

Fluidpower Group Services UK Limited

Annual Report and Financial Statements

Registered number 00926679

31 December 2019



Fluidpower Group Services UK Limited

Company Information

Directors

Bryce Brooks
Russell Cash
Jon Burke
Anthony Browne
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

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 2019. The Company's principal activity is the design and build of power packs, hydraulic systems and purifiers to an international market. Following a group wide simplification, the business of HTL was hived out to a group company, whilst the business of Triple Six (TSL) was hived into the Company during the year.

Business review

The Company's sales decreased by 16.3% (2018: 123%) from £29.1m to £24.3m, this includes growth from TSL business transferred into the company during this year. Gross margin has increased to 27.7% (2018: 25.5%). Overall, the Company recorded loss of £22,673 (2018: Loss of £347,869). The Directors believe the performance reflects the tough market conditions in the wider industry, particularly during the 2nd half of the year.

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.

The uncertainties around Brexit have been carefully assessed measures have been taken to safeguard the business as much as possible.

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 £27,085 compared to prior year £29,329.

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



Russell Cash

Director

15 December 2020

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Directors' Report *(Continued)*

The wider Group quickly formed a Steering committee to direct the response across the group to the pandemic, ensuring continual review of health and safety, impact on supply chain, customer collection and head room in banking facilities. As a result of the actions flowing from this response, cost have been reduced by a combination of internal actions and utilisation of Covid-19 support offered by the government.

Following the gradual re-opening of the economy, key customers have returned, and the recovery has been encouraging. Despite Covid-19 the Company has continued with a restructuring program to streamline the supply chain and inventory management, leading to creation of centralised logistics centres in the UK.

As a result, the Company and wider Group expects to remain profitable and cash generative in its operations. Refer to note 2.2 for further detail.

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
15 December 2020

Directors' Report

The Directors present the audited Financial Statements of Fluidpower Group Services UK Limited (the "Company") for the year ended 31 December 2019.

Directors

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

Anthony Browne
Jon Burke
Bryce Brooks
Russel Cash
Paul McGrady (resigned 31 May 2019)

Dividends

Dividends paid during the year were £850,000 (2018: £300,000), 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 directors have carefully considered the forecasts for the business and the availability of group banking facilities, which have been renewed recently for a further period of 3 years. Based on this review, they 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 financial statements for the company. Refer Note 2.2 for further detail.

Covid-19

The Covid-19 pandemic has caused unprecedented disruption globally. The Company has prioritized the wellbeing of its people and adopted safer working environments and is grateful for the resilience and adaptability shown by its employees. This partnership has enabled the business to operate continually and to the level required to meet customer needs.

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 2019, which comprise Income statement, Statement of Financial Position, 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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

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.

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report and 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 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 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 and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

To the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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.



Michael Frankish
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
15 December 2020

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

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 4, 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

Statement of Financial Position

at 31 December 2019

	Note	2019 £	2018 £
Fixed assets			
Goodwill	10	4,931,802	4,931,802
Tangible assets	11	1,948,730	1,957,166
Right of use assets	21	1,175,285	-
Investments	9	4,704,541	7,242,431
Deferred tax assets	7	-	-
Total fixed assets		12,760,358	14,131,399
Current assets			
Stocks	12	4,237,973	6,223,442
Trade and other debtors	13	13,184,175	7,268,203
Cash and cash equivalents	14	554,283	404,564
Total current assets		17,976,431	13,896,209
Creditors: amounts falling due within one year			
Borrowings	15	5,266	5,901
Trade and other creditors	16	22,687,398	18,513,026
Lease liability current	21	258,113	-
Deferred and contingent consideration	17	-	1,969,780
Tax payable		472,915	252,324
Total creditors: amounts falling due within one year		23,423,693	20,741,030
Net current assets		(5,447,261)	(6,844,821)
Total assets less current liabilities		7,313,097	7,286,578
Creditors: amounts falling due after one year			
Finance lease		-	6,884
Lease liability non-current	21	926,819	-
Deferred and contingent consideration	17	-	-
Provisions		90,998	90,000
Deferred tax liabilities		18,290	55,363
Total creditors: amounts falling due after one year		1,045,107	152,247
Net assets		6,267,990	7,134,331
Capital and reserves			
Share capital	19	102	100
Share-based payment reserve		(1,426)	(7,756)
Capital contribution		1,108,320	1,108,320
Retained earnings		5,160,994	6,033,667
Total equity		6,267,990	7,134,331

