

HYDRAQUIP

HOSE & HYDRAULICS

THE UK'S LARGEST INDEPENDENT 24/7 ON SITE MOBILE
HOSE REPLACEMENT SERVICE PROVIDER

COMPANY REGISTRATION NUMBER: 04937556

ANNUAL REPORTS AND FINANCIAL STATEMENTS DECEMBER 2019



HYDRAQUIP HOSE & HYDRAULICS | SNAPSHOT DECEMBER 2019

NATIONAL SERVICE



Hydraquip offer a 24 hour, 7 days a week national on site mobile hose replacement service across the UK.

138 average operational mobile service vans

REVENUE

24.2 million

NETT PROFIT

1.7 million

EMPLOYEES

242



OEM



BRANCHES



TECHNOLOGY



ROBUST BUSINESS



24 BRANCHES

Strategically located across the UK operating a hydraulic trade counter and a 24/7 on site mobile hose repair service.



TECHNOLOGY



Hydraquip's Job Manager is the only customer portal in this industry which allows customers to book and track hose replacements and service jobs nationwide.

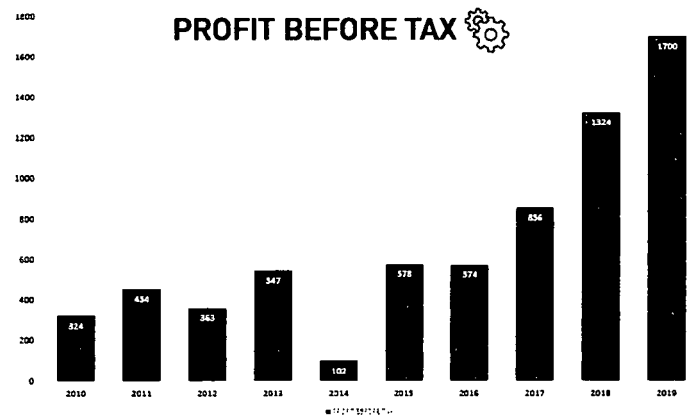
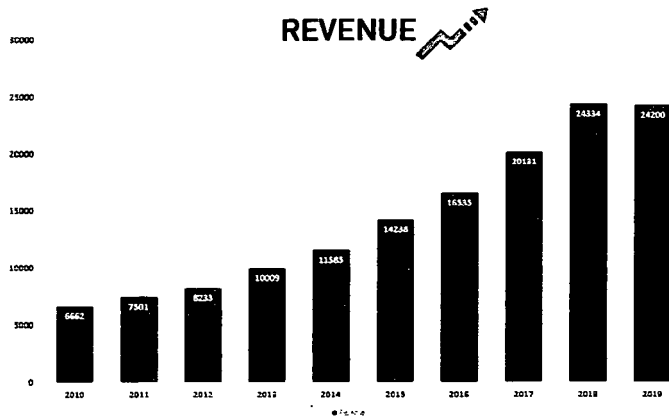
LARGEST INDEPENDENT

The UK's largest independently owned on site hose replacement company with sales revenue doubled in 7 years.

