

Registered number: 03503812

Daikin Applied (UK) Limited

Annual report and financial statements

for the year ended 31 March 2021



Daikin Applied (UK) Limited

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

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Daikin Applied (UK) Limited

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

Officers and Professional Advisers

DIRECTORS

C Capozio
H Hirao
B W K Liow
VP Chen
A D Proffitt
I P Creasey
C Parkman

Company secretary

I Creasey

Registered office

Bassington Industrial Estate
Cramlington
Northumberland
NE23 8AF

Bankers

Barclays Bank plc
1 Churchill Place
London
E14 1NP

Auditor

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

Daikin Applied (UK) Limited

Strategic report

Review of the business

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

The loss before tax amounted to £1,447,000 (2020: £464,000 profit) after recognition of additional pension liability of £49,000 (2020: £nil).

The loss after tax amounted to £1,260,000 (2020: profit of £367,000) and the loss on the re-measurement of the net defined benefit liability after tax amounted to £470,000 (2020: £156,000). Accordingly, the net deficit on the balance sheet increased by £1,730,000 (2020: £211,000).

Further commentary on the performance for the year is below.

Business Review and key performance indicators

The principal activity of the company is the manufacture, supply, install and commissioning of products and systems to the Heating, Ventilation and Air Conditioning (HVAC) Market.

As part of the long-term strategy of development since the acquisition by Daikin Industries Limited of the AAF McQuay Group companies, investment in equipment, new working practices and systems has been on-going, and will continue. Through these investments and the full involvement of employees, the company aims to grow in sales and consolidate its position in the UK and Irish HVAC markets, improve its margins, and safeguard its long-term future.

Major markets

Air Handling Unit (AHU) and Chiller product sales represent the majority of the business, the main applications of these being in large commercial and public sector buildings. The principal customers are main contractors, mechanical and engineering (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 Daikin Applied Service, (a division of J&E Hall Limited, a member of the AAF McQuay UK Group).

Subsidiary markets

In addition to the manufacture and sale of products, the global marketplace demands the provision of a range of solutions. Daikin Applied (UK) Limited, in conjunction with the Daikin Group of Companies, sets out to provide the best solutions through on-going investment in facilities and capabilities meet the requirements of customers with appropriate technical and commercial expertise. In addition, the company has developed a number of products and solutions that have applications outside of the HVAC market which include enclosures and panels.

Current year performance

The company continues to target contracts from the commercial sector, in order to compensate for the reduced large scale project opportunities coming from the UK public sector. It continues to explore different opportunities and to broaden the customer base, both in the UK and Ireland, with the intention of taking a larger market share in the future.

While the overall market in both AHU and Chiller is relatively static, the volatility of demand for large scale projects linked to construction work results in growth and contraction phases for the company, but where possible it seeks to smooth out the impact on production resources.

Turnover decreased by 15% compared to the prior year (17% increase in 2020), the main area of decline being decreased AHU sales to Ireland. Gross margin decreased to 18.3%, (2020: 24.0%), through loss of throughput in the AHU factory. The company's continuing investments and improvements to processes within the organisation continue to assist in maintaining turnover and in maintaining margins at the level accepted at the quotation phase.

The operating loss of £1,370,000 (2020: profit £608,000) was significantly impacted by a reduction in gross margin due to reduced volume of AHU sales.

Daikin Applied (UK) Limited

Strategic report (continued)

Business Review and key performance indicators (continued)

Future developments

The ambition of the ultimate parent company continues to be to grow to be the biggest HVAC organisation in the world and the company has confidence that with their support all facets of the business will be improved.

The company continues to put significant investment into sales and marketing. The sales team continue to be strengthened, both customer facing and in the back office, the aim being to increase resources to exploit selling channels such as the Irish market, and sell new products/service, for example the Standardised Modular Air-Handling units. The sales team are therefore enabled to work in new ways, with the objective in the medium term of securing a much larger customer base.

