not deductible for tax purposes	39	23
Pension costs included in (loss)/profit on ordinary activities before taxation	60	170
Pension contributions to defined benefit plan	(511)	(170)
Pension contributions disallowed in the year and deferred	250	-
Capital allowances for year in excess of depreciation	6	21
Other short term timing differences	(3)	-
Adjustments to tax charge/credit in respect of prior years	-	-
Utilisation of tax losses	-	(237)
Current tax credit for year	(369)	-

iii) Factors that may affect future tax charge

The company has no unrelieved corporation tax losses available to carry forward (2010- £NIL)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

8 TANGIBLE FIXED ASSETS

	Fixtures, fittings, tools and equipment £'000
Cost	
At 1 January 2011	2,311
Additions	376
Disposals	(25)
	<hr/>
At 31 December 2011	2,662
Accumulated depreciation	
At 1 January 2011	1,738
Charge for the year	266
Disposals	(25)
	<hr/>
At 31 December 2011	1,979
Net book value	
At 31 December 2011	<hr/> <hr/> 683
At 31 December 2010	<hr/> <hr/> 573

9 STOCKS

	2011 £'000	2010 £'000
Raw materials	333	560
Work in progress	540	543
Finished goods and goods for resale	139	85
	<hr/>	<hr/>
	1,012	1,188
	<hr/> <hr/>	<hr/> <hr/>

10. DEBTORS

	2011 £'000	2010 £'000
Trade debtors	4,116	3,879
Amounts recoverable on contracts	1,871	1,674
Amounts owed by group undertakings	574	897
Other debtors	127	224
Corporation tax/group relief	369	-
Deferred tax assets (see below)	324	93
Prepayments and accrued income	66	93
	<hr/>	<hr/>
	7,447	6,860
	<hr/> <hr/>	<hr/> <hr/>

Debtors include trade debtors of £1,564,000 (2010 - £181,000) and deferred tax of £157,000 (2010 - NIL) due after more than one year

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

11 DEBTORS (continued)

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

	Difference between accumulated depreciation and capital allowances £'000	Other timing differences, losses and other deductions £'000	Total deferred tax asset (as above) £'000	Deferred tax asset on pension deficit (see note 20) £'000	Total £'000
At 1 January 2011	80	13	93	930	1,023
(Charge)/credit to the profit and loss account for the year	5	(3)	2	-	2
(Charge)/ Credit Related to Final salary Scheme	-	236	236	(424)	(188)
(Charge)/credit to profit and loss account in respect of prior years	-	-	-	-	-
Effect of rate change in profit and loss account	(6)	(1)	(7)	-	(7)
Effect of rate change in STRGL	-	-	-	(68)	(68)
Amounts included in STRGL	-	-	-	205	205
At 31 December 2011	79	245	324	643	967

Finance Act 2011, which was substantively enacted in July 2011, included provisions to reduce the rate of corporation tax to 26% with effect from 1 April 2011 and 25% with effect from 1 April 2012. Accordingly, deferred tax balances have been revalued to the lower rate of 25% in these accounts, which has resulted in a debit to the profit & loss account of £7,000.

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

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

If the deferred tax assets and liabilities of the company were all to reverse after 1 April 2014, the effect of the future changes from 25% to 22% would be to reduce the net deferred tax asset by £39,000. To the extent that the deferred tax reverses more quickly than this the impact on the net deferred tax asset will be reduced.

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

12. CREDITORS. AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £'000	2010 £'000
Bank overdraft (see note 17)	3,061	145
Trade creditors	1,038	2,093
Amounts owed to group undertakings	1,604	1,332
Taxation and social security	519	874
Accruals and deferred income	830	1,121
	<u>7,052</u>	<u>5,565</u>

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2011 £'000	2010 £'000
Amounts owed to group undertakings	<u>5,000</u>	<u>4,000</u>

14. PROVISIONS FOR LIABILITIES

	Warranty £'000
At 1 January 2011	271
Charged to the profit and loss account	402
Utilised in the year	(477)
At 31 December 2011	<u>196</u>

The warranty provision reflects an estimate of future warranty costs, arising on current and prior year sales

It is expected that the majority of this expenditure will be incurred in the next financial year and that all will be incurred within three years of the balance sheet date

15. CALLED UP SHARE CAPITAL

	2011 £'000	2010 £'000
Allotted, called up and fully paid		
2,718,242 ordinary shares of £1 each	<u>2,718</u>	<u>2,718</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

16 RESERVES

	Profit and loss account £'000
At 1 January 2011 as originally stated	(3,931)
Prior year adjustment (note 23)	(2,516)
At 1 January 2011 as re-stated	(6,447)
Loss for the financial year	(620)
Net reduction in respect of FRS17	(683)
At 31 December 2011	(7,750)

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	2011 £'000	2010 £'000
(Loss)/Profit for the financial year	(620)	468
Net reduction in respect of FRS17	(683)	-
Net (decrease)/increase in shareholders' funds	(1,303)	468
Opening shareholders' deficit as previously stated	(3,729)	(1,681)
Prior year adjustment (note 23)	-	(2,516)
Opening shareholders' deficit as re-stated	(3,729)	(4,197)
Closing shareholders deficit	(5,032)	(3,729)

