

AAF McQuay UK Limited
Annual report and financial statements
for the year ended 31 March 2017

Registration number: 02296471



AAF McQuay UK Limited

Annual Report and financial statements for the year ended 31 March 2017

Contents

Officers and professional advisers	1
Strategic report	2
Directors' report	3
Directors' responsibilities statement	5
Independent auditor's report	6
Profit and loss account	8
Balance sheet	9
Statement of changes in equity	10
Notes to the financial statements	11

AAF McQuay UK Limited

Officers and Professional Advisors

Directors

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

Company Secretary

I Creasey

Registered office

Bassington Lane
Cramlington
Northumberland
England
NE23 8AF

Bankers

Barclays Bank plc
Percy Street
Newcastle upon Tyne
NE1 4QL

Auditor

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

AAF McQuay UK Limited

Strategic report

The directors present their annual report and audited financial statements for the year ended 31 March 2017.

Review of the business

During the year, the directors have reviewed the company's investments in its subsidiary undertakings. The review comprised a comparison of the carrying value and recoverable amount of the investments. As a result, the company has impaired its investment in Air Filters Limited by £1,112,000, and in AAF Limited by £5,008,000 as the carrying amounts exceed the recoverable amount.

The loss for the year before tax amounted to £5,963,000 (2016: loss £310,000) of which £6,120,000 (2015: £319,000) related to the above impairment and reversal.

On the 31st 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.

Principal risks and uncertainties

The principal risks and uncertainties affecting the company's operation are financial risk including exchange rate fluctuation risk, credit risk and liquidity risk. Details of the company's approach to financial risk, credit risk and liquidity risk are given below.

Financial risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses foreign currency exchange forward contracts in order to fix the value of sales and purchases in foreign currencies incurred by its subsidiaries and to balance the group overdrafts across currencies thereby reducing the financial risk of exchange rate fluctuation and offsetting balances in one currency with overdrafts in another.

Credit risk

The company's principal financial assets are bank balances, intercompany loans, investments and other receivables. The company's credit risk is primarily attributable to its intercompany loans. The amounts presented in the balance sheet are net of allowances for impairment. These are made when there is an identified loss event which, based upon previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

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

Liquidity risk

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

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



Ian Creasey
Director & Secretary
22 December 2017
AAF Limited
Bassington Lane
Cramlington
Northumberland
NE23 8AF

AAF McQuay UK Limited

Directors' report

The directors present their annual report on the affairs of the Company, together with the audited financial statements and auditor's report, for the year ended 31 March 2017.

The loss for the year after tax amounted to £6,043,000 (2016: loss of £312,000).

PRINCIPAL ACTIVITY

The company acts as a holding company. The principal activities of its subsidiary undertakings are the manufacturing and marketing of products and systems for the control of environmental air and noise and the supply, installation and servicing of heating, ventilation, air conditioning (HVAC), refrigeration and freezer products and systems. No significant changes in activities are expected.

Future developments and events after the balance sheet date

The directors expect the general level of activity to remain consistent with the year ending in the forthcoming year.

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

Going concern

The directors have a reasonable expectation that the Company have 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 Ltd group, of which the company is one, continue to enjoy the support of the ultimate parent company, Daikin Industries Ltd. Further details regarding the adoption of the going concern basis can be found in note 1 to the financial statements.

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

Financial risk management objectives and policies

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

Dividends

The directors do not recommend the payment of a dividend in respect of the current financial year (2016: nil).

Directors

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

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

Director's indemnities

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

AAF McQuay UK Limited

Directors' report (continued)

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- 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:



Ian Creasey
Director & Secretary
22 December 2017
AAF McQuay UK Limited
Bassington Lane
Cramlington
Northumberland
NE23 8AF

AAF McQuay 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 year. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions 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.

Independent auditor's report to the members of AAF McQuay UK Limited

We have audited the financial statements of AAF McQuay UK Limited for the year ended 31 March 2017 which comprise of the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other 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 and the Directors' Report.

Matters on which we are required to report by exception

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

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

Matthew Hughes

Matthew Hughes BSc (Hons) ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Newcastle upon Tyne, UK
22 December 2017

AAF McQuay UK Limited

Profit and Loss Account

For the year ended 31 March 2017

	Note	2017 £'000	2016 £'000
Reversal of previous impairment to the carrying value of subsidiaries		-	419
Impairment of carrying value of subsidiaries		(6,120)	(738)
Administrative expenses		(98)	(72)
Operating loss		<u>(6,218)</u>	<u>(391)</u>
Finance income (net)	3	<u>255</u>	<u>81</u>
Loss on ordinary activities before taxation	3	<u>(5,963)</u>	<u>(310)</u>
Tax on loss on ordinary activities	6	<u>(80)</u>	<u>(2)</u>
Profit/(Loss) for the financial year attributable to the equity shareholders of the Company		<u><u>(6,043)</u></u>	<u><u>(312)</u></u>

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

There is no comprehensive income other than the loss for the current financial year and the loss for the preceding financial year and therefore a separate Statement of comprehensive income has not been prepared.