The underlying market for AHUs and Chillers in the UK remains steady however there have been delays in the start dates for some projects which could, in whole or part, be attributed to the uncertainties over Brexit. Sales to Europe represented 12.6% of sales in the year ended 31 March 2021, compared to the prior year of 24.3%, all of the reduction relating to sales to the Republic of Ireland. Covid-19 has had a significant impact in the Irish market particularly, meaning that forecasts are reduced.

The Covid-19 pandemic which began just before the start of the year, has brought some changes to ways of working, particularly for office-based staff who, for the most part, have been working remotely since March 2020. The company invested in collaboration tools such as Teams and accelerated its program to move to more cloud-based platforms to enable employees to work efficiently from wherever they are. In contrast, production staff have continued to work at the Cramlington production facility throughout the pandemic, and new ways of working have been introduced on site to enable social distancing and safe working to continue whilst also ensuring customer requirements are met.

The HVAC market has several large providers and, as a result of competition, margins are typically low. The company's objective remains to be competitive with existing products and in the medium term to diversify and develop innovative solutions to meet and exceed customer requirements and to thus avoid competing solely on price, while having some products and solutions outside of the HVAC market which are using similar technologies and processes.

As part of the continuous improvement programme the company continues to make changes to the way it uses its various systems and to align the overall systems strategy to a common European approach, aligning its way of working with the Daikin Applied businesses across Europe. The challenge is to integrate the various systems and to extract value by cost savings and additional sales.

The company continues to invest a larger proportion of time and resources on Research and Development of products and processes to ensure it continues to be a leader in the UK HVAC applied market and also continues to develop products and processes that can be used in non HVAC applications which are similar in nature.

Cash flow

At 31 March 2021, the bank accounts were in an overdraft of £3,745,000 while at the previous year end there was a positive balance of £897,000. Trade debtors have continued to be well managed, and are comparable with the prior year. The company made significant investments in new plant and machinery in previous years, and this investment has continued in the current year. Trade creditors continue to be well managed and have increased. Inter-company creditors have reduced.

Daikin Applied (UK) Limited

Strategic report (continued)

Principal risks

Covid-19 has had a significant impact in the Irish market particularly, with some significant projects being delayed, meaning that for the following year, forecasts are reduced but it is expected they will be re-scheduled to the year after that. Other business developments related to Covid-19 are discussed above.

The impact of Brexit is being felt in terms of increased complexity to deal with our European customers, but these issues are being worked through and we are confident that Europe and particularly Ireland will continue to be an important market for the Company.

The other significant risks are in relation to change. Although the basic principle surrounding the mechanics of HVAC are unchanged, the information technology which is built into the systems and which also supports all aspects of the supply chain, gives rise to both opportunities and risks. The development and marketing of remote control and monitoring is receiving a mixed reaction from customers. Integration of systems is seen to be the next big challenge, where CRM, ERP, manufacturing and supply chain systems operate in synchronisation with each other and incremental progress is being made. The company regards information technology as key to progress.

Within the Daikin group the company has previously not been considered an internal supplier of standard products, but rather a supplier to external customers of large scale and bespoke projects. The company continues to explore opportunities to diversify the range of products and services offered and has introduced standardised products both within and outside the group.

Financial risk management objectives and policies

Brexit Risk

The company has assessed the potential risks in relation to Brexit, which lie mainly in relation to the import of Chillers and AHU components from Europe, and the export of products to Ireland and the rest of the EU. The main risks for the company are the additional administrative burden of customs declarations, potential delays at ports, and imports/exports having tariffs applied. The agreement of a trade deal with the EU late in 2020 provided some certainty on the new arrangements, and whilst there have been challenges since 31 December 2020, these are being addressed and there is confidence that the company is resilient and flexible enough to cope with the new requirements.

Cash flow Risk

The company's activities expose it 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.

Daikin Applied (UK) Limited

Strategic report (continued)

Financial risk management objectives and policies (continued)

Liquidity risk

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

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

Pension risk

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

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

I Creasey

I P Creasey
Director and Secretary
21 March 2022

Daikin Applied (UK) Limited
Bassington Industrial Estate
Cramlington
Northumberland
NE23 8AF

Daikin Applied (UK) Limited

Directors' report

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

The loss for the year after tax amounted to £1,260,000 (2020: profit of £367,000).

