

Company Registration No. 3503812

McQUAY (UK) LIMITED

Report and Financial Statements

31 December 2010

THURSDAY



"B8W4BSWI"

B08

31/03/2011

29

COMPANIES HOUSE

REPORT AND FINANCIAL STATEMENTS 2010

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Directors' responsibilities statement	5
Independent auditor's report	6
Profit and loss account	7
Balance sheet	8
Notes to the accounts	9

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

C Capozio
K Takagi
J Henley
B Liow
VP Chen
A Proffit
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

AUDITORS

Deloitte LLP
Chartered Accountants and Registered Auditors
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 2010.

PRINCIPAL ACTIVITY

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

RESULTS AND DIVIDENDS

There were no dividends paid during the year (2009: £nil) and the directors do not recommend the payment of a final dividend

As part of the long term strategy of investment since the acquisition by Daikin Industries Ltd 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.

The result for the financial period amounted to a profit after taxation of £468,000 (2009: £11,000)

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 Ltd, 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 solution and range of solutions is what the global market place demands, McQuay (UK) Ltd, in conjunction with the Daikin Group of companies, sets out to provide the best solutions. This means having practical facilities such as departments and personnel to look after Spares and Servicing and also providing appropriate technical and commercial expertise for large, complex projects involving multi disciplined teams.

Current period performance

2010 was better a performance in all areas than 2009, despite having similar upward pressure from suppliers regarding material prices and downward pressure from customers regarding selling prices. Actions taken during 2009 gave benefits into 2010, with practical and pragmatic steps to eliminate waste and actions such as being flexible in our sourcing of materials and services, to counter-act pressures such as currency shifts. As a result, the bottom line profit improved. Continuing the detailed reviews of projects, prior, during and on completion of contracts has also served to improve profitability by maintaining a focus on controlling cost throughout the management of each project.

Turnover increased by £1.6m, and gross profit rose by close to £1.2m, an improvement in the gross profit margin from 11.0% in 2008, 12.9% in 2009 and 17.6% in 2010. The focus on costs and monitoring projects to reveal potential issues as soon as possible has supported this improvement in gross profit margin.

Future prospects

2011 is expected to be another challenging year, with government austerity measures meaning fewer large scale infrastructure projects, and the constant pressure to provide lower selling prices and absorb higher input costs, that threaten margins, but as outlined above, the company will continue to mitigate these through improvements in key areas to hold margin levels and achieve a profitable 2011. At the start of 2011 we are now using a common ERP (Enterprise Resource Planning) program to that of our European head office and we are confident of realising real benefits as the ERP system has been in place for several years at our Italian factories. The company has employed more direct sales personnel during 2010 and this is providing greater coverage. The current backlog of orders is very mixed, with some of the orders secured but with required delivery dates later in the year and forecasted work is buoyant in some sectors and products while other customers are placing orders at less than the lead time required for providing the product or service, which puts particular strain on the organisation to meet these expectations profitably.

DIRECTORS' REPORT (continued)

Cashflow

The overdraft has decreased by £299,000, with the total for creditors falling due within one year reducing by £353,000. Debtors have decreased by £269,000 from 2009. Stock and Work in Progress were up by £286,000, mainly due to Work In Progress being up by £377,000 compared to 2009.

Principal risks

Contracts undertaken on a sub-contract basis are typically more commercially risky as many customers are very keen to request changes to suit their requirements but less willing to discuss payment for those changes. At present we are still using manual systems to provide data to mitigate the impact of such changes, with work being done to embed the manual checks into our ERP system.

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 to which it belongs ("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 on page 9 in the accounting policies note in 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 (continued)

DIRECTORS

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

K Takagi
C Capozio
J Henley (appointed 22nd March 2010)
VP Chen (appointed 22nd March 2010)
B Liow (appointed 22nd March 2010)
A Proffitt (appointed 22nd March 2010)
I Creasey (appointed 22nd March 2010)

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 £800 (2009 £903).