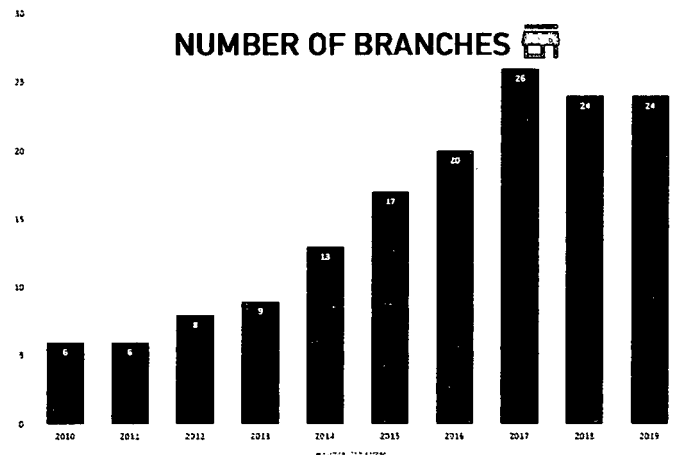
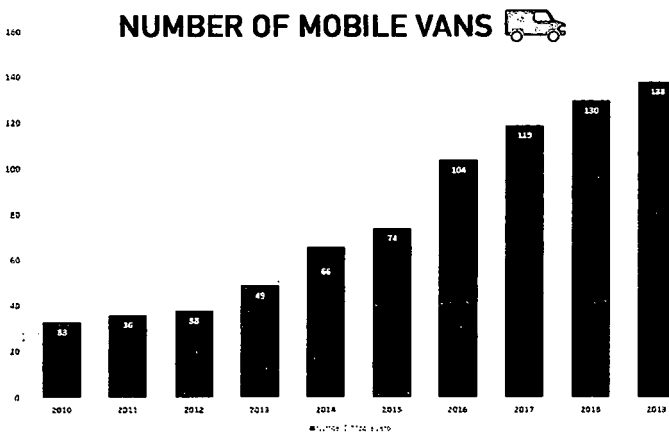


HYDRAQUIP HOSE & HYDRAULICS | FINANCIAL METRICS

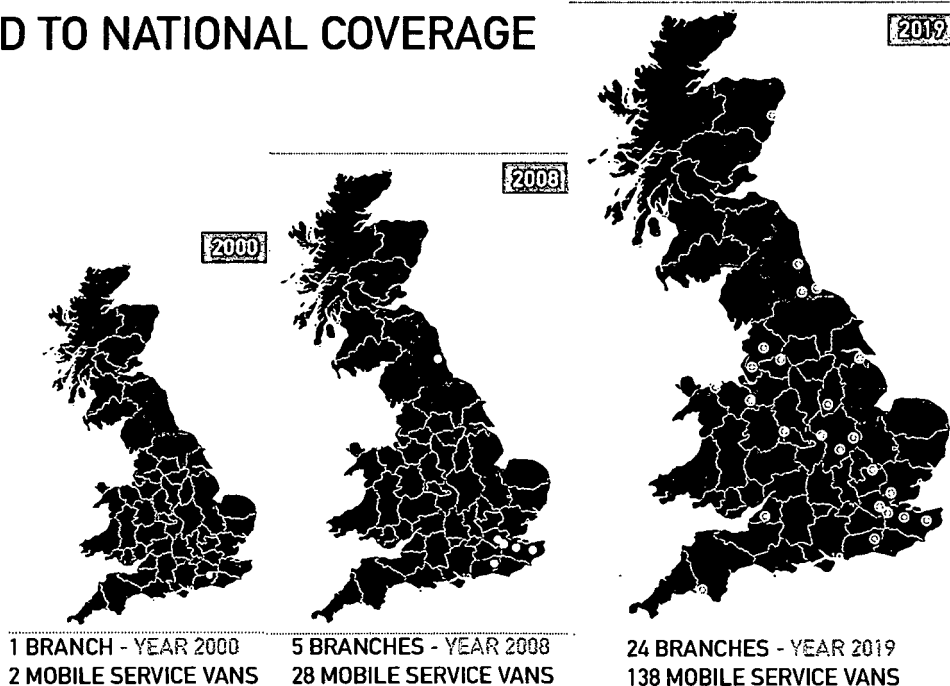
Revenue & Operating Profits for Hydraquip Hose & Hydraulics from the year 2010 to 2019.



The number of Mobile Vans and Branches for Hydraquip Hose & Hydraulics from the year 2010 to 2018.