Future developments, research and development and events after the balance sheet date

Details of future developments and research and development can be found in the Strategic Report on pages 2-4 and form part of this report by cross reference.

There are no events that have occurred after the balance sheet date which require disclosure in these financial statements.

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

All members of the AAF McQuay UK Limited group, of which the company is one, continue to enjoy the support of the ultimate parent company, Daikin Industries Limited which has confirmed that it will provide sufficient financial support, should it be required, to enable the Company to meet its liabilities as they fall due for a period of not less than 12 months from the date of the approval of the financial statements. The going concern of the company is therefore dependant on the going concern of the Group which has been assessed and has adequate resources to be able to provide this support.

Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk, pension risk and liquidity risk.

Details of financial risk management objectives and policies can be found in the Strategic report on pages 2 to 4 and form part of this report by cross reference.

Dividends

There were no dividends paid during the year (2020: £nil) and the directors do not recommend the payment of a final dividend.

Directors

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

C Capozio
B W K Liow
VP Chen
A D Proffitt
I P Creasey
H Hirao
C Parkman

Director's indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Daikin Applied (UK) Limited

Directors' report (continued)

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

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

Current reporting year	2021	2020 (restated)	
Total energy use covering electricity, gas and transport	2,042,365	2,108,147	kWh
Total emissions generated through combustion of gas	237.65	217.47	tCO ₂ e
Total emissions generated through combustion of other fuel	-	-	tCO ₂ e
Total emissions generated through use of purchased electricity	153.53	202.32	tCO ₂ e
Total emissions generated through business travel	23.08	33.48	tCO ₂ e
Total gross emissions	414.26	453.27	tCO ₂ e
Intensity ratio - total gross emissions (kgCO ₂ /sqft)	4.37	4.78	kgCO ₂ e per sqft
Intensity ratio - transport emissions (kgCO ₂ /mile)	0.30	0.29	

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

In the previous financial statements, the carbon impact of the whole site was disclosed in the financial statements of AAF Limited on the basis that AAF Limited owns the whole building. This year the impact of Daikin Applied (UK) Limited is disclosed in its own financial statements and with last year's comparatives.

Energy efficiency actions

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

Energy efficiency actions (continued)

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

- Continued on-going process of upgrading to LED lighting
- Moved to remote home working due to Covid. We will review this when the situation permits.
- Encouraged use of video conferencing.
- Travel reduced due to Covid.

Daikin Applied (UK) Limited

Directors' report (continued)

Methodology used in the calculation of disclosures

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

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

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

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

Approval of reduced disclosures

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

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

Approved by the Board and signed on its behalf by:

I Creasey

I P Creasey
Director and Secretary
21 March 2022

Daikin Applied (UK) Limited
Bassington Industrial Estate
Cramlington
Northumberland
NE23 8AF

Daikin Applied (UK) Limited

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

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

Independent auditor's report to the members of Daikin Applied (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Daikin Applied (UK) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31st March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland";
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

- Revenue cut-off
 - Design and implementation testing of relevant controls;
 - Tests of details across the balance, including reviewing dispatches either side of the year end and agreeing to contract terms to ensure revenue is recognised in the correct period.
 - A review of contracts to ensure an understanding of the terms of the agreement and testing income and expenditure of the contracts and reviewing forecast margin against actuals for historical accuracy.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception


Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Mark Lewis ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
21 March 2022

Daikin Applied (UK) Limited

Profit and loss account

For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Turnover	3	24,183	28,504
Cost of sales		(19,763)	(21,651)
Gross profit		4,420	6,853
Distribution costs		(4,112)	(3,996)
Pension GMP adjustment	19	(49)	-
Other operating administrative expenses		(1,359)	(1,963)
Total administrative expenses		(1,408)	(1,963)
Other operating expense		(270)	(286)
Operating (loss)/profit		(1,370)	608
Interest payable and similar charges	4	(93)	(159)
Other finance income	4	16	15
(Loss)/profit before taxation	5	(1,447)	464
Tax on (loss)/profit	9	187	(97)
(Loss)/profit for the financial year attributable to the equity shareholders of the Company		(1,260)	367

