

Fluidpower Group Services UK Limited
(formerly PMC Fluidpower Limited)

Annual Report and Financial Statements
Registered number 00926679
31 December 2018



Fluidpower Group Services UK Limited
(formerly PMC Fluidpower Limited)

Company Information

Directors	Jon Burke Anthony Browne Bryce Brooks Russel Cash (appointed 1 November 2018) Seán Fennon (resigned 1 October 2018) Paul McGrady (resigned 31 May 2019)
Registered number	00926679
Registered office	Flowtech Fluidpower Plc Bollin House Riverside Business Park Wilmslow SK9 1DP
Independent auditor	Grant Thornton UK LLP Chartered Accountants and Statutory Auditors 4 Hardman Square Spinningfields Manchester M3 3EB

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Strategic Report

Introduction

The Directors present their Strategic Report of Fluidpower Group Services UK Limited (formerly PMC Fluidpower Limited, the "Company") for the year ended 31 December 2018. The Company's principal activity is the design and build of power packs, hydraulic systems and purifiers to an international market. There have not been any significant changes in the Company's principal activities in the year under review.

Business review

The Company's sales have increased by 123% (2017: 47%) from £13.0m to £29.1m, this includes growth from Group HES business transferred into the company during this year. Gross margin has increased to 25.5% (2017: 24%). The Directors believe this represents a very satisfactory performance, and the outlook for 2019 and beyond remains satisfactory.


Principal risks and uncertainties

The Company operates in a highly competitive market place with an emphasis on maintaining exacting quality standards and achieving timely delivery schedules. The Company has managed this risk by standardising designs to achieve consistent quality standards and reduce lead times for customers. Risk is also managed by using quality components, continual employee training, strong project management skills and using the extensive experience of the management team. The Company has diversified its customers so it not reliant on any one industrial sector or geographical market.

Key performance indicators

The Company's management uses a number of key measures to monitor and manage the performance of the business. The performance of individual customers and individual products is reviewed daily in terms of turnover and profitability, with particular focus on service and the comparison of actual performance with prior year and target performance. At the Company level the key performance indicators are sales, gross margin, EBITDA, cash generation, future order book levels together with working capital measures against stock and debtors. Of key focus is the gross profit; the average gross profit per day achieved was £29,329 compared to prior year £12,534.

This Report was approved by the Board and signed on its behalf.



Russell Cash
Director

2019

Directors' Report

The Directors present the audited Financial Statements of Fluidpower Group Services UK Limited (the "Company") for the year ended 31 December 2018.

On 1 May 2019, the company changed its name from PMC Fluidpower Limited to Fluidpower Group Services UK Limited.

Directors

The Directors who held office during the period were as follows:

Anthony Browne
Jón Burke
Paul McGrady (Resigned 31 May 2019)
Sean Fennon (Resigned 1 October 2018)
Bryce Brooks
Russel Cash (Appointed 1 November 2018)

Dividends

Dividends paid during the year were £300,000 (2017: £175,000), the Directors do not recommend a final dividend.

Financial instruments

The Company finances its activities with a combination of bank loans, inter group loans, finance leases and hire purchase contracts, cash and short term deposits, as disclosed in note 18. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities.

Environment

The Company recognises the importance of its environmental responsibilities. Initiatives designed to minimise the Company's impact on the environment include the recycling of waste where practical.

Employees

Details of the number of employees and related costs can be found in note 5 to the Financial Statements. The Company is committed to providing staff and management with training designed to develop attitudes and skills and give opportunities for advancement. The Company promotes good communication with regular management meetings and staff briefings. It is the policy of the Company that no employee, or potential employee, is not discriminated against on the grounds of disability, age, race, religion, sex, sexual orientation or political belief and to offer the same employment opportunities, training, career development and promotion prospects to all.

Going concern

The Company has considerable financial resources together with long established relationships with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully. The Directors have carefully considered the group banking facilities in light of the current and future cash flow forecasts and they believe that the Company is able to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. The Directors have also received assurance that the group's ultimate parent company, Flowtech Fluidpower plc, will continue to support the company as required for the foreseeable future.

Directors' Report (Continued)

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.

Disclosure of information to the Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Auditor

Pursuant to section 487 of the Companies Act 2006, the Auditor will be deemed to be reappointed and Grant Thornton UK LLP will therefore continue in office.