The Financial Statements on pages 9 to 32 were approved by the Directors on 15 December 2020 and were signed by:

Russell Cash *Russell Cash*
Director
Fluidpower Group Services UK Limited
Bollin House
Riverside Business Park
Wilmslow
SK9 1DP

Income Statement

for the year ended 31 December 2019

	Note	2019 £	2018 £
Turnover	3	24,343,281	29,097,465
Cost of sales		(17,599,024)	(21,677,314)
Gross profit		6,744,257	7,420,151
Distribution costs		(431,091)	(508,696)
Administrative expenses (*)		(6,099,787)	(7,217,223)
Operating (Loss)/ Profit (*)	4	213,379	(305,768)
Interest payable and similar cost	6	(45,125)	(4,487)
(Loss)/ Profit on ordinary activities before taxation		168,254	(310,255)
Tax expense	7	(190,927)	(37,614)
(Loss) / Profit for the financial year		(22,673)	(347,869)

(*) In the current year, the Company adopted IFRS 16 and applied the modified retrospective approach. The impact of the new standard on the financial statements is detailed in Note 21.

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.

The notes form part of the financial statement.

Notes to the Financial Statements

for the year ended 31 December 2019

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 2019 were authorised for issue by the board of directors on 15 December 2020 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 2019.

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) disclosure requirements of IFRS 7 'Financial Instruments'.
- (g) 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;

Statement of Changes in Equity
for the year ended 31 December 2019

	Share capital	Share-based payment reserve	Retained earnings	Capital contribution	Total equity
	£	£	£		£
Balance at 1 January 2018	100	(10,978)	6,681,536	1,108,320	7,778,978
Loss for the year	-	-	(347,869)	-	(347,869)
Total comprehensive income for the year	-	-	(347,869)	-	(347,869)
Transactions with owners					
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
Profit for the year	-	-	(22,673)	-	(22,673)
Total comprehensive expense for the year	-	-	(22,673)	-	(22,673)
Transactions with owners					
Issue of share capital	2	-	-	-	2
Share-based payment charge	-	6,330	-	-	6,330
Equity dividends paid (note 8)	-	-	(850,000)	-	(850,000)
Total transactions with owners	2	6,330	(850,000)	-	(843,669)
Balance at 31 December 2019	102	(1,426)	5,160,994	1,108,320	6,267,990

The notes form part of the financial statements

Notes to the Financial Statements*for the year ended 31 December 2019***2 Accounting policies (continued)**

The carrying value of stock as at 31 December 2019 is £4,237,973 (2018: £6,223,442) and included a provision against the stock of £392,782 (2018: £1,395,525). 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.

2.4 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 the transaction price in accordance with IFRS 15. The Company applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the detailed reviews of line level debtor balances, taking into consideration historical loss rates experienced by the business and adjusting these for changes to credit worthiness of the customer (where information is available from third party monitoring services) as also any macroeconomic factors affecting the ability of the customer to settle the receivables.

At each reporting date management assesses whether any events have occurred which have had a detrimental effect on the estimated future cash flows of the asset causing a financial asset to become credit impaired. If the credit risk is significant a provision is posted on the recoverable amount the Company is expected to receive per management's assessment. Specific provisions of this nature are excluded from the simplified credit loss calculation using the provision matrix.

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.

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.

Notes to the Financial Statements*for the year ended 31 December 2019***2 Accounting policies (continued)****New standards adopted as at 1 January 2019**

IFRS 16 Accounting for leases has become applicable for the current reporting period, and the Company had to change its accounting policies as a result of adopting IFRS 16. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 2.17.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the consolidated financial statements.