AAF McQuay UK Limited

Balance sheet

As at 31 March 2016

	Note	2017 £'000	2016 £'000
Fixed assets			
Investments	7	2,778	8,898
Current assets			
Debtors			
– due within one year	8	1,658	1,796
– due after one year	8	20,000	21,500
Cash at bank and in hand		15,706	11,437
Creditors: amounts falling due within one year	9	37,364 (30,882)	34,733 (28,328)
Net current assets		6,482	6,405
Total assets less current liabilities		9,260	15,303
Creditors: amounts falling due after more than one year	10	(1,389)	(1,389)
Provisions for liabilities	11	-	-
Net assets		7,871	13,914
Capital and reserves			
Called-up share capital	14	10,320	10,320
Profit and loss account		(2,449)	3,594
Shareholders' funds		7,871	13,914

The financial statements of AAF McQuay UK Limited (registered number 02296471) were approved by the board of directors and authorised for issue on 22 December 2017. They were signed on its behalf by:



Ian Creasey
Director

AAF McQuay UK Limited

Statement of changes in equity For the year ended 31 March 2017

	Called-up share capital £'000	Profit and loss account £'000	Total £'000
At 1 April 2015	10,320	3,906	14,226
Loss for the financial year	-	(312)	(312)
Total comprehensive expense	-	(312)	(312)
At 31 March 2016	10,320	3,594	13,914
Loss for the financial year	-	(6,043)	(6,043)
Total comprehensive expense	-	(6,043)	(6,043)
At 31 March 2017	10,320	(2,449)	7,871

AAF McQuay UK Limited

Notes to the financial statements

For the year ended 31 March 2017

1. Accounting policies

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

a. General information and basis of accounting

AAF McQuay 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.

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

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

AAF McQuay 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. 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.

AAF McQuay UK Limited is consolidated in the financial statements of its ultimate parent, Daikin Industries Ltd, which may be obtained at the address in note 17.

The company is exempt from preparing group financial statements under section 401 of the Companies Act 2006, as it is itself a subsidiary undertaking of Daikin Industries Limited. Therefore information is presented in the financial statements about the company as an individual undertaking and not about its group.

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 page 2.

As highlighted in notes 10, 11 and 16 to the financial statements, the company meets its day to day working capital requirements through an overdraft facility which is shared with the rest of the UK resident members of the group of companies headed by AAF McQuay UK Limited ("the UK Group") and through inter-company loans. The UK group's borrowing facility provided by Daikin Europe NV was renewed on 31 March 2017. The UK group overdraft and guarantee facility with Barclays Bank plc was renewed on 31 March 2017 and continues until renewed or cancelled. The company finds that bank finance is more available through being a subsidiary of Daikin Industries Limited than it would be for an independent company of its size.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance of both itself and the other members of the UK group, show that the company and group should be able to operate within the level of its current facilities. The UK group continues to hold discussions with its bankers about its future borrowing needs and no matters have been brought to its attention to suggest that future renewal may not be forthcoming on acceptable terms. Daikin Industries Ltd have stated their intention to provide borrowing facilities to the UK group for 1 year beyond the issue date of these financial statements.

After making enquiries the directors have a reasonable expectation that the company and the UK group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

AAF McQuay UK Limited

Notes to the financial statements (continued)

For the year ended 31 March 2017

1. Accounting policies (continued)

c. Financial instruments

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

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

(i) Financial assets and liabilities

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

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

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

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

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

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

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

(ii) Investments

Investments in subsidiaries and associates are measured at cost less impairment.

(iii) Equity 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.

(iv) Derivative financial instruments

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

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

AAF McQuay UK Limited

Notes to the financial statements (continued)

For the year ended 31 March 2017

1. Accounting policies (continued)

c. Financial instruments (continued)

(v) 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.

d. 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.

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.

e. 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.

AAF McQuay UK Limited

Notes to the financial statements (continued)

For the year ended 31 March 2017

1. Accounting policies (continued)

e. Taxation (continued)

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.

f. Foreign currency

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

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

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

AAF McQuay UK Limited

Notes to the financial statements (continued)

For the year ended 31 March 2017

2. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Company's accounting policies

The directors believe there are no critical judgements, apart from those involving estimations (which are dealt with separately below), that have been 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.