By order of the Board



Russell Cash
Director

30 September 2019

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, Directors' 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 they have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws including FRS 101 "Reduced disclosure framework").

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

Independent auditor's report to the members of Fluidpower Group Services UK Limited

Opinion

We have audited the financial statements of Fluidpower Group Services UK Limited (the 'company') for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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.

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 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the 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.

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 this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matter on which we are required to report under the Companies Act 2006

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 material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Grant Thornton UK LLP

Michael Frankish

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
30 September 2019

Income Statement

for the year ended 31 December 2018

	Note	2018 £	2017 £
Turnover	3	29,097,465	13,037,743
Cost of sales		(21,677,314)	(9,916,795)
Gross profit		7,420,151	3,120,948
Distribution costs		(508,696)	(236,871)
Administrative expenses		(7,217,223)	(2,204,890)
Operating (Loss)/ Profit	4	(305,768)	679,187
Interest payable and similar cost	6	(4,487)	(37,660)
(Loss)/ Profit on ordinary activities before taxation		(310,255)	641,527
Tax expense	7	(37,614)	(120,275)
(Loss) / Profit for the financial year		(347,869)	521,252

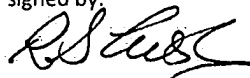
There were no recognised gains or losses other than the profit in either the current or previous financial year. Accordingly, a Statement of Comprehensive Income has not been prepared.

All turnover and operating profits are derived from continuing operations.

Statement of Financial Position
at 31 December 2018

	Note	2018 £	2017 £
Fixed assets			
Goodwill	10	4,931,802	3,056
Tangible assets	11	1,957,166	1,277,607
Investments	9	7,242,431	12,171,177
Deferred tax assets	7	-	2,723
Total fixed assets		14,131,399	13,454,563
Current assets			
Stocks	12	6,223,442	3,362,744
Trade and other debtors	13	7,268,203	5,684,347
Cash and cash equivalents	14	404,564	728,308
Total current assets		13,896,209	9,775,399
Creditors: amounts falling due within one year			
Borrowings	15	5,901	-
Trade and other creditors	16	18,513,026	12,695,630
Deferred and contingent consideration	17	1,969,780	1,254,390
Tax payable		252,324	213,463
Total creditors: amounts falling due within one year		20,741,030	14,163,483
Net current assets		(6,844,821)	(4,388,084)
Total assets less current liabilities		7,286,578	9,066,479
Creditors: amounts falling due after one year			
Finance lease		6,884	
Deferred and contingent consideration	17	-	1,282,485
Provisions		90,000	
Deferred tax liabilities		55,363	5,016
Total creditors: amounts falling due after one year		152,247	1,287,501
Net assets		7,134,331	7,778,978
Capital and reserves			
Share capital	19	100	100
Share-based payment reserve		(7,756)	(10,978)
Capital contribution		1,108,320	1,108,320
Retained earnings		6,033,667	6,681,536
Total equity		7,134,331	7,778,978

The Financial Statements on pages 12 to 29 were approved by the Directors on 30 September 2019 and were signed by:



Russell Cash
Director

Fluidpower Group Services UK Limited
Bollin House
Riverside Business Park
Wilmslow
SK9 1DP

Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital	Share-based payment reserve	Retained earnings	Capital contribution	Total equity
	£	£	£		£
Balance at 1 January 2017	100	41,425	6,335,284	-	6,376,809
Profit for the year	-	-	521,252	-	521,252
Total comprehensive income for the year	-	-	521,252	-	521,252
Transactions with owners					
Capital contribution	-	-	-	1,108,320	1,108,320
Share options settled	-	(68,060)	-	-	(68,060)
Share-based payment charge	-	15,657	-	-	15,657
Equity dividends paid (note 8)	-	-	(175,000)	-	(175,000)
Total transactions with owners	-	(52,403)	(175,000)	1,108,320	880,917
Balance at 31 December 2017	100	(10,978)	6,681,536	1,108,320	7,778,978
Loss for the year	-	-	(347,869)	-	(347,869)
Total comprehensive expense for the year	-	-	(347,869)	-	(347,869)
Transactions with owners					
Capital reduction	-	-	-	-	-
Capital contribution	-	-	-	-	-
Share options settled	-	(9,438)	-	-	(9,438)
Share-based payment charge	-	12,660	-	-	12,660
Equity dividends paid (note 8)	-	-	(300,000)	-	(300,000)
Total transactions with owners	-	3,222	(300,000)	-	(296,778)
Balance at 31 December 2018	100	(7,756)	6,033,667	1,108,320	7,134,331

Notes to the Financial Statements

for the year ended 31 December 2018

1 Authorisation of Financial Statements and Statement of Compliance with FRS 101

The Financial Statements of Fluidpower Group Services UK Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the board of directors on 30 September 2019 and the Statement of Financial Position was signed on the Board's behalf by Russell Cash. Fluidpower Group Services UK Limited is incorporated and domiciled in England and Wales.