2.2 Going Concern

The Company's financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons:

- The Company generated a net profit of £29,757 for the year (2018: Loss of £347,869)
- The Company is expected to generate positive cash flows on its own account for the foreseeable future.
- The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Group has recently renewed its banking facilities, with the £25 Million aggregate facilities in place for three years.

The Directors have prepared forecasts covering at least two years beyond the date of this report. These forecasts consider the known and expected impact of Covid-19 on the business. In any set of forecasts there are inherent risks in the assumptions, and these have been tested under a range of scenarios to establish the ability of the business to discharge its liabilities in the ordinary course of business.

The directors have received assurance that the group's ultimate parent company, Flowtech Fluidpower Plc, will continue to support the company as required for the foreseeable future.

The Directors have, after making enquiries and considering the uncertainties described above, have reasonable expectation that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing these financial statements.

2.3 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.

Significant management judgements

There were no significant judgements during this accounting period.

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

Provision for impairment of stocks

Notes to the Financial Statements

for the year ended 31 December 2019

2 Accounting policies (continued)

2.7 Finance leases (2018)

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.

2.8 Operating lease payments (2018)

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.

2.9 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.

2.10 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.

2.11 Revenue

Revenue from sale of goods is the total amount receivable by the Company for goods supplied, excluding VAT and discounts. Revenue from the sale of goods is recognised in the income statement at a point in time at the point of despatch, when the control passes to the customer. Revenue for sale of goods includes income from delivery charged to customers, excluding VAT. Delivery income is recognised at the same time as the corresponding revenue for sale of goods and is a single combined performance obligation.

Service revenues comprise installation and maintenance work at client sites. Revenue from on-site work that is standard and going (as opposed to bespoke) is recognised when the performance obligations under the work order are completed and acknowledged by the customer, in accordance with the terms and conditions of the work order. Very occasionally, where routine maintenance work is agreed as part of a contract covering a year or number of years, the performance obligation is considered to be discharged evenly through the term of the contract and revenue is recognised over the life of the contract.

Notes to the Financial Statements*for the year ended 31 December 2019***2 Accounting policies (continued)*****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.

2.5 Investments

All investments are initially recorded at cost, being the fair value of consideration given including the acquisition costs associated with the investment. Subsequently they are reviewed for impairment on an individual basis if events or changes in circumstances indicate the carrying value may not be fully recoverable.

2.6 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
Motor vehicles	4 - 5 years reducing balance
Computer Equipment	3 - 5 years straight line
Right-of-use property	2 to 12 years – straight line
Right-of-use motor vehicles	2 to 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 2019***2 Accounting policies (continued)****2.15 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.

2.16 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 20.2
- "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.

2.17 Right of use assets and liabilities

The Company leases various offices, warehouses, and motor vehicles. Rental contracts are typically made for fixed periods of up to 12 years but may have extension options as described in (ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Notes to the Financial Statements

for the year ended 31 December 2019

2 Accounting policies (continued)

Warranties offered to customers are usually on the back of warranties offered by suppliers of spare parts and involve negligible costs to the business. Revenue from bespoke longer-term services is accounted for in accordance with the policy on Revenue from contracts described below.

Most contracts received by the Group involve shipping goods without customisation or further service, and revenue from these is recognised at a point in time as described above. Some contracts involve providing an end to end solution, involving design, customisation, installation and commissioning that can last several months or years. The goods and services under such contracts represent a single combined performance obligation over which control is transferred over a period. The combined product is unique to each customer (has no alternative use) and the Group has an enforceable right to payment for the work completed to date. The contracts contain milestones and the Company is entitled to stage payments on completion of the milestones. Revenues from such contracts is recognised based upon its stage of completion. Revenue is measured on an output basis, as the transfer of economic benefit depends on the value transferred relative to the remaining goods and services promised under the contract.

2.12 Cost of sales

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

2.13 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.

2.14 Provisions

A provision is recognised in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Notes to the Financial Statements*for the year ended 31 December 2019***3 Turnover**

All turnover is attributable to the one principal activity of the company.