AUDITORS

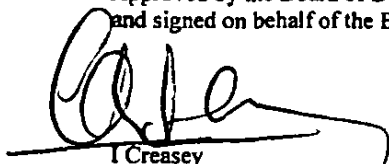
Each of the persons who is a director at the date of approval of this report confirms that:

- 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 on 30 March 2011
and signed on behalf of the Board



I Creasey
Director

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 2010 which comprise the Profit and Loss account, the Balance Sheet and the related notes 1 to 22. 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.

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 2010 and of its profit 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.

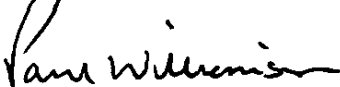
Opinion on other matter prescribed by the Companies Act 2006

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.



Paul Williamson BSc FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle upon Tyne, UK
Date

31 March 2011.

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2010

	Note	2010 £'000	2009 £'000
TURNOVER	2	20,395	18,749
Cost of sales		(16,797)	(16,334)
GROSS PROFIT		3,598	2,415
Distribution costs		(2,320)	(2,229)
Administrative expenses		(1,181)	(709)
Other operating income		596	567
OPERATING PROFIT		693	44
Interest payable and similar charges	6	(5)	(8)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	688	36
Tax on profit on ordinary activities	7	(220)	(25)
PROFIT FOR THE YEAR	15, 16	468	11

All of the company's activities relate to continuing operations

There are no recognised gains and losses other than the profit for the current and preceding financial years and therefore a separate statement of total recognised gains and losses has not been presented

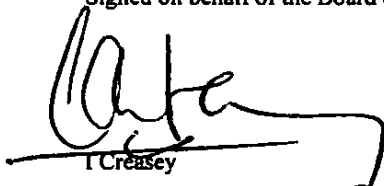
McQUAY (UK) LIMITED

BALANCE SHEET 31 December 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
FIXED ASSETS					
Tangible fixed assets	8		573		420
CURRENT ASSETS					
Stocks	9	1,188		902	
Debtors	10	6,860		7,129	
Cash at bank and in hand		2		1	
		<u>8,050</u>		<u>8,032</u>	
CREDITORS: amounts falling due within one year	11	<u>(5,565)</u>		<u>(5,918)</u>	
NET CURRENT ASSETS					
Due within one year		2,304		1,853	
Debtors due after more than one year	10	<u>181</u>		<u>261</u>	
			<u>2,485</u>		<u>2,114</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			3,058		2,534
CREDITORS: amounts falling due after more than one year	12		(4,000)		(4,000)
PROVISIONS FOR LIABILITIES AND CHARGES	13		<u>(271)</u>		<u>(215)</u>
NET LIABILITIES			<u>(1,213)</u>		<u>(1,681)</u>
CAPITAL AND RESERVES					
Called up share capital	14		2,718		2,718
Profit and loss account	15		<u>(3,931)</u>		<u>(4,399)</u>
SHAREHOLDERS' DEFICIT	16		<u>(1,213)</u>		<u>(1,681)</u>

The financial statements of McQuay (UK) Ltd, registered number 3503812 were approved by the Board of Directors and authorised for issue on 30 March 2011

Signed on behalf of the Board of Directors


I Creasey
Director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

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 to which it belongs ("the UK group") and through inter-company loans from the Holding Company of the UK group, AAF McQuay UK Ltd. The group's overdraft and guarantee facility with Bank of Tokyo Mitsubishi-UFJ Ltd was renewed on 1 July 2010 and is due for renewal on 30 June 2011. The group overdraft and guarantee facility with Barclays Bank plc was renewed on 9 October 2009 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 Ltd 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 2010

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 participates in two multi-employer pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

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 2010

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 2010

2. ANALYSIS OF TURNOVER

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

	2010 £'000	2009 £'000
By geographical market		
UK	20,018	17,661
Europe	135	813
Rest of World	242	275
	<u>20,395</u>	<u>18,749</u>

