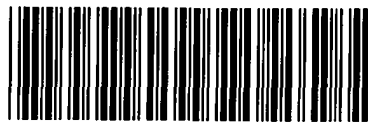


Registered number: 03492774

Air Filters Limited

**Annual report and financial statements
for the year ended 31 March 2018**

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Air Filters Limited

Annual Report and financial statements for the year ended 31 March 2018

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Air Filters Limited

Officers and Professional Advisers

DIRECTORS

C Wantland
VP Chen
B Liow
A Proffitt
I Creasey

Company secretary

I Creasey

Registered office

Bassington Lane
Cramlington
Northumberland
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

Air Filters 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 2018.

This directors' report has been prepared in accordance with the special provisions applicable to small companies under section 415(A) of the Companies Act 2006. The company is also exempt from preparing a strategic report.

The loss for the year after tax amounted to £613,000 (2017: loss of £79,000).

The directors do not recommend the payment of a dividend in respect of the current financial year (2017: None).

PRINCIPAL ACTIVITY

The principal activity of the company is the manufacture and marketing of air filter products.

Future developments and events after the balance sheet date

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

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

Going concern

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

Further details regarding the adoption of the going concern basis 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.

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.

Directors

The directors, who served throughout the year and subsequently to the date of this report except as noted, were as follows:

C Wantland
VP Chen
B Liow
A Proffitt
I Creasey

Directors' indemnities

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

Air Filters 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
20 December 2018
Bassington Lane
Cramlington
Northumberland
NE23 8AF

Air Filters 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; 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.

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 Air Filters Limited

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity, and
- the related notes 1 to 21.

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

Independent auditor's report to the members of Air Filters Limited (continued)

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.

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 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. or
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and [from the requirement to prepare a strategic report

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.



Matthew Hughes BSc (Hons) ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Newcastle upon Tyne, UK
20 December 2018

Air Filters Limited

Profit and loss account

For the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Turnover	3	4,602	4,497
Cost of sales		<u>(3,335)</u>	<u>(3,069)</u>
Gross profit		1,267	1,428
Distribution costs		(1,504)	(1,158)
Administrative expenses		<u>(516)</u>	<u>(382)</u>
Operating loss		(753)	(112)
Finance income (net)	4	<u>-</u>	<u>15</u>
Loss on ordinary activities before taxation	5	(753)	(97)
Tax on loss on ordinary activities	9	<u>140</u>	<u>18</u>
Loss for the financial year attributable to the equity shareholders of the Company		<u><u>(613)</u></u>	<u><u>(79)</u></u>

Air Filters Limited

Statement of comprehensive income For the year ended 31 March 2018

	Note	2018 £'000	2017 £'000
Loss for the financial year		<u>(613)</u>	<u>(79)</u>
Re-measurement of net defined benefit liability	18	<u>(22)</u>	<u>(175)</u>
Tax relating to components of other comprehensive expense	9	<u>3</u>	<u>29</u>
Other comprehensive expense		<u>(19)</u>	<u>(146)</u>
Total comprehensive expense attributable to equity shareholders of the company		<u><u>(632)</u></u>	<u><u>(225)</u></u>

Air Filters Limited

Balance sheet

As at 31 March 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible assets	10	56	51
		<u>56</u>	<u>51</u>
Current assets			
Stocks	11	591	163
Debtors			
– due within one year	12	1,155	853
– due after one year	12	1,427	1,423
		<u>3,173</u>	<u>2,439</u>
Creditors: amounts falling due within one year	13	<u>(2,482)</u>	<u>(1,143)</u>
Net current assets		<u>691</u>	<u>1,296</u>
Total assets less current liabilities		747	1,347
Creditors: amounts falling due after more than one year	14	(250)	(250)
Pension liability	18	(225)	(200)
Provisions for liabilities	15	(19)	(12)
		<u>253</u>	<u>885</u>
Net assets		<u>253</u>	<u>885</u>
Capital and reserves			
Called-up share capital	16	1,850	1,850
Profit and loss account		(1,597)	(965)
		<u>253</u>	<u>885</u>
Shareholders' funds		<u>253</u>	<u>885</u>

The financial statements of Air Filters Limited (registered number 03492774) were approved by the board of directors and authorised for issue on 20 December 2018. They were signed on its behalf by:



Ian Creasey
Director

Air Filters Limited

Statement of changes in equity For the year ended 31 March 2018

	Note	Called-up share capital £'000	Profit and loss account £'000	Total £'000
At 1 April 2016		1,850	(740)	1,110
Loss for the financial year		-	(79)	(79)
Re-measurement of net defined benefit liability	18	-	(175)	(175)
Tax relating to items of other comprehensive expense	9	-	29	29
Total comprehensive expense		-	(225)	(225)
At 31 March 2017		1,850	(965)	885
Loss for the financial year		-	(613)	(613)
Re-measurement of net defined benefit liability	18	-	(22)	(22)
Tax relating to items of other comprehensive expense	9	-	3	3
Total comprehensive expense		-	(632)	(632)
At 31 March 2018		1,850	(1,597)	253

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

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

Air Filters 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 directors' report on pages 2 to 3.