	2019 £	2018 £
United Kingdom	23,055,130	28,600,544
Europe	1,084,360	250,584
Rest of World	203,791	246,337
Total turnover	24,343,281	29,097,465

	2019 £	2018 £
Sale of goods	22,371,281	27,240,465
Contracts	248,000	732,000
Services	1724,000	1,125,000
Total turnover	24,343,281	29,097,465

4 Operating loss

This is stated after charging/(crediting):

	2019 £	2018 £
Depreciation of property, plant and equipment held under right of use assets (*)	279,649	-
Loss on impairment of trade debtors	25,974	30,566
(Gain)/loss on foreign currency transactions	(66,619)	(118,937)
Loss/ (gain) on reversal of/Impairment loss on stock (+)	1,644,625	(70,259)
Loss/(profit) on sale of plant and equipment	(1,000)	-
Depreciation of owned tangible fixed assets	140,329	146,441
Depreciation of leased tangible fixed assets	3,600	2,630
Operating lease rentals 3		
– land and buildings	-	224,006
– other	-	111,854
Repairs and maintenance expenditure on tangible fixed assets	10,170	44,765

Auditor's remuneration

Audit fees are borne by another group undertaking

(*) Following implementation of IFRS 16, assets under qualifying operating leases have been capitalised as "Right of use Assets". Lease rental 'cost' is now replaced by depreciation charge and implied interest calculated on each qualifying lease.

(+) As part of its focus on management of working capital, and in anticipation of the move to reduce warehouse locations and centralise stockholdings, the company carried out a detailed review of stock, resulting in much higher stock provision during the year.

Notes to the financial statements*for the year ended 31 December 2019***2 Accounting policies (continued)**

From 1 January 2019, operating leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. There are no leases with variable lease payments

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). No potential future cash outflows have been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Residual value guarantees

To optimise lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases.

Estimating the amount payable under residual value guarantees

The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period. At the end of reporting period, there is no liability on account of residual value guarantees.

Notes to the Financial Statements*for the year ended 31 December 2019***7 Taxation****a) Tax charged in the income statement**

	2019 £	2018 £
Current tax		
UK corporation tax payable	24,386	-
Adjustment in respect of prior year	198,598	(15,456)
Total current tax	222,984	(15,456)
Deferred tax		
Origination and reversal of temporary differences	1,120	60,950
Adjustments in respect of prior year	(33,177)	(7,880)
Change in tax rate	-	-
Total deferred tax	(32,057)	53,070
Total tax expense	190,927	37,614

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% (2018: 19%). The differences are reconciled below:

	2019 £	2018 £
Profit/ (Loss) before taxation	168,254	(310,255)
Tax calculated at the UK standard rate of corporation tax of 19% (2018: 19.00%)	31,968	(58,948)
Impact of change in tax rate	(216)	(7,222)
Amounts not taxable	(24,771)	311,709
Effect of share option exercises	-	-
Amounts not deductible	(3,633)	-
Other adjustments	9,962	-
Adjustments in respect of prior periods	165,421	(23,336)
Group relief	12,196	(184,590)
Total tax expense	190,927	37,614

c) Change in corporation tax rate

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget, it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This change was substantively enacted post year end and therefore the deferred taxes at the balance sheet date continue to be measured at the enacted tax rate of 17%.

Notes to the Financial Statements

for the year ended 31 December 2019

5 Staff costs and Directors' remuneration

	2019 £	2018 £
Staff costs		
Wages and salaries	4,449,905	4,702,258
Social security costs	418,412	429,627
Contributions to defined contribution pension plans	206,082	200,379
Share-based payments	6,330	12,660
Total staff costs	5,080,729	5,344,924

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

	2019 Number	2018 Number
Assembly and distribution	80	89
Administration	127	102
Total number	207	191

6 Interest payable and similar cost

	2019 £	2018 £
Interest payable and similar cost		
Finance charges payable in respect of finance leases	2,029	1,345
Operating lease interest under IFRS 16 (*)	43,096	-
Other interest	-	3,142
Total interest payable and similar cost	45,125	4,487

(*) Following implementation of IFRS 16, assets under qualifying operating leases have been capitalised as "Right of use Assets". Lease rental cost is now replaced by depreciation charge and implied interest calculated on each qualifying lease.