These Financial Statements were prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006. The Company's Financial Statements are presented in Sterling.

These Financial Statements have been prepared on a going concern basis and on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Fluidpower MIP Limited.

The results of Fluidpower MIP Limited are included in the consolidated financial statements of Flowtech Fluidpower plc which are available from Bollin House, Bollin Walk, Wilmslow, SK9 1DP.

The principal accounting policies adopted by the Company are set out in note 2.

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements.

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31 December 2018.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 "Share-based Payments", as the share-based payment arrangement concerns the instruments of another group entity;
- (b) the requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 "Property, Plant and Equipment";
- (c) the requirements of paragraphs 10(d) and 134-136 of IAS 1 "Presentation of Financial Statements" and the requirements of IAS 7 "Statement of Cash Flows";
- (d) the requirements of paragraphs 30 and 31 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors";
- (e) the requirements of paragraph 17 of IAS 24 "Related Party Disclosures";
- (f) the requirements in IAS 24 "Related Party Disclosures" to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

Notes to the Financial Statements

for the year ended 31 December 2018

2 Accounting policies (continued)

2.2 Significant judgements, key assumptions and estimates

In the process of applying the Company's accounting policies, which are described above, management has made judgements and estimations about the future that may have a significant effect on the amounts recognised in the financial statements. 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.

The following judgements have the most significant effect on the financial statements.

Provision for impairment of stocks

The carrying value of stock as at 31 December 2018 is £6,223,442 (2017: £3,362,744) and included a provision against the stock of £1,395,525 (2017: £819,116). During the year £Nil (2017: £699,651) of the provision was utilised following the scrapping and sale of obsolete stock. A further provision was made during the year for £531,098 (2017: £20,000) in relation to stock acquired from Group HES Limited and a release of £70,259 (2017: £130,564) was made for stock relating to the core business. The provision for impairment of stock is based on sales trends for all stock and management's estimation of recoverability. There is a risk that the provision will not match the stocks that ultimately prove to be impaired.

Share based payments

A number of accounting estimates and judgements are incorporated within the calculation of the charge to the Income Statement in respect of share-based payments. These are described in more detail in note 23 of the consolidated financial statements of Flowtech Fluidpower plc.

2.3 Financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances net of bank overdrafts and short term deposits held with banks by the Company, and are subject to insignificant risk of changes in value.

Notes to the Financial Statements

for the year ended 31 December 2018

2 Accounting policies (continued)

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Any change in their value through impairment or reversal of impairment is recognised in profit or loss. Discounting is omitted where the effect is immaterial.

Derecognition of financial liabilities

The Company derecognises a financial liability (or its part) from the statement of financial position when, and only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability (or a part of a financial liability) extinguished and the consideration paid, including any non cash assets transferred or liabilities assumed, is recognised in profit or loss.

2.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of a tangible fixed asset have different useful lives, they are accounted for as separate items.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives and depreciation methods are as follows:

Property	50 years straight line
Plant, machinery and equipment	5 - 20 years straight line
Office equipment	5 years straight line
Motor vehicles	4 - 5 years reducing balance
Computer Equipment	3 - 5 years straight line

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Notes to the Financial Statements

for the year ended 31 December 2018

2 Accounting policies (continued)

2.5 Finance leases

Management applies judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Company obtains ownership at the end of the lease term.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

2.6 Operating lease payments

An operating lease is defined as a lease in which substantially all of the risks and rewards incidental to ownership remain with the lessor. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

2.7 Stocks

Stocks are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks and other costs in bringing them to their existing location and condition.

2.8 Employee benefits - defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

2.9 Turnover

Turnover is the total amount receivable by the Company for goods supplied, excluding VAT and discounts. Turnover from the sale of goods is recognised in the Income Statement when the significant risks and rewards of ownership have been transferred to the buyer.