THE ROAD TO NATIONAL COVERAGE



Hydraquip Hose & Hydraulics Limited

Financial Statements

Year ended 31 December 2019

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Hydraquip Hose & Hydraulics Limited

Officers and Professional Advisers

The board of directors

D M MacBain
F Ennis
J MacBain
J Coulson

Registered office

Swan House
9 Queens Road
Brentwood
Essex
CM14 4HE

Auditor

Tiffin Green Limited
Chartered accountants & statutory auditor
Swan House
9 Queens Road
Brentwood
Essex
CM14 4HE

Hydraquip Hose & Hydraulics Limited

Strategic Report

Year ended 31 December 2019

The directors present their strategic report for Hydraquip Hose & Hydraulics Limited for the year ended 31st December 2019.

REVIEW AND ANALYSIS OF THE BUSINESS

The principal activities of the business during the year remained the supply of Hydraulic Hose, Fittings, components and systems via OEM, Trade Counters and a 24/7 On Site Hose Replacement.

Management uses a range of performance measures to monitor and control the business. The most relevant KPI's are listed below.

The gross profit percentage of the business has increased from 43.2% in 2018 to 46.1% this year, which is an excellent result based on primarily, more efficient purchasing. The net operating margin has increased from 5.44% in 2018 to 6.4% this year, as the company drove operating efficiency and customer service. Net profit has improved as a result, combined with newer branches and mobile service vans coming into profit, together with a move to exit unprofitable business.

2019 was somewhat of a consolidation and focus on profitability. Turnover has decreased slightly from £24,333,918 in 2018 to £24,224,134 this year. Brexit uncertainty continued to play a part in a flatter market and created a slight head wind. To put the previous growth drive into perspective, the business has more than doubled in the five year period from sales in 2014 of £11,525,828. The current market place in the year was generally flat and the company was able to continue to take increased market share with new and existing customers. The management intentionally exited from some unprofitable sectors, which resulted in flat top line sales. This clearly demonstrated substantially improved bottom line results.

Further investment in App technology and our cloud based Job Manager Portal continued to be a significant USP in the market and has contributed to the success of customer satisfaction and retention. The directors are determined to keep driving service improvements and added value to our customer base, recognising this is the key to stability.

The directors are very optimistic about the strength of the business and further growth. However the directors are mindful that the political uncertainty caused by Brexit. means many customers trading conditions are generally flat or spending slightly less. So there was a degree of headwind to achieve this.

The company will continue to invest in IT improvements to deliver even higher levels of transparent service to its customers. Combined with investment and new training and recruitment, the directors are confident it has a robust and resilient plan.

RESULTS AND DIVIDENDS

The profit for the year after taxation, has increased substantially by £407,584 from £1,071,876 to £1,479,460. Dividends of £200,000 have been awarded for the year. The company will continue its present strategy of reinvesting a significant portion of profit, back into the business.

FINANCIAL POSITION AT THE REPORTING DATE

The balance sheet shows that the company's net assets at the year-end have increased from £3,559,366 to £4,838,826.

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE BUSINESS

Management continually monitor the key risks facing the company, together with assessing the controls used for managing these risks. The board of directors formally reviews and documents the principal risks facing the business.

Hydraquip Hose & Hydraulics Limited

Strategic Report *(continued)*

Year ended 31 December 2019

Economic downturn due to Brexit & COVID 19:

The company acknowledges the importance of maintaining close relationships with its key customers in order to be able to identify the early signs of any difficulty in the market. At the time of writing in November 2020 the directors are proud to report that the business has been fantastically resilient during the COVID 19 Worldwide pandemic. The great spread of customers, industry types and geographic locations, helped mitigate the economic downturn risk. The majority of branches have been able to successfully trade throughout the pandemic and the 24/7 Mobile Service has been proven yet again, to be robust and in demand nationally. The directors feel there is future uncertainty with the economy, but the core business has proven to be robust and should not be significantly impacted by any further uncertainty and feels it is very well placed to weather any short term further impact. The company has taken significant strategic measures to ensure uninterrupted supply of any goods from the EU and maintain safe trading through COVID 19

Competitor pressure:

The market that the company operates in, is considered to be very competitive. The company recognises the balance of high quality product, competitive pricing and excellent service and this is what retains and attracts new customers. The company strives to reduce competitor pressure by focussing its energy on improving these three key areas and specifically working on raising service standards.