Notes to the Financial Statements*for the year ended 31 December 2019***Details of subsidiary undertakings**

	Principal activity	Holding	Country of incorporation
Nelson Hydraulics Limited	Assembly and distribution of engineering components	100%	UK
Group HES Limited	Assembly and distribution of engineering components	100%	UK
The Hydraulic Group BV	Holding Company	100%	Netherlands

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 UK subsidiaries are Bollin House, Bollin Walk, Wilmslow, UK SK9 1DP.

10 Intangible fixed assets

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

	2019 £
Gross carrying value	
At 1 January 2019	4,931,802
At 31 December 2019	4,984,232
Accumulated impairment	
At 1 January 2019	-
Charge for year	-
At 31 December 2019	-
Carrying amount at 31 December 2019	4,984,232
Carrying amount at 31 December 2018	4,931,802

Goodwill has been reviewed for impairment at the profit centre level, each of which represents a set of independent cash flows. These cash generating units represent the lowest level within the Company at which goodwill is monitored for internal management purposes. The carrying amount of goodwill comprises 3 profit centres, namely, HTL £2,490,820, Group HES £2,437,926 and Primary components £3,056.

During the year ended 31 December 2019, the company determines that there is no impairment of any of its cash-generating units containing goodwill. The carrying amount of each cash-generating unit was determined by calculating the sum of the carrying amounts of all intangible assets (including goodwill) and tangible assets attributable to that unit.

The recoverable amounts (i.e. higher of value in use and fair value less costs of disposal) of those units are determined on the basis of value in use calculations. Management has prepared forecasts for each cash-generating unit for the financial year ending 31 December 2020 and 2021, which have been approved by the Board and extended these projections for a further three years. Cash flows beyond this five-year period have been extrapolated at an expected long-term growth rate of 2%. This growth rate does not exceed the long-term average growth rate for the market in which the company operates.

Notes to the Financial Statements

for the year ended 31 December 2019

7 Taxation (continued)

d) Deferred tax

	Assets		Liabilities	
	2019	2018	2019	2018
	£	£	£	£
Tangible fixed assets	-	-	(40,889)	(60,425)
Employee benefits	2,518	1,809		-
Provisions	15,041	6,177		-
Other items	5,039	2,093		-
Total	22,598	10,078	(40,889)	(60,425)
Net deferred tax liability	(18,291)	(50,347)		

e) Movement in deferred tax during the year ended 31 December 2019

	1 January 2019	Recognised in income	31 December 2019
	£	£	£
Tangible fixed assets	(60,426)	19,538	(40,889)
Employee benefits	1,809	709	2,518
Provisions	6,178	8,864	15,041
Other items	2,093	2,946	5,039
	(50,347)	32,057	(18,291)

8 Dividends paid and proposed

	2019	2018
	£	£
Declared and paid during the year		
Equity dividends of £8,500 per A ordinary share (2018: £3,000)	850,000	300,000
Total dividends paid	850,000	300,000

No dividends are proposed at the end of the period.

9 Fixed asset investments

	Investments in subsidiary undertakings
	£
Cost and net book value at 1 January 2019	7,242,431
Transfer out to group company	2,537,890
Cost and net book value at 31 December 2019	4,704,541

During the year, the investment in Flowtech Fluidpower Ireland Limited was transferred to a group company at cost.

Notes to the Financial Statements*for the year ended 31 December 2019***14 Cash and cash equivalents**

	2019 £	2018 £
Cash and cash equivalents:		
Sterling	541,240	389,535
Euro	9,618	44,114
Dollar	3,425	(29,085)
Total cash and cash equivalents	554,283	404,564

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.