Daikin Applied (UK) Limited

Statement of comprehensive income

For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
(Loss)/Profit for the financial year		<u>(1,260)</u>	<u>367</u>
Re-measurement of net defined benefit liability	19	(580)	(193)
Tax relating to components of other comprehensive expense	9	<u>110</u>	<u>37</u>
Other comprehensive expense		<u>(470)</u>	<u>(156)</u>
Total comprehensive (expense)/income attributable to equity shareholders of the Company		<u><u>(1,730)</u></u>	<u><u>211</u></u>

Daikin Applied (UK) Limited

Balance sheet

At 31 March 2021

	Note	2021 £'000	2020 £'000
Fixed assets			
Tangible assets	10	1,329	1,580
Current assets			
Stocks	11	3,939	1,979
Debtors			
– due within one year	12	7,670	7,640
– due after one year	12	373	343
Cash at bank and in hand		161	897
		12,143	10,859
Creditors: amounts falling due within one year	13	(15,926)	(13,406)
Net current liabilities		(3,783)	(2,547)
Total assets less current liabilities		(2,454)	(967)
Creditors: amounts falling due after more than one year	14	(6,150)	(6,150)
Provisions for liabilities	15	(391)	(195)
Pension deficit	19	(47)	-
Net liabilities		(9,042)	(7,312)
Capital and reserves			
Called-up share capital	17	2,718	2,718
Profit and loss account		(11,760)	(10,030)
Shareholders' deficit		(9,042)	(7,312)

The financial statements of Daikin Applied (UK) Limited (registered number 03503812) were approved by the board of directors and authorised for issue on 21 March 2022. They were signed on its behalf by:

I Creasey

I P Creasey
Director

Daikin Applied (UK) Limited

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

	Called-up share capital £'000	Profit and loss account £'000	Total £'000
At 1 April 2019	2,718	(10,241)	(7,523)
Loss for the financial year	-	367	367
Re-measurement of net defined benefit liability (note 19)	-	(193)	(193)
Tax relating to items of other comprehensive expense	-	37	37
Total comprehensive income	-	211	211
At 31 March 2020	2,718	(10,030)	(7,312)
Loss for the financial year	-	(1,260)	(1,260)
Re-measurement of net defined benefit liability (note 19)	-	(580)	(580)
Tax relating to items of other comprehensive income	-	110	110
Total comprehensive expense	-	(1,730)	(1,730)
At 31 March 2021	2,718	(11,760)	(9,042)

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

1. Accounting policies

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

a. General information and basis of accounting

Daikin Applied (UK) Limited is a private limited company, limited by shares, incorporated in the United Kingdom under the Companies Act and registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 4.

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

The functional currency of Daikin Applied (UK) Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Daikin Applied (UK) Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Daikin Applied (UK) Limited is consolidated in the financial statements of its ultimate parent, Daikin Industries Limited, which may be obtained at the address given in note 22. Exemptions have been taken in these separate Company financial statements in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

b. Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position, risks and uncertainties are set out in the Strategic Report on pages 2-5.

As demonstrated in notes 13,14 and 20 to the financial statements, the company meets its day to day working capital requirements through an overdraft facility which is shared with the rest of the UK resident members of the group of companies to which it belongs ("the UK group") and through inter-company loans from the Holding Company of the UK group, AAF McQuay UK Limited. The UK group's borrowing facility provided by Daikin Industries Limited was renewed on 30 June 2021. The UK group overdraft and guarantee facility with Barclays Bank plc was renewed on 30 June 2021 and continues until renewed or cancelled. While the current economic conditions create uncertainty over the level of demand for the company's products, uncertainty over future exchange rates is mitigated by incurring some cost in the same currency as revenue and the company finds that bank finance is more available through being a subsidiary of Daikin Industries Limited than it would be for an independent company of its size.

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

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.

The directors have received an assurance from AAF McQuay UK Limited, the immediate holding company that the repayment of the loans amounting to £6,150,000 will not be demanded in the 12 months following the signing of the financial statements.