From time to time contracts are obtained for hydraulic systems and the contract terms require the customer to make stage payments in accordance with key dates within the contract. Staged payment turnover is recognised to the extent it is non-refundable under the terms of the contract.

Notes to the Financial Statements

for the year ended 31 December 2018

2 Accounting policies (continued)

2.10 Cost of sales

Cost of sales includes all costs incurred up to the point of despatch including the operating expenses of the warehouse.

2.11 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2.12 Foreign currency translation

Functional and presentation currency

The Financial Statements are presented in sterling, which is also the functional currency of the parent company.

Foreign currency transactions and balances

Transactions in foreign currencies are translated to the functional currency of the Company at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Currency risks

The main currency related risk to the Company comes from forward purchasing of stock and settling transactions in foreign currencies. The Company does not enter into forward currency contracts.

Notes to the Financial Statements

for the year ended 31 December 2018

2 Accounting policies (continued)

2.13 Equity and reserves

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares
- "Share-based payment reserve" represents the provision made to date for share-based payments as detailed in note 17.2
- "Capital contribution" represents the reserve arising on the issue of shares in the ultimate parent, issued in part consideration for acquisitions made by the Company
- "Retained earnings" represent retained earnings of the Company

All transactions with owners of the parent are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in general meeting prior to the reporting date.

3 Turnover

All turnover is derived from the sale of goods and is attributable to the one principal activity of the company.

	2018 £	2017 £
United Kingdom	28,600,544	12,584,020
Europe	250,584	270,831
Rest of World	246,337	182,893
Total turnover	29,097,465	13,037,743

4 Operating loss

This is stated after charging/(crediting):

	2018 £	2017 £
Loss on impairment of trade debtors	30,566	11,983
(Gain)/loss on foreign currency transactions	(118,937)	-
(Gain) on reversal of/Impairment loss on stock	(70,259)	20,000
Depreciation of owned tangible fixed assets	146,441	59,616
Depreciation of leased tangible fixed assets	2,630	-
Operating lease rentals		
– land and buildings	224,006	110,621
– other	111,854	35,774
Repairs and maintenance expenditure on tangible fixed assets	44,765	32,145

Auditor's remuneration

Audit fees are borne by another group undertaking

Notes to the Financial Statements

for the year ended 31 December 2018

5 Staff costs and Directors' remuneration

	2018 £	2017 £
Staff costs		
Wages and salaries	4,702,258	1,691,800
Social security costs	429,627	138,331
Contributions to defined contribution pension plans	200,379	76,192
Share-based payments	12,660	15,657
Total staff costs	5,344,924	1,921,980

The average number of employees of the Company (including Directors) during the year was:

	2018 Number	2017 Number
Assembly and distribution	89	42
Administration	102	28
Total number	191	70

	2018 £	2017 £
Directors' remuneration		
Remuneration	142,758	116,000
Contributions to defined contribution pension plans	2,260	8,400
Benefits in kind	20,363	15,873
Total Directors' remuneration	165,380	140,273

During the year two Directors (2017: two) participated in defined contribution pension schemes. No Directors participated in defined benefit schemes (2017: none).

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2018 £	2017 £
Highest paid Director's remuneration		
Remuneration	75,000	60,000
Contributions to defined contribution pension plans	1,313	3,600
Benefits in kind	10,746	9,414
Total highest paid Director's remuneration	87,059	73,014

Notes to the Financial Statements
for the year ended 31 December 2018

6 Interest payable and similar cost

	2018 £	2017 £
Interest payable and similar cost		
Interest on CID and stock loan facilities	-	27
Imputed interest on contingent consideration	-	37,633
Finance charges payable in respect of finance leases	1,345	-
Other interest	3,142	-
Total interest payable and similar cost	4,487	37,660

7 Taxation

a) Tax charged in the income statement

	2018 £	2017 £
Current tax		
UK corporation tax payable	-	97,131
Adjustment in respect of prior year	(15,456)	1,670
Total current tax	(15,456)	98,801
Deferred tax		
Origination and reversal of temporary differences	60,950	15,697
Adjustments in respect of prior year	(7,880)	5,777
Change in tax rate	-	-
Total deferred tax	53,070	21,474
Total tax expense	37,614	120,275

b) Reconciliation of the total tax charge

The tax assessed in the income statement for the year differs from the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