	2019 £	2018 £
Non-current liabilities		
Right of use liabilities	926,819	-
Total current liabilities	926,819	-
Current liabilities:		
Right of use liabilities	258,113	-
Finance lease liabilities	5,266	5,901
Total current liabilities	263,379	5,901
Total interest bearing loans and borrowings	1,190,198	5,901

16 Trade and other creditors

	2019 £	2018 £
Current:		
Trade creditors	2,511,538	2,890,262
Social security and other taxes	470,109	713,617
Accruals and deferred income	561,894	1,696,297
Amounts owed to other group undertakings	19,143,857	13,212,849
Total trade and other creditors	22,687,398	18,513,026

17 Deferred and contingent consideration

	2019 £	2018 £
Current liabilities:		
Contingent consideration	-	1,969,780
Total current liabilities	-	1,969,780
Total deferred and contingent consideration	-	1,969,780

Notes to the Financial Statements

for the year ended 31 December 2019

11 Tangible fixed assets

	Property £	Plant, machinery & equipment £	Motor vehicles £	Total £
Cost				
At 1 January 2019	1,386,108	3,022,920	383,713	4,792,741
Additions	53,052	-	44,976	98,028
Assets hived out	-	(296,482)	(35,800)	(332,282)
Assets hived into Company	-	86,834	5,873	92,707
Disposals	-	(200)	-	(200)
At 31 December 2019	1,439,160	2,813,072	398,762	4,650,994
Depreciation				
At 1 January 2019	347,016	2,243,355	245,204	2,835,575
Charge for year	24,535	81,137	38,485	144,157
Assets hived out	-	(241,668)	(35,800)	(277,468)
At 31 December 2019	371,551	2,082,824	247,889	2,702,264
Net book value				
At 31 December 2019	1,067,610	730,247	150,873	1,948,730
At 31 December 2018	1,039,093	779,564	138,509	1,957,166

12 Stocks

	2019 £	2018 £
Finished goods and goods for resale	4,237,973	6,223,442

Changes in finished goods recognised as cost of sales in the year amounted to £ 11,586,009 (2018: £19,503,355). The provision made against stock at the reporting date was £ 392,782 (2018: £1,395,536).

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

	2019 £	2018 £
Current:		
Trade debtors	4,198,506	6,479,613
Prepayments and accrued income	46,720	229,024
Amounts owed by group undertakings	8,938,949	559,496
Total trade and other debtors	13,184,175	7,268,203

Notes to the Financial Statements*for the year ended 31 December 2019***18 Financial instruments (continued)***Credit quality of financial assets and impairment losses*

The aging of trade debtors at the reporting date was:

	Gross 2019 £	Impairment 2019 £	Gross 2018 £	Impairment 2018 £
Not past due	3,857,678	(3,904)	6,022,375	(57,446)
Past due 0 – 30 days	134,767	(673)	409,938	(7,332)
More than 30 days	250,638	(40,001)	189,767	(77,689)
Total	4,243,083	(44,578)	6,622,080	(142,467)

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:

	2019 £	2018 £
Balance at 1 January	142,467	57,814
Provision utilised	(109,514)	(4,804)
Hive up (net)	(14,349)	58,890
Increase/(release) of provision	25,974	30,567
Balance at 31 December	44,578	142,467

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 2019				
Non-derivative financial liabilities:				
Finance lease liabilities	5,266	5,266	-	-
Trade and other creditors	2,511,538	2,511,538	-	-
Right of use asset liabilities	1,184,932	258,113	213,541	474,780
Total	2,890,262	2,774,917	213,541	474,780

Notes to the Financial Statements

for the year ended 31 December 2019

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 2019				
Cash and cash equivalents	541,240	9,618	3,425	554,283
Trade and other debtors	4,153,672	44,834	-	4,198,506
Right of use Asset Liabilities (Under IFRS 16)	(1,184,932)	-	-	(1,184,932)
Trade creditors	(1,963,793)	(476,620)	(71,125)	(2,511,538)
Net exposure	1,546,187	(422,168)	(67,700)	1,056,319

	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

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:

	2019 £	2018 £
UK	4,068,759	6,017,286
Europe	48,070	461,839
Rest of World	81,677	488
Total	4,198,506	6,479,613

Notes to the Financial Statements*for the year ended 31 December 2019***21 Right of use assets and liabilities (continued)**

The adoption of IFRS 16 for 2019 has led to the elimination of lease payments of £363,545 and the introduction of additional depreciation of £279,649 and finance costs of £43,096. The impact of this is an increase in operating profit of £83,893 and, after taking account of finance costs, an increase in profit before tax of £40,799.