All turnover originated in the UK

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Fees payable to the company's auditors for the audit of the company's annual accounts	27	39
Depreciation and other amounts written off owned tangible fixed assets.	207	137
Hire of motor vehicles – rentals payable under operating leases	91	86
Hire of land and buildings – rentals payable under operating leases	-	-
Foreign exchange losses/(gains) on translation of balances and realisation of assets and liabilities denominated in foreign currencies	71	(86)
	<u>71</u>	<u>(86)</u>

4. REMUNERATION OF DIRECTORS

No emoluments were received or are receivable by any director of the company in respect of services during preceding year

	2010 £'000	2009 £'000
Directors' emoluments	84	-
Pension contributions	13	-
	<u>97</u>	<u>-</u>

Retirement benefits are accruing for one director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

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:

	2010 No.	2009 No.
Production	82	79
Sales	27	25
Administration	11	11
	<u>120</u>	<u>115</u>

The aggregate payroll costs of these persons were as follows:

	2010 £'000	2009 £'000
Wages and salaries	3,670	3,402
Social security costs	345	315
Other pension costs – defined benefit scheme (see note 19)	608	577
Other pension costs – defined contribution scheme (see note 19)	42	21
	<u>4,665</u>	<u>4,315</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £'000	2009 £'000
Payable to group undertakings	<u>5</u>	<u>8</u>

McQUAY (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

i) Analysis of charge in year

	2010 £'000	2009 £'000
UK corporation tax		
Adjustment in respect of prior years	-	-
Total current taxation	-	-
Deferred taxation:		
Origination and reversal of timing differences	208	28
Adjustments in respect of prior years	1	(3)
Effect of rate change	11	-
Total deferred taxation	220	25
Total tax charge	220	25

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

The current tax charge for the year is lower (2009 – lower) than the standard rate of corporation tax in the UK of 28% (2009 – 28%) The differences are explained below

	2010 £'000	2009 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	688	36
Tax at 28% (2009 – 28%) thereon	193	10
Effects of:		
Expenses not deductible for tax purposes	23	18
Capital allowances for year in excess of depreciation	21	15
Other short term timing differences	-	-
Adjustments to tax charge/credit in respect of prior years	-	-
Utilisation of tax losses	(237)	(43)
Current tax credit for year	-	-

iii) Factors that may affect future tax charge

The company has no unrelieved corporation tax losses available to carry forward (2009 - £884,000).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

8. TANGIBLE FIXED ASSETS

	Fixtures, fittings, tools and equipment £'000
Cost	
At 1 January 2010	1,964
Additions	372
Disposals	(25)
	<hr/>
At 31 December 2010	2,311
	<hr/>
Accumulated depreciation	
At 1 January 2010	1,544
Charge for the year	207
Depreciation on disposals	(13)
	<hr/>
At 31 December 2010	1,738
	<hr/>
Net book value	
At 31 December 2010	573
	<hr/>
At 31 December 2009	420
	<hr/>

9. STOCKS

	2010 £'000	2009 £'000
Raw materials	560	496
Work in progress	543	166
Finished goods and goods for resale	85	240
	<hr/>	<hr/>
	1,188	902
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

10. DEBTORS

	2010 £'000	2009 £'000
Trade debtors	3,879	4,595
Amounts recoverable on contracts	1,674	1,632
Amounts owed by group undertakings	897	297
Other debtors	224	88
Deferred tax assets (see below)	93	313
Prepayments and accrued income	93	204
	<u>6,860</u>	<u>7,129</u>

Debtors include trade debtors of £181,000 (2009 - £261,000) due after more than one year.

The elements of deferred tax are as follows.