	2018 £	2017 £
(Loss)/profit before taxation	(310,255)	641,527
Tax calculated at the UK standard rate of corporation tax of 19% (2017: 19.25%)	(58,948)	123,494
Impact of change in tax rate	(7,222)	(2,145)
Amounts not taxable	311,709	-
Effect of share option exercises	-	(42,369)
Amounts not deductible	-	33,850
Adjustments in respect of prior periods	(23,336)	7,445
Group relief	(184,590)	-
Total tax expense	37,614	120,275

Notes to the Financial Statements

for the year ended 31 December 2018

7 Taxation (continued)

c) Change in corporation tax rate

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2018 have been calculated based on these rates.

d) Deferred tax

	Assets		Liabilities	
	2018	2017	2018	2017
	£	£	£	£
Tangible fixed assets	-	-	(60,425)	(4,696)
Employee benefits	1,809	1,385	-	-
Provisions	6,177	6,034	-	-
Other items	2,093	-	-	-
Total	10,078	7,419	(60,425)	(4,696)
Total deferred tax (liability)/ asset	(50,347)	2,723		

e) Movement in deferred tax during the year ended 31 December 2018

	1 January 2018	Recognised in income	31 December 2018
	£	£	£
Tangible fixed assets	(4,696)	(55,729)	(60,425)
Employee benefits	1,385	424	1,809
Provisions	6,034	143	6,177
Other items	-	2,093	2,093
	2,723	(53,070)	(50,347)

8 Dividends paid and proposed

	2018	2017
	£	£
Declared and paid during the year		
Equity dividends of £3,000 per A ordinary share (2017: £1,750)	300,000	175,000
Total dividends paid	300,000	175,000

No dividends are proposed at the end of the period.

Notes to the Financial Statements
 for the year ended 31 December 2018

9 Fixed asset investments

Investments in subsidiary undertakings	
	£
Cost and net book value at 1 January 2018	12,171,177
Transfer to goodwill	(4,928,746)
Cost and net book value at 31 December 2018	7,242,431

Following the hive up of trade and assets from three of the company's subsidiaries in 2017, an element of the investment balance has been transferred to goodwill.

Details of subsidiary undertakings

Country of incorporation	Principal activity	Holding
UK	Hydraulics and Transmissions Assembly and distribution of engineering components	100%
ROI	Hi-Power Limited	100%
Netherlands	The Hydraulic Group BV	100%
UK	Assembly and distribution of engineering components	100%

For all the subsidiaries above the class of shares held are ordinary shares and all subsidiaries are direct subsidiaries of the Company.

The registered office addresses of the above named subsidiaries are Bollin House, Bollin Walk, Wilmslow, UK SK9 1DP.

Notes to the Financial Statements

for the year ended 31 December 2018

10 Intangible fixed assets

The movements in the net carrying value of goodwill are as follows:

	2018 £
Gross carrying value	
At 1 January 2018	3,056
Transfer from investment	4,928,746
At 31 December 2018	4,931,802
Accumulated impairment	
At 1 January 2018	-
Charge for year	-
At 31 December 2018	-
Carrying amount at 31 December 2018	4,931,802
Carrying amount at 31 December 2017	3,056

The goodwill relates to the hive up of trade and assets from subsidiary entities.

11 Tangible fixed assets

	Property £	Plant, fixtures, fittings machinery & equipment £	& office equipment £	Motor vehicles £	Computer equipment £	Total £
Cost						
At 1 January 2018	1,386,107	897,537	697,226	241,892	741,349	3,964,111
Additions	-					446,038
Fair value adjustment to prior year	-					382,592
Disposals	-					-
At 31 December 2018						4,792,741
Depreciation						
At 1 January 2018	321,360	802,337	630,875	213,697	718,235	2,686,504
Charge for year						149,071
Released on disposal						-
At 31 December 2018						2,835,575
Net book value						
At 31 December 2018						1,957,166
At 31 December 2017	1,064,747	95,200	66,351	28,195	23,114	1,277,607

Notes to the Financial Statements

for the year ended 31 December 2018

12 Stocks

	2018 £	2017 £
Finished goods and goods for resale	6,223,442	3,362,744

Changes in finished goods recognised as cost of sales in the year amounted to £19,503,355 (2017: £8,675,275). The provision made against stock at the reporting date was £1,395,536 (2017: £819,116). A further provision was made during the year for £531,098 (2017: 20,000) and reversals of £70,259 (2017: 830,215) occurred. The write-downs and reversals are included in cost of sales.