Despite being in a net liability position, 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 financial statements.

Daikin Applied (UK) Limited

Notes to the financial statements For the year ended 31 March 2021

1. Accounting policies (continued)

c. *Tangible fixed assets*

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

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

Fixtures, fittings, tools and equipment 3-10 years

d. *Financial instruments*

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable net of direct issue costs.

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

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

(i) *Financial assets and liabilities*

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

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

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

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- (c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- (d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Daikin Applied (UK) Limited

Notes to the financial statements For the year ended 31 March 2021

1. Accounting Policies (continued)

d. Financial Instruments (continued)

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

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

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

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

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

(ii) Derivative financial instruments

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

(iii) Fair value measurement

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

e. Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete, slow-moving or defective items where appropriate. Losses or impairment of stock is charged or credited to Cost of Sales.

f. Impairment of assets

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

Non-financial assets

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

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

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

1. Accounting policies (continued)

f. Impairment of assets (continued)

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

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

g. Taxation

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

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

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

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

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

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

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

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

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

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

1. Accounting policies (continued)

h. Turnover

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Turnover from the sale of goods is recognised when the goods are physically delivered to the customer. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

i. Employee benefits

Daikin Applied (UK) Limited participates in the AAF McQuay UK Pension Plan, a defined benefit pension plan, and an appropriate share of the net defined benefit cost of the plan and of the present value of the benefit obligation of the plan at the reporting date is therefore recognised in financial statements of Daikin Applied (UK) Limited.

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

j. Foreign currency

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

Exchange differences are recognised in profit or loss in the period in which they arise.

k. Leases

The Company as lessee

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

l. Provisions

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

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

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

m. Warranties

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

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

1. Accounting policies (continued)

n. Other operating income and expense

Other operating income and expense includes income from a licence provided to J&E Hall to operate the Daikin Applied Service division under the Daikin Applied name.

o. Finance income and expense

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

Other finance income or cost includes interest on the liabilities of the Defined Benefit Pension scheme and is calculated by an actuary. See note 19.

2. Critical accounting judgements and key sources of estimation uncertainty

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

Revenue recognition

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

Post-Employment Benefits

For the defined benefit scheme, pension valuations have been performed using specialist advice obtained from independent qualified actuaries. In performing these valuations, significant actuarial assumptions have been made to determine the defined benefit obligation, in particular with regard to discount rate, inflation and mortality. Details of assumptions used are set out in Note 19 Employee benefits.

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

3. Turnover

An analysis of the Company's turnover by geographical market, derived from its principal business activity, is set out below.

	2021 £'000	2020 £'000
Turnover:		
UK	21,133	21,195
Europe	3,050	6,939
Rest of World	-	370
	<u>24,183</u>	<u>28,504</u>

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

4. Finance costs (net)

	2021 £'000	2020 £'000
Interest payable and similar charges	93	159
Other finance income	(16)	(15)
	<u>77</u>	<u>144</u>

Interest payable and similar charges

	2021 £'000	2020 £'000
Amounts paid to Group	93	159

Other finance costs

	2020 £'000	2020 £'000
Net interest income on defined benefit liability (see note 19)	16	15

5. (Loss)/Profit before taxation

	2021 £'000	2020 £'000
(Loss)/Profit before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets (note 10)	347	325
Research and development	338	328
Operating lease rentals	232	243
Provision for stock	295	139
Foreign exchange loss/(gain)	445	(160)

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

6. Auditor's remuneration

Fees payable to Deloitte LLP for the audit of the company's annual financial statements were £40,299 (2020: £39,316). There were no other fees paid to Deloitte LLP in the current or preceding year.

7. Staff numbers and costs

The average monthly number of employees (including executive directors) was:

	2021 Number	2020 Number
Production	85	81
Sales	35	30
Administration	14	13
	<u>134</u>	<u>124</u>

Their aggregate remuneration comprised:

	2021 £'000	2020 £'000
Wages and salaries	5,413	5,220
Social security costs	504	480
Other pension costs – defined contribution plan (see note 19)	204	162
Other pension costs – defined benefit (see note 19)	297	321
	<u>6,418</u>	<u>6,183</u>

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

8. Directors' remuneration and transactions

	2021 £'000	2020 £'000
Directors' remuneration		
Emoluments	197	178
Pension contributions	8	7
	<u>205</u>	<u>185</u>

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

Directors not paid by Daikin Applied (UK) Limited are remunerated by other group companies and it not possible to allocate these emoluments across the various entities.