Mergers and Acquisitions

Past success in Hydraquip has been a blend of organic growth, new branches as well as mergers and acquisitions. Management have prepared a formal plan to acquire competitor businesses and at the time of writing, are in several negotiations of trade acquisitions. They expect that the majority of these transactions will be where the owners are planning to retire, although distress sales are also being considered, especially where the management teams could be brought in to the group to help expand the branch network.

Mergers and part equity stakes are also possible where the owners could benefit from the experienced management of Hydraquip, and the added advantage of its buying power to drive up profit margins.

To this end the Directors have formalised the mergers and acquisitions strategy with a bespoke website explaining the various approaches available, also some of the benefits that considering Hydraquip can bring to privately owned businesses. For further information please visit www.fluidpowergrowth.co.uk or contact Duncan MacBain in complete confidence.

This report was approved by the board of directors on 29 December 2020 and signed on behalf of the board by:

D Macbain

D M MacBain
Director

Hydraquip Hose & Hydraulics Limited

Directors' Report

Year ended 31 December 2019

The directors present their report and the financial statements of the company for the year ended 31 December 2019.

Directors

The directors who served the company during the year were as follows:

D M MacBain
F Ennis
J MacBain

Dividends

Particulars of recommended dividends are detailed in note 13 to the financial statements.

Disclosure of information in the strategic report

The directors have produced a separate strategic report as set out on page 2.

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 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). 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 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 accounting estimates that are reasonable and prudent;
- 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.

Hydraquip Hose & Hydraulics Limited

Directors' Report *(continued)*

Year ended 31 December 2019

Auditor

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

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

This report was approved by the board of directors on 29 December 2020 and signed on behalf of the board by:

D Macbain

D M MacBain
Director

Hydraquip Hose & Hydraulics Limited

Independent Auditor's Report to the Members of Hydraquip Hose & Hydraulics Limited

Year ended 31 December 2019

Opinion

We have audited the financial statements of Hydraquip Hose & Hydraulics Limited (the 'company') for the year ended 31 December 2019 which comprise the statement of income and retained earnings, statement of financial position, statement of cash flows and the related notes, 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 FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (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;
- 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.

Hydraquip Hose & Hydraulics Limited

Independent Auditor's Report to the Members of Hydraquip Hose & Hydraulics Limited *(continued)*

Year ended 31 December 2019

Other information

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

Matters on which we are required to report by exception

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.

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.

Hydraquip Hose & Hydraulics Limited

Independent Auditor's Report to the Members of Hydraquip Hose & Hydraulics Limited *(continued)*

Year ended 31 December 2019

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Hydraquip Hose & Hydraulics Limited

Independent Auditor's Report to the Members of Hydraquip Hose & Hydraulics Limited *(continued)*

Year ended 31 December 2019

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

L Elsworth

Lee Elsworth (Senior Statutory Auditor)

For and on behalf of
Tiffin Green Limited
Chartered accountants & statutory auditor
Swan House
9 Queens Road
Brentwood
Essex
CM14 4HE

29 December 2020

Hydraquip Hose & Hydraulics Limited

Statement of Income and Retained Earnings

Year ended 31 December 2019

	Note	2019 £	2018 £
Turnover	4	24,224,134	24,333,918
Cost of sales		<u>13,053,646</u>	<u>13,813,683</u>
Gross profit		11,170,488	10,520,235
Administrative expenses		<u>9,620,441</u>	<u>9,196,148</u>
Operating profit	5	1,550,047	1,324,087
Income from shares in group undertakings	9	153,958	–
Other interest receivable and similar income	10	1,329	23
Interest payable and similar expenses	11	3,150	–
Profit before taxation		1,702,184	1,324,110
Tax on profit	12	<u>222,724</u>	<u>252,234</u>
Profit for the financial year and total comprehensive income		1,479,460	<u>1,071,876</u>
Dividends paid and payable	13	(200,000)	(90,000)
Retained earnings at the start of the year		3,320,616	2,338,740
Retained earnings at the end of the year		4,600,076	<u>3,320,616</u>

All the activities of the company are from continuing operations.