18. CONTINGENT LIABILITIES

At 31 December 2011 bank bonds, indemnities and guarantees issued by Barclays Bank Plc on behalf of the company, amounting to £1,520,000 (2010 - £1,613,000), were outstanding with recourse to the company. These guarantees and all indebtedness to Barclays Bank Plc incurred by the UK resident group companies is secured on the land and buildings at Bassington Lane, Cramlington, England, belonging to AAF Limited and by a fixed and floating charge over all the assets of the UK group companies by a cross guarantee. A list of UK group companies is disclosed in the accounts of the UK parent company, AAF McQuay UK Limited. The total UK group liability to Barclays Bank Plc, at 31 December 2011, comprising contingent liabilities plus total overdrawn balances less positive account balances amounted to £10,103,000 (2010 - £8,070,000).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

19 COMMITMENTS

- (a) There were capital commitments of £NIL at the balance sheet date (2010 £NIL)
 (b) Annual commitments under non-cancellable operating leases are as follows

	2011 £000	2010 £000
Operating leases which expire		
Within one year	15	51
In the second to fifth years inclusive	24	12
	<u>39</u>	<u>63</u>

20 PENSION SCHEME

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £56,000 (2010 - £42,000).

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

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

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

The following employer contribution rates will apply in future years:

**AAF
McQuay
Pension Plan**

Contribution rates at 31 December 2011

9.0%

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

The latest full actuarial valuations were carried out at 1 January 2010 and were updated for FRS17 purposes to 31 December 2011 by a qualified independent actuary. The total contributions for the year by McQuay (UK) Limited were £1,924,000 (2010 - £608,000).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

19. PENSION SCHEME (continued)

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

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

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

Scheme assets and liabilities

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

	Value at 31 December 2011 £'000	Value at 31 December 2010 £'000
Equities and Diversified Growth Fund	2,935	5,461
Bonds and Gilts	5,214	1,775
Property	402	-
Cash and other assets	1,029	71
Total market value of assets	9,580	7,487
Present value of scheme liabilities	(12,149)	(10,933)
Deficit in the scheme – Pension liability	(2,569)	(3,446)
Related deferred tax asset	643	930
Net pension liability	(1,926)	(2,516)

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

19. PENSION SCHEME (continued)

	2011
	£'000
Movement in deficit during the year	
Deficit in schemes at beginning of the year	3,446
Current service cost	284
Contributions paid	(1,924)
Other finance (income)/costs	(57)
Actuarial loss	820
	<hr/>
Deficit in schemes at end of the year	<u>2,569</u>

	2011
	£'000
Movements in fair value of Scheme Assets were as follows -	
At beginning of the year	7,487
Expected return on scheme assets	646
Contributions paid by employers	1,924
Contributions paid by members	76
Benefits paid	(401)
Actuarial (loss)/gain	(152)
	<hr/>
At end of the year	<u>9,580</u>

	2011
	£'000
Movements in the present value of Scheme Liabilities were as follows.-	
At beginning of the year	10,933
Current service cost	284
Interest cost	589
Contributions paid by members	76
Benefits paid	(401)
Actuarial (gain)/loss – experience	67
Actuarial loss – assumptions	601
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At end of the year	<u>12,149</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

19. PENSION SCHEME (continued)

History of Experience Adjustments is as follows -

	2011 £'000	2010 £'000
Present value of Defined Benefit Obligations	12,149	10,933
Fair value of schemes' assets	9,580	7,487
Deficit in the schemes	2,569	3,446
Actual return less expected return on scheme assets	(152)	
Percentage of year end scheme assets	1.6%	
Experience gains and losses arising on scheme liabilities	(67)	
Percentage of present value of year end scheme liabilities	0.6%	
Changes in assumptions underlying the present value of scheme liabilities	(601)	
Percentage of present value of year end scheme liabilities	4.9%	
Total Experience Adjustments	(820)	
Percentage of present value of year end scheme liabilities	6.7%	

20. 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 22.

21. DERIVATIVES NOT INCLUDED AT FAIR VALUE

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

	Currency Amount 2011 '000	Deal Value 2011 £'000	Fair Value 2011 £'000	Currency Amount 2010 '000	Deal Value 2010 £'000	Fair Value 2010 £'000
Forward foreign exchange contracts						
Company buys, Bank sells – EUR	1,100	952	923	1,270	1,086	1,096

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

22 PARENT COMPANIES AND ULTIMATE CONTROLLING PARTY

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

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

23. PRIOR PERIOD ADJUSTMENT

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

In the current year, the two schemes merged into one defined benefit scheme. In conjunction with its actuaries, the company has been able to identify its share of the underlying assets and liabilities of the scheme and as required by FRS 17 'Retirement benefits' has accounted for the scheme as if it were a defined benefit pension scheme. The restatement relates to the fact that the company has also been able to identify its share of the underlying assets and liabilities of the scheme for the prior year only. A pension liability of £2.5m has been recognised in the Statement of Total Recognised Gains and Losses.