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

Air Filters 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. Air Filters Limited is consolidated in the financial statements of its ultimate parent, Daikin Industries Ltd, which may be obtained at the address given in note 21. 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 are set out in the Directors' Report on page 2.

As highlighted 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 Europe NV was renewed on 31 March 2018. The UK group overdraft and guarantee facility with Barclays Bank plc was renewed on 31 March 2018 and continues until renewed or cancelled. While the current economic conditions create uncertainty over the level of demand for the company's products, uncertainty over future exchange rates is mitigated by incurring some cost in the same currency as revenue and the company finds that bank finance is more available through being a subsidiary of Daikin Industries Limited than it would be for an independent company of its size.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance of both itself and the other members of the UK group, show that the company and group should be able to operate within the level of its current facilities. The UK group continues to hold discussions with its bankers about its future borrowing needs and no matters have been brought to its attention to suggest that future renewal may not be forthcoming on acceptable terms.

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

The loan from AAF McQuay UK Limited to the company is repayable on demand. However the directors of AAF McQuay UK Limited have advised that they have no intention of demanding repayment before 31 January 2018 and the directors of Air Filters Limited have accepted this and have no intention of their own of repaying the loan before then.

The loan to AAF McQuay UK Limited from the company is repayable on demand. However the directors of Air Filters Limited have advised that they have no intention of demanding repayment before 1 April 2018 and the directors of AAF McQuay UK Limited have accepted this and have advised that they have no intention of their own of repaying the loan before then.

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

1. Accounting policies (continued)

c. *Tangible fixed assets*

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

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

Leasehold improvements	10 years
Plant and machinery, Fixtures, Fittings, Tools and Equipment, Motor Vehicles.	3- 10 years

No depreciation is provided on freehold land.

d. *Financial instruments*

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

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

(i) *Financial assets and liabilities*

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

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

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

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

Air Filters Limited

Notes to the financial statements For the year ended 31 March 2018

1. Accounting policies (continued)

- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

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

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

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

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

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

(ii) *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.

(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.

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

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.

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.

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

1. Accounting policies (continued)

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.

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 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

Air Filters 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 Air Filters Limited. Air Filters 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 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.

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

1. Accounting policies (continued)

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.

2. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying the Company's accounting policies

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

Revenue recognition

Customer contracts will often include specific terms that impact the timing of revenue recognition. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. Judgement is used in interpreting these terms and conditions in assessing when the risks and rewards have been transferred to the customer especially where they include complex acceptance criteria.

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 and judgments 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 18 Employee benefits.

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

3. Turnover and revenue

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

	2018 £'000	2017 £'000
Turnover:		
UK	4,467	4,221
Europe	21	102
Rest of the World	114	174
	<u>4,602</u>	<u>4,497</u>

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

4. Finance income (net)

	2018 £'000	2017 £'000
Interest payable and similar charges	(22)	(11)
Investment income	26	26
Other finance income/(costs)	(4)	-
	<u>-</u>	<u>15</u>

Investment income

	2018 £'000	2017 £'000
Receivable from Group	<u>26</u>	<u>26</u>

Interest payable and similar charges

	2018 £'000	2017 £'000
Payable to Group	<u>22</u>	<u>11</u>

Other finance costs

	2018 £'000	2017 £'000
Net interest on defined benefit liability (see note 18)	<u>(4)</u>	<u>-</u>

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

5. Loss before taxation

Loss before taxation is stated after charging:

	2018 £'000	2017 £'000
Depreciation of tangible fixed assets (note 10)	10	10
Operating lease rentals	47	41
Foreign exchange loss	25	46
Cost of stock recognised as an expense	2,124	2,213
	<u>2,124</u>	<u>2,213</u>

6. Auditor's remuneration

Fees payable to Deloitte LLP and their associates for the audit of the company's annual financial statements were £11,487 (2017: £10,302). There were no other fees payable to Deloitte LLP in respect to this company in either the current or preceding fiscal year.