Daikin Applied (UK) Limited

Notes to the financial statements For the year ended 31 March 2021

9. Tax on loss/profit

The tax (credit)/charge comprises:

	2021 £'000	2020 £'000
Current tax (credit)/charge on (loss)/profit		
UK corporation tax	(223)	139
R&D deferred tax credit	(59)	99
Adjustments in respect of prior years		
UK corporation tax	(209)	229
Total current tax (credit)/charge	(491)	467
Deferred tax		
Origination and reversal of timing differences	(143)	(67)
R&D deferred tax credit	59	(99)
Movements in respect of defined benefit pension scheme	101	37
Effect of rate change on opening balances	-	(36)
In respect of prior years	287	(205)
Total deferred tax (see note 12)	304	(370)
Total tax (credit)/charge on (loss)/profit	(187)	97
Total deferred tax relating to items of other comprehensive expense	(110)	(37)
Total tax (credit)/charge for the year	(297)	60

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

Finance Act No. 2 2015, which was substantively enacted on 26 October 2015, included provisions to reduce the corporation tax rate to 19% with effect from 1 April 2018. In addition, the Finance Act 2016, which was substantively enacted on 6th September 2016, introduced a further reduction in the main rate of corporation tax to 17% from 1 April 2021. This reduction was reversed by Finance Act 2020. Accordingly these rates have been taken into account when calculating deferred tax assets, giving consideration to when the assets will reverse.

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

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

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

9. Tax on loss/profit (continued)

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

	2021 £'000	2020 £'000
(Loss)/profit before tax	(1,447)	464
Tax on (loss)/profit at standard UK corporation tax rate of 19% (2020: 19%)	(274)	88
Effects of:		
- Expenses not deductible for tax purposes	9	12
- R&D Expenditure credits	-	-
- Effect of differences between corporate and deferred tax rates	-	9
- Effect of rate change on opening deferred tax balances	-	(36)
- Adjustments to tax charge in respect of previous periods	78	24
Total tax (credit)/charge for year	(187)	97

During the year beginning 1 April 2021, the net reversal of deferred tax assets and liabilities is not expected to have a material impact on the corporation charge.

10. Tangible fixed assets

	Fixtures, fittings, tools and equipment £'000
Cost	
At 1 April 2020	5,451
Additions	96
Disposals	-
At 31 March 2021	5,547
Depreciation	
At 1 April 2020	3,871
Charge for the year	347
Disposals	-
At 31 March 2021	4,218
Net book value	
At 31 March 2021	1,329
At 31 March 2020	1,580

Daikin Applied (UK) Limited

Notes to the financial statements For the year ended 31 March 2021

11. Stocks

	2021 £'000	2020 £'000
Raw materials and consumables	2,113	908
Work in progress	189	109
Finished goods and goods for resale	1,637	962
	<u>3,939</u>	<u>1,979</u>

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

12. Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Trade debtors	5,739	6,365
Amounts owed by group undertakings	701	336
Corporation tax – Group relief	342	-
Other debtors	-	192
Deferred tax	308	511
Prepayments	580	236
	<u>7,670</u>	<u>7,640</u>
Amounts falling due after more than one year:		
Trade debtors – project retentions	364	343
Deferred tax	9	-
	<u>373</u>	<u>343</u>

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

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

12. 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	Deferred R&D tax credit £'000	Total deferred tax asset (as above) £'000	Deferred tax asset on pension deficit (see note 19) £'000	Total £'000
At 1 April 2020	84	248	179	511	-	511
Credit/(charge) to the profit and loss account for the year	(16)	159	(59)	84	-	84
(Charge) related to Final salary Scheme	-	-	-	-	(101)	(101)
(Charge) to the profit and loss account in respect of the change of rate	-	-	-	-	-	-
Credit to profit and loss account in respect of prior periods	-	(299)	12	(287)	-	(287)
Amounts included in OCI	-	-	-	-	110	110
At 31 March 2021	68	108	132	308	9	317

13. Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Bank overdrafts	3,745	-
Trade creditors	3,594	1,043
Amounts owed to group undertakings	6,115	9,526
Corporation tax / Group Relief	60	228
Other taxation and social security	1,010	753
Derivative financial assets (see note 16)	149	-
Accruals	1,253	1,832
Defined contribution pension scheme accrual	-	24
	15,926	13,406

Amounts owed to group undertakings includes amounts owed for goods and services purchased from other members of the Daikin Industries Limited Group.

The bank overdraft is unsecured and payable on demand. Current account balances are offset across the subsidiaries of AAF McQuay UK Limited and net interest is charged to AAF McQuay UK Limited. AAF McQuay UK Limited charges or credit interest to each subsidiary's accounts, based on their daily balances.

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

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

	2021 £'000	2020 £'000
Amounts owed to group undertakings	6,150	6,150

Amounts owed to group undertakings comprise variable interest rate loans of £5,000,000 (2020: £5,000,000) and £1,150,000 (2020: £1,150,000) from AAF McQuay UK Limited. On the 31 March 2021 the interest rates applicable were 0.64% and 1.9% per annum respectively (2020: 0.64% and 1.9% respectively). The loans have no fixed repayment date. The directors of AAF McQuay UK Limited have confirmed that they will not seek any repayment of the balance in the 12 months following the signing of the financial statements.

15. Provisions for liabilities

	Product warranties £'000
At 1 April 2020	195
Charged to profit and loss account	352
Utilisation of provision	(156)
At 31 March 2021	391

Product warranties

The provision for product warranties relates to expected warranty claims on products sold in the last three years. It is expected that the majority of this expenditure will be incurred in the next financial year and that all will be incurred within one year of the balance sheet date.

16. Derivative financial instruments

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

	Due within one year	
	2021 £'000	2020 £'000
Liabilities		
Forward foreign currency contracts	149	-
	149	-

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

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

16. Derivative financial instruments (continued)

Forward foreign currency contracts

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

Outstanding contracts	Average contractual exchange rate		Notional value		Fair value	
	2021	2020	2021	2020	2021	2020
			£'000	£'000	£'000	£'000
Buy Euros	1.12839	-	6,546	-	(149)	-
			6,546	-	(149)	-

The Company has entered into contracts to supply goods to customers and buy from suppliers in non-sterling currencies. The Company has entered into forward foreign currency contracts to hedge the exchange rate risk arising from these anticipated future transactions.

17. Called-up share capital and reserves

	2021 £'000	2020 £'000
Allotted, called-up and fully-paid 2,718,242 ordinary shares of £1 each	2,718	2,718

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

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

18. Financial commitments

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

	2021		2020	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
- within one year	70	156	70	132
- between two and five years	211	229	211	248
- over five years	191	-	262	-
	472	385	543	380

Daikin Applied (UK) Limited

Notes to the financial statements For the year ended 31 March 2021

19. Employee benefits

Defined contribution schemes

The Company operates defined contribution retirement benefit schemes for all qualifying employees in the UK. The total expense charged to profit or loss in the period ended 31 March 2020 was £204,000 (2020: £162,000).

Defined benefit schemes

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

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

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

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

During the year, the decision in, and guidance arising from, the Lloyds Plc GMP case resulted in a one off charge to the profit and loss account of £49,000. These charges are not expected to re-occur.