Estimates are made of the net realisable value of stock at the year end. In some circumstances, stock is subsequently sold in excess of the net realisable value determined, which results in a reversal of the write down.

13 Trade and other debtors

	2018 £	2017 £
Current:		
Trade debtors	6,479,613	4,033,359
Prepayments and accrued income	229,024	40,735
Amounts owed by group undertakings	559,496	1,610,253
Total trade and other debtors	7,268,203	5,684,347

14 Cash and cash equivalents

	2018 £	2017 £
Cash and cash equivalents:		
Sterling	389,535	618,333
Euro	44,114	109,975
Dollar	(29,085)	-
Total cash and cash equivalents	404,564	728,308

15 Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 18.

	2018 £	2017 £
Current liabilities:		
Finance lease liabilities	5,901	-
Total current liabilities	5,901	-
Total interest bearing loans and borrowings	5,901	-

Notes to the Financial Statements
for the year ended 31 December 2018

16 Trade and other creditors

	2018 £	2017 £
Current:		
Trade creditors	2,890,262	2,635,172
Social security and other taxes	713,617	449,105
Other creditors	1,436,512	416,814
Accruals and deferred income	259,785	131,521
Amounts owed to other group undertakings	13,212,849	9,063,018
Total trade and other creditors	18,513,026	12,695,630

17 Deferred and contingent consideration

	2018 £	2017 £
Current liabilities:		
Contingent consideration	1,969,780	1,254,390
Total current liabilities	1,969,780	1,254,390
Non-current liabilities		
Contingent consideration	-	1,282,485
Total non-current liabilities	-	1,282,485
Total deferred and contingent consideration	1,969,780	2,536,875

Contingent consideration of £837,688 relates to amounts due to the former shareholders of Hydraulics and Transmissions Limited and is payable over the next year. The consideration is based on profit targets for HTL's customer base.

Contingent consideration of £1,133,092 relates to amounts due to the former shareholders of Hi-Power Limited and is payable over the next year. The consideration is based on profit targets for Hi-Power Limited's customer base.

Notes to the Financial Statements

for the year ended 31 December 2018

18 Financial instruments

18.1 Interest rate risk

At the reporting date the Company held no interest-bearing financial instruments.

18.2 Foreign currency risk

The main currency related risk to the Company comes from forward purchasing of stocks and the settling of transactions in foreign currency. The Company does not enter into forward currency contracts.

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

	Sterling £	Euro £	US Dollar £	Total £
31 December 2018				
Cash and cash equivalents	389,535	44,114	(29,085)	404,564
Trade and other debtors	6,151,967	327,646	-	6,479,613
Trade creditors	(1,743,629)	(1,165,140)	18,507	(2,890,262)
Net exposure	4,797,873	(793,380)	(10,578)	3,993,915

	Sterling £	Euro £	US Dollar £	Total £
31 December 2017				
Cash and cash equivalents	618,333	109,975	-	728,308
Trade and other debtors	3,854,811	151,708	26,840	4,033,359
Trade creditors	(1,234,777)	(1,366,873)	(33,522)	(2,635,172)
Net exposure	3,238,367	(1,105,190)	(6,682)	2,126,495

18.3 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's debt from customers. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which the customers operate. The Company has an established credit policy under which the credit status of each new customer is reviewed before credit is advanced. This includes external evaluations where possible. Credit limits are established for customers and outstanding balances are reviewed regularly by management. Credit insurance is used to cover certain customer balances.

The concentration of credit risk for trade debtors and at the reporting date by geographic region was:

	2018 £	2017 £
UK	6,017,286	3,918,604
Europe	461,839	60,599
Rest of World	488	54,156
Total	6,479,613	4,033,359

Notes to the Financial Statements

for the year ended 31 December 2018

18 Financial instruments (continued)

Credit quality of financial assets and impairment losses

The aging of trade debtors at the reporting date was:

	Gross 2018 £	Impairment 2018 £	Gross 2017 £	Impairment 2017 £
Not past due	6,022,375	(57,446)	3,296,043	(13,291)
Past due 0 – 30 days	409,938	(7,332)	621,620	(3,189)
More than 30 days	189,767	(77,689)	151,190	(41,334)
Total	6,622,080	(142,467)	4,068,853	(57,814)

Some of the unimpaired trade debtors are past due as at the reporting date. These past due debtors are not resultant from any major disputes with customers. There have been no other indicators that would cast doubt over the credit worthiness of such customers.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade debtors. The movement in the allowance for impairment in respect of trade debtors during each year was as follows:

	2018 £	2017 £
Balance at 1 January	57,814	21,591
Provision utilised	(4,804)	(7,279)
Acquisitions	58,890	31,519
Increase/(release) of provision	30,567	11,983
Balance at 31 December	142,467	57,814

18.4 Liquidity risk

The allowance account for trade debtors is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade debtors directly.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Management monitors and manages liquidity for the Company and ensures that the Company has sufficient headroom in its committed facilities to meet unforeseen or abnormal requirements. Available headroom is monitored via the use of detailed cash flow forecasts. Particular focus is given to management of working capital.

The following are the contractual maturities of financial liabilities:

	Carrying amount £	1 year or less £	1 to 2 years £	2 to 5 years £
Year ended 31 December 2018				
Non-derivative financial liabilities:				
Finance lease liabilities	5,901	5,901	-	-
Trade and other creditors	2,890,262	2,890,262	-	-
Total	2,890,262	2,890,262	-	-

Notes to the Financial Statements

for the year ended 31 December 2018

18 Financial instruments (continued)

Year ended 31 December 2017	Carrying amount £	1 year or less £	1 to 2 years £	2 to 5 years £
Non-derivative financial liabilities:				
Trade and other creditors	2,635,172	2,635,172	-	-
Total	2,635,172	2,635,172	-	-

There are no contractual maturities over five years.

19 Authorised, issued and called up share capital

	2018 £	2017 £
Authorised, allotted, issued and fully paid:		
Ordinary shares of £1 each	100	100

	Number	£
Authorised, allotted, issued and fully paid ordinary shares of £1 each		
At 1 January 2017	100	100
At 31 December 2017	100	100

20 Employee benefits

20.1 Pension plans

The Company operates a defined contribution plan. The total expense relating to this plan in each year was £200,379 (2017: £76,192).

20.2 Share-based payments

Certain Company employees have received share options granted by the Group's share option plans, further details of which are disclosed in the consolidated financial statements of the ultimate parent company Flowtech Fluidpower plc.

In total £12,660 (2017: £15,657) of employee remuneration expenses all of which related to equity-settled share-based payment transactions has been included in the Income Statement.

Notes to the Financial Statements

for the year ended 31 December 2018

21 Operating lease commitments

Non-cancellable operating leases rentals are payable as follows:

	2018 £	2017 £
Expiring:		
In one year or less	289,836	97,350
Between one and five years	217,756	252,554
More than five years	142,500	142,500
Total	650,092	492,404

The Company acts as a lessee for land and buildings and motor vehicles under operating leases. The Company's significant lease arrangements are for properties, for which there are no significant lease incentives. As at 31 December 2018, the property lease period is less than three years.

The disclosures above for non-cancellable operating lease rentals have been split out below to show the split between land and buildings and other assets which include motor vehicles.

	Land and buildings		Other	
	2018 £	2017 £	2018 £	2017 £
In one year or less	223,205	54,600	66,631	42,750
Between one and five years	180,000	225,000	37,756	27,554
More than five years	142,500	142,500	-	-
Total	545,705	422,100	104,387	70,304

During the year £335,860 (2017: £146,396) was recognised as an expense in the income statement in respect of operating leases.

22 Capital commitments

The Company had no capital commitments at 31 December 2018 or 31 December 2017.

23 Contingent liabilities

The Company is party to an intra-group funding arrangement with the other group companies, and could be required to provide funds to enable them to meet their financial obligations. The total amount outstanding at the year end was £21,994,635, (2017: £19,388,472) comprising a bank loan and revolving credit facility which are secured by legal charges over certain of the Group's assets including trade receivables and stock.

24 Subsequent events

There are no material adjusting or non-adjusting events subsequent to the reporting date.

Notes to the Financial Statements

for the year ended 31 December 2018

25 Related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with related parties, all of whom are fellow wholly owned subsidiaries of the ultimate group undertaking. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose these transactions.

26 Ultimate group undertaking

The Company is a subsidiary undertaking of PMC Fluidpower Group Limited, incorporated in the United Kingdom. The ultimate parent company is Flowtech Fluidpower plc, incorporated in the United Kingdom.

The consolidated accounts of this company are available to the public and may be obtained from Bollin House, Riverside Business Park, Wilmslow, SK9 1DP.