7. Staff numbers and costs

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

	2018 Number	2017 Number
Production	11	9
Distribution	3	2
Sales	18	14
Administration	2	3
	<u>34</u>	<u>28</u>

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	1,084	881
Social security costs	122	88
Other pension costs – defined contribution plan (see note 18)	96	131
Other pension costs – defined benefit (see note 18)	17	13
	<u>1,319</u>	<u>1,113</u>

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

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

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

8. Directors' remuneration and transactions

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

9. Tax on loss

The tax credit comprises:

	2018 £'000	2017 £'000
Current tax on loss		
UK corporation tax / Group Relief	(138)	(17)
Adjustments in respect of prior years		
UK corporation tax	2	(4)
Total current tax	<u>(136)</u>	<u>(21)</u>
Deferred tax		
Origination and reversal of timing differences	(3)	(2)
Timing adjustment in respect of pension scheme	(1)	1
Effect of decrease in tax rate on opening asset	-	1
In respect of prior years	-	3
Total deferred tax (see note 12)	<u>(4)</u>	<u>3</u>
Total tax credit on loss	<u><u>(140)</u></u>	<u><u>(18)</u></u>
Total deferred tax relating to items of other comprehensive income	<u>(3)</u>	<u>(29)</u>
	<u><u>(143)</u></u>	<u><u>(47)</u></u>

The standard rate of tax applied to reported profit on ordinary activities is 19% (2017: 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.

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

9. Tax on loss (continued)

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

	2018 £'000	2017 £'000
Loss on ordinary activities before tax	<u>(753)</u>	<u>(97)</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 19 per cent (2017: 20 per cent)	(143)	(19)
Effects of:		
- Expenses not deductible for tax purposes	1	1
- Change in deferred tax rate	-	1
- Adjustments to tax charge in respect of previous periods	<u>2</u>	<u>(1)</u>
Total tax charge for the year	<u>(140)</u>	<u>(18)</u>

During the year beginning 1 April 2018, the net reversal of deferred tax assets and liabilities is not expected to have a material impact on the corporation tax charge.

10. Tangible fixed assets

	Leasehold improvements £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 April 2017	15	179	194
Additions	-	15	15
Disposals	-	(7)	(7)
At 31 March 2018	<u>15</u>	<u>187</u>	<u>202</u>
Depreciation			
At 1 April 2017	15	128	143
Charge for the year	-	10	10
Disposals	-	(7)	(7)
At 31 March 2018	<u>15</u>	<u>131</u>	<u>146</u>
Net book value			
At 31 March 2018	<u>-</u>	<u>56</u>	<u>56</u>
At 31 March 2017	<u>-</u>	<u>51</u>	<u>51</u>

Air Filters Limited

Notes to the financial statements For the year ended 31 March 2018

11. Stock

	2018	2017
	£'000	£'000
Raw materials and consumables	114	102
Goods in transit	343	-
Finished goods and goods for resale	134	61
	<u>591</u>	<u>163</u>

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

12. Debtors

	2018	2017
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	840	748
Amounts owed by Group undertakings	140	58
Group relief	139	17
Deferred tax	11	8
Prepayments and accrued income	25	22
	<u>1,155</u>	<u>853</u>
Amounts falling due after more than one year:		
Deferred tax	38	34
Amounts owed by Group undertakings	1,389	1,389
	<u>1,427</u>	<u>1,423</u>

Although the loan is repayable on demand the directors of Air Filters Ltd have indicated that they have no intention of demanding repaying within the next 12 month and AAF McQuay UK Ltd currently has no intention of making a repayment in that period.

Air Filters Limited

Notes to the financial statements For the year ended 31 March 2018

12. Debtors (continued)

Deferred tax

	Difference between accumulated depreciation and capital allowances £'000	Other timing differences, losses and other deductions £'000	Total deferred tax asset (excl. pension) £'000	Deferred tax asset on pension deficit (see note 19) £'000	Total £'000
At 1 April 2017	-	8	8	34	42
Credit to the profit and loss account for the year	-	3	3	-	3
Charge related to Final salary Scheme	-	-	-	1	1
Amounts included in Other Comprehensive Income	-	-	-	3	3
At 31 March 2018	-	11	11	38	49

13. Creditors: amounts falling due within one year

	2018 £'000	2017 £'000
Bank loans and overdrafts (see note 19)	985	414
Trade creditors	297	78
Amounts owed to Group undertakings	904	413
Other taxation and social security	170	144
Accruals and deferred income	109	82
Defined contribution pension scheme accrual	15	12
Gross amounts due to customers for contract work	2	-
	<u>2,482</u>	<u>1,143</u>

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

	2018 £'000	2017 £'000
Amounts owed to Group undertakings	<u>250</u>	<u>250</u>

Amount owed to Group Undertakings comprise an interest bearing loan from AAF McQuay UK Ltd. Although this is repayable on demand the directors of AAF McQuay UK Ltd have indicated that they have no intention of demanding repaying within the next 12 month and the company currently has no intention of making a repayment in that period.