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

The company's share of contributions forecast to be paid in the next 12 months is £420,000

	Valuation at	
	2021	2020
Key assumptions used:		
Discount rate	2.00%	2.35%
Future pension increases		
LPI5% (RPI)	3.15%	2.50%
LPI2.5% (RPI)	2.25%	2.00%
LPI3% (CPI)	2.10%	1.60%
Inflation (RPI)	3.30%	2.60%
Inflation (CPI)	2.50%	1.80%
Salary Increases	3.30%	2.60%
Mortality assumptions:		
120% of S1PXA tables	CMI 2019	CMI 2019
with a long-term rate of improvement of 1% per annum	projections	projections

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

19. Employee benefits (continued)

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

	2021 £'000	2020 £'000
Current service cost	234	309
Administration cost	14	12
Past Service Cost	49	-
Net interest cost	(16)	(15)
	<u>281</u>	<u>306</u>
Loss/(gain) on scheme assets in excess of interest	(2,098)	1,620
Experience gains on liabilities	(214)	(87)
Gains from changes to assumptions	3,182	(1,235)
Surplus not recognised	(290)	(105)
	<u>580</u>	<u>193</u>
Loss recognised in Other Comprehensive Income/(expense)	580	193
Total expense relating to defined benefit scheme	<u>861</u>	<u>499</u>

From the year ended 31 March 2015, the company has allowed for the reduction in the allowance for discretionary pre-1997 Staff Plan benefits in the valuation of deferred pensions. Overall this led to a lower value being placed on liabilities resulting in a total gain of approximately £8,191,000 of which £1,638,000 was accounted for the financial statements of Daikin Applied (UK) Limited.

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

	2021 £'000	2020 £'000
Fair value of scheme assets	21,849	19,040
Present value of defined benefit obligations	(21,896)	(19,040)
Net (liability)/asset recognised in the balance sheet	<u>(47)</u>	<u>-</u>

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

	2021 £'000	2020 £'000
At 1 April 2020	19,040	20,396
Service cost	234	309
Interest cost	434	472
Past service	49	-
Actuarial gain	2,678	(1,427)
Benefits paid	(539)	(710)
At 31 March 2021	<u>21,896</u>	<u>19,040</u>

Daikin Applied (UK) Limited

Notes to the financial statements For the year ended 31 March 2021

19. Employee benefits (continued)

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

	2021 £'000	2020 £'000
At 1 April 2020	19,040	20,396
Interest income	450	487
Return on plan assets (excluding amounts included in net interest cost)	2,098	(1,620)
Contributions from the employer	814	499
Benefits paid	(539)	(710)
Administration cost	(14)	(12)
At 31 March 2021	<u>21,849</u>	<u>19,040</u>

The analysis of the Fair Value of scheme assets at the balance sheet date was as follows:

	2021 £'000	2020 £'000
Equity instruments	14,147	6,629
Debt instruments	954	554
Property	977	951
Bonds	5,431	10,577
Cash	340	329
	<u>21,849</u>	<u>19,040</u>

The actual return on the company's share of the scheme's assets over the year was a profit of £2,550,000 (2020: loss of £1,040,000). The assets do not include any investment in shares of the Company.

20. Contingent liabilities

At 31 March 2021 bank bonds, indemnities and guarantees issued by Barclays Bank Plc on behalf of the company, amounting to £94,000 (2020: £592,000), were outstanding with recourse to the company. All the UK resident group companies are jointly and severally liable for all guarantees and all indebtedness to Barclays Bank Plc incurred by the UK Group via a cross guarantee. A list of UK group companies is disclosed in the financial statements of the UK parent company, AAF McQuay UK Limited. The total UK group liability to Barclays Bank Plc, at 31 March 2021, comprising contingent liabilities plus total overdrawn balances less positive account balances amounted to £17,754,000 (2020: £19,801,000).

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

21. Related party transactions

The company has taken advantage of the exemption available in FRS102 33.1A, not to disclose transactions with other wholly owned members of Daikin Industries Limited. The consolidated financial statements of Daikin Industries Limited, within which this company is included, can be obtained from the address given in note 22.

Daikin Applied (UK) Limited

Notes to the financial statements

For the year ended 31 March 2021

22. Parent companies and ultimate controlling party

The company's immediate parent undertaking is AAF McQuay UK Limited, incorporated in England, registered address c/o AAF Limited, Bassington Industrial Estate, Cramlington, Northumberland, NE23 8AF. The ultimate parent undertaking and controlling party is Daikin Industries Limited, incorporated in Japan.

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