	Difference between accumulated depreciation and capital allowances £'000	Tax losses £'000	Other timing differences £'000	Total £'000
At 1 January 2010	57	243	13	313
Credit/(charge) to the profit and loss account for the year	20	(228)	-	(208)
Credit/(charge) to the profit and loss account in respect of prior years	5	(6)	-	(1)
Effect of rate change	(2)	(9)	-	(11)
At 31 December 2010	<u>80</u>	<u>-</u>	<u>13</u>	<u>93</u>

Finance Act 2010, which provides for a reduction in the main rate of corporation tax from 28% to 27% effective from 1 April 2011, was substantively enacted on 21 July 2010, thus the rate reduction has been reflected in these financial statements and reduces the deferred tax asset by £11,000

On 23 March 2011 the Government announced that it intends to further reduce the main rate of corporation tax to 26% with effect from 1 April 2011 and then by 1% per annum to 23% by 1 April 2014. As these rate reductions were not substantively enacted by the balance sheet date they are not reflected in the financial statements in accordance with FRS 19 as it is a non-adjusting event occurring after the reporting period.

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 2010

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'000	2009 £'000
Bank overdraft (see note 17)	145	444
Trade creditors	2,093	1,692
Amounts owed to group undertakings	1,332	2,264
Taxation and social security	874	544
Accruals and deferred income	1,121	974
	<u>5,565</u>	<u>5,918</u>

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

	2010 £'000	2009 £'000
Amounts owed to group undertakings	<u>4,000</u>	<u>4,000</u>

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty £'000
At 1 January 2010	215
Charged to the profit and loss account	437
Utilised in the year	<u>(381)</u>
At 31 December 2010	<u>271</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

14. CALLED UP SHARE CAPITAL

	2010 £'000	2009 £'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 2010

15. RESERVES

	Profit and loss account £'000
At 1 January 2010	(4,399)
Profit for the year	468
At 31 December 2010	<u>(3,931)</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	2010 £'000	2009 £'000
Profit for the financial year	468	11
Opening shareholders' deficit	<u>(1,681)</u>	<u>(1,692)</u>
Closing shareholders' deficit	<u>(1,213)</u>	<u>(1,681)</u>

17. CONTINGENT LIABILITIES

At 31 December 2010 bank bonds, indemnities and guarantees issued by Barclays Bank Plc on behalf of the company, amounting to £1,613,000 (2009 - £1,008,000), 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 Ltd 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, both contingent liabilities and group net overdraft at 31 December 2009 amounted to £8,511,000 (2009 - £9,702,000).

18. COMMITMENTS

- (a) There were capital commitments of £NIL at the balance sheet date (2009 - £18,177)
- (b) Annual commitments under non-cancellable operating leases are as follows

	2010		2009	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire				
Within one year	-	51	-	18
In the second to fifth years inclusive	-	12	-	64
	<u>-</u>	<u>63</u>	<u>-</u>	<u>82</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

19. 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 £42,000 (2009 - £21,000)

The company participates in two pension schemes providing benefits based upon final pensionable pay, contributions being charged to the profit and loss so as to spread the cost of pensions over employees' working lives with group companies. These schemes are for the employees of AAF McQuay UK Ltd, AAF Ltd, Air Filters Ltd and McQuay (UK) Ltd. The defined benefit schemes were closed to new members on 1 August 2005.

The schemes were replaced with a defined contribution scheme on that date. The assets of the defined benefit scheme are held separately from those of the group in independently administered funds. Contributions to the defined benefit schemes are paid in accordance with the advice of a qualified actuary on the basis of triennial valuations using the projected unit method.

As the company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis, due to movement of employees between the participating employers, as permitted by FRS17 'Retirement benefits', the schemes are accounted for in these financial statements as if the schemes were defined contribution schemes. As described in the financial statements of the parent undertaking, there exists a deficit in the schemes 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 1977 Staff Scheme	AAF 1986 Works Scheme
Contribution rates at 31 December 2009	15.6%	23.8%

In addition to the above contribution rates the participating employers in the AAF 1977 staff scheme are paying £555,000 per annum and those of the AAF 1986 works scheme, £154,000 per annum as fixed contributions.

The latest full actuarial valuations were carried out at 1 January 2010 and were updated from FRS17 purposes to 31 December 2010 by a qualified actuary. The contributions by the company for the year were £608,000 (2009 - £577,000).