Air Filters Limited

Notes to the financial statements For the year ended 31 March 2018

15. Provisions for liabilities

	Product warranties £'000
At 1 April 2017	12
Charged to profit and loss account	7
	<hr/>
At 31 March 2018	19
	<hr/> <hr/>

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 a year of the balance sheet date.

16. Called-up share capital and reserves

	2018 £'000	2017 £'000
Allotted, called-up and fully-paid 1,850,000 ordinary shares of £1 each	1,850	1,850
	<hr/>	<hr/>

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

The profit and loss reserve represents cumulative profits and losses.

17. Financial commitments

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

	2018		2017	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
- within one year	-	46	-	42
- between one and five years	-	48	-	76
	<hr/>	<hr/>	<hr/>	<hr/>
	-	94	-	118
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

18. Employee benefits

Defined contribution schemes

The Company operates defined contribution retirement benefit schemes for all qualifying employees in the UK. The total expense charged to profit or loss in the year ended 31 March 2018 was £96,000 (2017: £131,000).

Defined benefit schemes

The Company operates a defined benefit scheme for qualifying employees. Under the scheme, the employees 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. The scheme is a funded scheme.

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 2015 and rolled forward to 31 March 2018 by an independent actuary, who is a Fellow of the Institute and Faculty of Actuaries and a Partner in Barnett Waddingham. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

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

The company's share of contributions forecast to be paid in the next 12 months is £92,000.

	Valuation at	
	2018	2017
Key assumptions used:		
Discount rate	2.6%	2.65%
Future pension increases		
LPI5% (RPI)	3.10%	3.20%
LPI2.5% (RPI)	2.25%	2.25%
LPI3% (CPI)	1.95%	2.00%
Inflation	3.25%	3.35%
Salary Increases	4.25%	4.35%
<i>Mortality assumptions:</i>		
120% of S1PXA tables	CMI 2017	CMI 2015
with a long-term rate of improvement of 1% per annum	projections	projections

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

18. Employee benefits (continued)

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

	2018 £'000	2017 £'000
Current service cost	15	11
Administration cost	2	2
Net interest cost	4	-
	<u>21</u>	<u>13</u>
Recognised in other comprehensive income	22	175
Total cost relating to defined benefit scheme	<u>43</u>	<u>188</u>

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

	2018 £'000	2017 £'000
Present value of defined benefit obligations	3,956	4,037
Fair value of scheme assets	(3,731)	(3,837)
Net liability recognised in the balance sheet	<u>225</u>	<u>200</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 £410,000 was accounted for the financial statements of Air Filters Limited.

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

	2018 £'000	2017 £'000
At 1 April 2017	4,037	3,193
Service cost	15	11
Interest cost	105	113
Actuarial gains and losses	(74)	818
Benefits paid	(127)	(98)
At 31 March 2018	<u>3,956</u>	<u>4,037</u>

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

18. Employee benefits (continued)

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

	2018 £'000	2017 £'000
At 1 April 2017	3,837	3,164
Interest income	101	113
Return on plan assets (excluding amounts included in net interest cost)	(96)	643
Contributions from the employer	18	17
Benefits paid	(127)	(98)
Administration cost	(2)	(2)
	<hr/>	<hr/>
At 31 March 2018	3,731	3,837

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

	Fair value of assets	
	2018 £'000	2017 £'000
Equity instruments	1,530	1,573
Debt instruments	149	153
Property	149	154
Bonds	1,903	1,957
	<hr/>	<hr/>
	3,731	3,837

The actual return on the company's share of the scheme's assets over the year was £8,000 (2017: £731,000). The assets do not include any investment in shares of the Company.

19. 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 2018, comprising contingent liabilities plus total overdrawn balances less positive account balances amounted to £12,665,000 (2017: £17,226,000).

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.

20. 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 21.

Air Filters Limited

Notes to the financial statements

For the year ended 31 March 2018

21. Parent Companies and Ultimate Controlling Party

The company's immediate parent undertaking and controlling party is AAF McQuay UK Limited, incorporated in England, registered address c/o AAF Ltd, Bassington Lane, Cramlington, Northumberland. 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.