Impact of transition to IFRS 16

	Restated £000
Operating lease commitments disclosed as at December 2018	650
Operating lease commitments discounted using the lessee's incremental borrowing rate at the date of initial application	(204)
(Less): short-term leases recognised on a straight-line basis as expense	(5)
(Less): low value leases recognised on a straight-line basis as expense	(9)
Add/(less): adjustments as a result of a different treatment of extension and termination options	(1,113)
Other movements	42
Lease liability recognised as at 1 January 2019	1,586

Right of Use assets

	Land and property £	Motor Vehicles £	Total £
Cost			
Balance at 1 January 2019	–	–	–
Adjustment on transition to IFRS 16 on 1 January 2019	1,431,804	154,643	1,586,447
Additions	–	153,412	153,412
Assets transferred in on hive up	13,885	20,615	34,500
Disposals (assets transferred out on hive up)	(319,958)	(14,904)	(334,862)
Balance at 31 December 2019	1,125,731	313,766	1,439,497
Depreciation and amortisation			
Balance at 1 January 2019	–	–	–
Adjustment on transition to IFRS 16 on 1 January 2019			
Depreciation charge for the year	94,745	184,904	279,649
Disposals (assets transferred out on hive up)	(13,090)	(2,349)	(15,439)
Balance at 31 December 2019	81,655	182,555	264,210
Net book value			
At 31 December 2019	953,916	221,369	1,175,285

Notes to the Financial Statements*for the year ended 31 December 2019***18 Financial instruments (continued)**

	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	-	-

There are no contractual maturities over five years save for operating leases relating to property.

19 Authorised, issued and called up share capital

	2019 £	2018 £
Authorised, allotted, issued and fully paid:		
A Ordinary shares of £1 each	100	100
B Ordinary shares of £1 each	2	-
	Number	£
Authorised, allotted, issued and fully paid ordinary shares of £1 each		
At 1 January 2019	100	100
Issued during the year	2	-
At 31 December 2019	102	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 £206,083 (2018: £200,379).

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 £6,330 (2018: £12,660) of employee remuneration expenses all of which related to equity-settled share-based payment transactions has been included in the Income Statement.

21 Right of use assets and liabilities

The Company has adopted IFRS 16 retrospectively from 1 January, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Notes to the Financial Statements

for the year ended 31 December 2019

26 Ultimate group undertaking

The Company is a subsidiary undertaking of Fluidpower MIP 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.

Notes to the Financial Statements*for the year ended 31 December 2019***Right of Use Lease liabilities**

	2019	2018
	£	£
At 1 January	1,586,447	-
Repayment	(331,441)	-
Interest	43,096	-
Transfer in on hive up	26,303	-
Transfers out on hive up	(292,885)	-
Acquisition	153,412	-
At 31 December	1,184,932	-

The associated right-of-use assets for property leases and other assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

The statement of profit or loss shows the following amounts relating to leases:	2019	2018
	£'000	£'000
Depreciation of charge of right-of-use assets		
– Land and buildings	184,904	-
– Other	94,745	-
Interest expenses (included in finance cost)	43,096	-

22 Capital commitments

The Company had no capital commitments at 31 December 2019 or 31 December 2018.

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 £20,00,000 (2018: £21,994,635) 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

The impact of Covid-19 saw several suppliers and customers suspend operation, and the Company adopt safe working practices to ensure it was able to continue operating through the pandemic. The business utilised Covid-19 support in the form of wage subsidy and VAT deferment to mitigate the impact of the pandemic on cash flow and profitability. Business activity has recovered significantly from the first lock down period, although the company expects business to continue to lag the previous year overall.

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.