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

19. PENSION SCHEME (continued)

For the year ended 31 December 2010 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 £700,000.

Scheme assets and liabilities

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

	Value at 31 December 2010 £'000	Value at 31 December 2009 £'000	Value at 31 December 2008 £'000
Equities and Diversified Growth Fund	26,581	23,913	18,748
Bonds and Gilts	8,365	7,483	6,730
Cash and other assets	334	544	327
Total market value of assets	35,280	31,940	25,805
Present value of scheme liabilities	(48,157)	(44,206)	(34,212)
Deficit in the scheme – Pension liability	(12,877)	(12,266)	(8,407)
Related deferred tax asset	3,477	3,434	2,354
Net pension liability	(9,400)	(8,832)	(6,053)

The expected long term rate of return in the AAF Ltd 1977 Staff Pension Scheme at 31 December 2010 was 7.80% (2009 7.52%) and in the AAF Ltd 1986 Works Pension Scheme at 31 December 2010 was 8.25% (2009 7.75%).

Movement in deficit during the year	2010 £'000	2009 £'000
Deficit in schemes at beginning of the year	12,266	8,407
Current service cost	1,127	897
Contributions paid	(1,647)	(1,755)
Other finance costs	40	245
Actuarial loss	1,091	4,472
Deficit in schemes at end of the year	12,877	12,266

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

19. PENSION SCHEME (continued)

Movements in fair value of Scheme Assets were as follows:-		2010 £'000	2009 £'000
At beginning of the year		31,940	25,805
Expected return on scheme assets		2,491	1,957
Contributions paid by employers		1,647	1,755
Contributions paid by members		238	251
Benefits paid		(2,492)	(1,822)
Actuarial gain		1,456	3,994
At end of the year		<u>35,280</u>	<u>31,940</u>
Movements in the present value of Scheme Liabilities were as follows:-		2010 £'000	2009 £'000
At beginning of the year		44,206	34,212
Current service cost		1,127	897
Interest cost		2,531	2,202
Contributions paid by members		238	251
Benefits paid		(2,492)	(1,822)
Actuarial (gain)/loss – experience		(789)	313
Actuarial loss – assumptions		3,336	8,153
At end of the year		<u>48,157</u>	<u>44,206</u>

Five Year History of Experience Adjustments is as follows:-	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Present value of Defined Benefit Obligations	<u>48,157</u>	<u>44,206</u>	<u>34,212</u>	<u>34,744</u>	<u>33,833</u>
Fair value of schemes' assets	<u>35,280</u>	<u>31,940</u>	<u>25,805</u>	<u>31,295</u>	<u>28,356</u>
Deficit in the schemes	<u>(12,877)</u>	<u>(12,266)</u>	<u>(8,407)</u>	<u>(3,449)</u>	<u>(5,477)</u>
Actual return less expected return on scheme assets	1,456	3,994	(7,345)	360	2,085
Percentage of year end scheme assets	4.1%	12.5%	28.5%	1.2%	7.4%
Experience gains and losses arising on scheme liabilities	789	(313)	(349)	(112)	(51)
Percentage of present value of year end scheme liabilities	1.6%	0.7%	1.0%	0.3%	0.2%
Changes in assumptions underlying the present value of scheme liabilities	(3,336)	(8,153)	1,776	1,184	947
Percentage of present value of year end scheme liabilities	6.9%	18.4%	5.2%	3.4%	2.8%
Total Experience Adjustments	<u>(1,091)</u>	<u>(4,472)</u>	<u>(5,918)</u>	<u>1,432</u>	<u>2,981</u>
Percentage of present value of year end scheme liabilities	2.3%	10.1%	17.3%	4.1%	8.8%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

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

	Principal Currency '000	Principal £'000	Fair value adjustment	
			2010 £'000	2009 £'000
Forward foreign exchange contracts				
Company buys, Bank sells – Euros	1,270	1,086	10	-

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.

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 Ltd. 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.