Key source of estimation uncertainty – impairment of investments

Determining whether intangible assets are impaired requires an estimation of their value in use to the Company. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the investments and a suitable discount rate in order to calculate present value.

AAF McQuay UK Limited

Notes to the financial statements (continued)

For the year ended 31 March 2017

3. Finance income/(costs) (net)

	2017 £'000	2016 £'000
Interest payable and similar charges	(373)	(528)
Less: Investment income	628	609
	<u>255</u>	<u>81</u>
	<u>2017</u> £'000	<u>2016</u> £'000
<i>Investment income</i>		
Other interest receivable and similar income	<u>628</u>	<u>609</u>
	<u>2017</u> £'000	<u>2016</u> £'000
<i>Interest payable and similar charges</i>		
Bank loans and overdrafts	56	39
Other loans from group undertakings	<u>260</u>	<u>459</u>
Net exchange loss on foreign currency borrowings less deposits	<u>57</u>	<u>30</u>
	<u>373</u>	<u>528</u>

4. Auditor's remuneration

Fees payable to Deloitte LLP and their associates for the audit of the company's financial statements were £26,000 (2016: £10,000).

5. Directors' remuneration and transactions

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

AAF McQuay UK Limited

Notes to the financial statements (continued)

For the year ended 31 March 2017

6. Tax on profit/(loss) on ordinary activities

The tax charge comprises:

	2017 £'000	2016 £'000
Current tax charge on loss on ordinary activities		
UK corporation tax	78	7
Adjustments in respect of prior years		
UK corporation tax	2	-
	<u>80</u>	<u>7</u>
Total current tax charge	80	7
Deferred tax (note 12)		
Origination and reversal of timing differences	-	(5)
	<u>-</u>	<u>(5)</u>
Total taxation on loss on ordinary activities	<u>80</u>	<u>2</u>

The standard rate of tax applied to reported profit on ordinary activities is 20% (2016: 20%).

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

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

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

	2017 £'000	2016 £'000
Loss on ordinary activities before tax	<u>(5,963)</u>	<u>(310)</u>
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 20 per cent (2016: 20 per cent)	(1,192)	(62)
Effects of:		
- Expenses not deductible for tax purposes	1,270	64
- Adjustments to tax charge in respect of previous periods	2	-
	<u>80</u>	<u>2</u>
Total tax charge for the year	<u>80</u>	<u>2</u>

AAF McQuay UK Limited

Notes to the financial statements (continued)

For the year ended 31 March 2017

7. Fixed asset investments

	2017	2016
<i>Subsidiary undertakings</i>	£'000	£'000
Subsidiary undertakings	<u>2,778</u>	<u>8,898</u>

The Company has investments in the following subsidiary undertakings, associates and other significant investments.

	County of incorporation	Principal activity	Class and percentage of shares held
AAF Limited	England	Environmental air control equipment	Ordinary 100%
Air Filters Limited	England	Air filter equipment	Ordinary 100%
Daikin Applied (UK) Limited (formally McQuay (UK) Limited)	England	Air conditioning equipment	Ordinary 100%
AAF McQuay SA de CV	Mexico	Dormant	Ordinary 100% *
J & E Hall Limited	England	Installation and service of refrigeration systems	Ordinary 100%
Coulstock & Place Engineering Co Ltd	England	Electric motor rewinding and cable preparation	Ordinary 100% **
Balmsound Limited	England	Dormant	Ordinary 100% **

* Shares are owned by AAF Limited

** Shares are owned by J & E Hall Limited

All others are owned directly by AAF McQuay UK Ltd.

The registered office addresses of the subsidiaries are as follows:

AAF McQuay SA de CV		Av Primero De Mayo No 85, Col San Andres Antenco, Tlalnepantla, Estado De Mexico
AAF Limited,	}	
Daikin Applied (UK) Limited,	}	Bassington Lane, Cramlington,
Air Filters Limited,	}	Northumberland, UK. NE23 8AF
Balmsound Limited	}	
J&E Hall Limited	}	Questor House, 191 Hawley Road
Coulstock and Place Limited	}	Dartford, Kent, UK. DA1 1PU

Cost	£'000
At 1 April 2016 and 31 March 2017	<u>16,083</u>
Provisions for impairment	
At 1 April 2016	7,185
Impairment	<u>6,120</u>
At 31 March 2017	<u>13,305</u>
Carrying value	<u>2,778</u>

Due to a change in economic conditions of its subsidiary undertakings, Air Filters Limited and AAF Limited, the company has impaired the carrying value of the investment as the value exceeds the forecast future value.

Subsidiary undertakings have not been consolidated by AAF McQuay UK Limited as permitted by s.400 of the Companies Act 2006 as they are consolidated in the financial statements of Daikin Industries Ltd, whose address is shown in note 17.

AAF McQuay UK Limited

Notes to the financial statements (continued)

For the year ended 31 March 2017

8. Debtors

	2017 £'000	2016 £'000
Amounts falling due within one year:		
Amounts owed by associates	583	357
Amounts owed for Group relief	852	1,161
Prepayments and accrued income	223	181
Derivative financial assets (see note 12)	-	97
	<u>1,658</u>	<u>1,796</u>
Amounts falling due after more than one year:	-	
Amounts owed by group undertakings	<u>20,000</u>	<u>21,500</u>

Amounts owed by group undertakings due after more than one year comprise variable interest rate loans to Air Filters Limited, AAF Ltd, Daikin Applied (UK) Limited and J&E Hall Limited. The loans have no fixed repayment date and are payable on demand. However the directors of AAF McQuay UK Limited have agreed that they will not seek any repayment of the balances before 31 January 2019.

9. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Amounts owed to group undertakings	30,844	28,309
Derivative financial liabilities (see note 13)	11	-
Accruals and deferred income	27	19
	<u>30,882</u>	<u>28,328</u>

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

	2017 £'000	2016 £'000
Amounts owed to group undertakings	<u>1,389</u>	<u>1,389</u>

Amounts owed to group undertakings comprise a variable interest rate loan of £1,389,000 (2016: £1,389,000) from Air Filters Limited. On the 31 March 2017 the interest rates applicable was 1.9% per annum (2016: 1.9%). The loan has no fixed repayment date and is payable on demand. However the directors of Air Filters Limited have confirmed that they will not seek any repayment of the balance before 31 January 2019.

AAF McQuay UK Limited

Notes to the financial statements (continued)

For the year ended 31 March 2017

11. Provisions for liabilities

	Deferred taxation 2017 £'000	Deferred taxation 2016 £'000
At the beginning of the year	-	5
Credited to profit and loss account	-	(5)
	<u>-</u>	<u>-</u>
At the end of the year	<u>-</u>	<u>-</u>

Deferred tax

Deferred tax is provided as follows:

	2017 £'000	2016 £'000
Other timing differences	<u>-</u>	<u>-</u>

Deferred tax assets and liabilities are offset only where the Company has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Company.

12. Financial instruments

The carrying values of the Company's financial assets and liabilities are summarised by category below:

	2017 £'000	2016 £'000
Financial (liabilities)/assets at fair value due in less than one year		
Measured at fair value through profit or loss		
• Derivative financial (liabilities)/assets (see note 13)	<u>(11)</u>	<u>97</u>
	<u>(11)</u>	<u>97</u>

AAF McQuay UK Limited

Notes to the financial statements (continued)

For the year ended 31 March 2017

13. Derivative financial instruments

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	
	2017	2016	2017 £'000	2016 £'000	2017 £'000	2016 £'000
<i>Buy US Dollars</i>	1.24000	1.50745	1	1,992	-	97
<i>Sell US Dollars</i>	1.24266	-	(1,739)	-	-	-
<i>Buy Euros</i>	1.15018	1.37806	2,918	-	(11)	-
<i>Sell Euros</i>	1.15329	-	(126)	-	-	-
			<u>1,054</u>	<u>1,992</u>	<u>(11)</u>	<u>97</u>

14. Called-up share capital and reserves

	2017 £'000	2016 £'000
Allotted, called-up and fully-paid 10,320,085 ordinary shares of £1 each	<u>10,320</u>	<u>10,320</u>

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.

15. Contingent liabilities

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 2016, comprising contingent liabilities plus total overdrawn balances less positive account balances amounted to £17,226,000 (2016: £13,237,000).

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.

16. Related party transactions

The company has taken advantage of the exemption available in FRS 102 33.1A, not to disclose transactions with other wholly owned members of Daikin Industries Limited. The consolidated financial statements of Daikin Industries Limited, within which this company is included, can be obtained from the address given in note 17.

17. Parent Companies and Ultimate Controlling Party

The company's immediate parent undertaking and controlling party is AAF McQuay Group Inc. incorporated in the USA. The ultimate 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 the registered office of Daikin Industries Limited, Umeda Centre Bldg, 2-4-12 Nakazaki Nishi, Kita-Ku, Osaka 530-8323, Japan.

The registered office of the company is shown on page 1.