The notes on pages 13 to 22 form part of these financial statements.

Hydraquip Hose & Hydraulics Limited

Statement of Financial Position

31 December 2019

	Note	2019 £	2018 £
Fixed assets			
Intangible assets	14	45,050	31,198
Tangible assets	15	1,706,232	1,214,236
Investments	16	560,100	100
		<u>2,311,382</u>	<u>1,245,534</u>
Current assets			
Stocks	17	2,678,827	2,721,356
Debtors	18	4,750,907	5,233,282
Cash at bank and in hand		11,834	10,052
		<u>7,441,568</u>	<u>7,964,690</u>
Creditors: amounts falling due within one year	20	<u>4,678,366</u>	<u>5,521,825</u>
Net current assets		<u>2,763,202</u>	<u>2,442,865</u>
Total assets less current liabilities		<u>5,074,584</u>	<u>3,688,399</u>
Provisions			
Taxation including deferred tax	21	235,758	129,033
Net assets		<u>4,838,826</u>	<u>3,559,366</u>
Capital and reserves			
Called up share capital	24	229,608	229,608
Share premium account	25	9,142	9,142
Profit and loss account	25	4,600,076	3,320,616
Shareholders funds		<u>4,838,826</u>	<u>3,559,366</u>

These financial statements were approved by the board of directors and authorised for issue on 29 December 2020, and are signed on behalf of the board by:

D Macbain

D M MacBain
Director

Company registration number: 04937556

The notes on pages 13 to 22 form part of these financial statements.

Hydraquip Hose & Hydraulics Limited

Statement of Cash Flows

Year ended 31 December 2019

	Note	2019 £	2018 £
Cash flows from operating activities			
Profit for the financial year		1,479,460	1,071,876
<i>Adjustments for:</i>			
Depreciation of tangible assets		482,891	316,510
Amortisation of intangible assets		6,148	3,900
Income from shares in group undertakings		(153,958)	–
Other interest receivable and similar income		(1,329)	(23)
Interest payable and similar expenses		3,150	–
Gains on disposal of tangible assets		(1,956)	(14,881)
Tax on profit		222,724	252,234
Accrued (income)/expenses		(107,251)	213,182
<i>Changes in:</i>			
Stocks		42,529	(65,685)
Trade and other debtors		482,375	(427,091)
Trade and other creditors		(328,348)	(896,937)
Cash generated from operations		2,126,435	453,085
Interest paid		(3,150)	–
Interest received		1,329	23
Tax paid		(115,999)	(244,853)
Net cash from operating activities		<u>2,008,615</u>	<u>208,255</u>
Cash flows from investing activities			
Purchase of tangible assets		(1,015,330)	(231,714)
Proceeds from sale of tangible assets		42,399	30,943
Purchase of intangible assets		(20,000)	–
Acquisition of subsidiaries		(560,000)	–
Dividends received		153,958	–
Net cash used in investing activities		<u>(1,398,973)</u>	<u>(200,771)</u>
Cash flows from financing activities			
Proceeds from borrowings		–	(467,356)
Proceeds from loans from group undertakings		62,211	–
Dividends paid		(200,000)	(90,000)
Net cash used in financing activities		<u>(137,789)</u>	<u>(557,356)</u>
Net increase/(decrease) in cash and cash equivalents		471,853	(549,872)
Cash and cash equivalents at beginning of year		(490,116)	59,756
Cash and cash equivalents at end of year	19	<u>(18,263)</u>	<u>(490,116)</u>

The notes on pages 13 to 22 form part of these financial statements.

Hydraquip Hose & Hydraulics Limited

Notes to the Financial Statements

Year ended 31 December 2019

1. General information

The company is a private company limited by shares, registered in England and Wales. The address of the registered office is Swan House, 9 Queens Road, Brentwood, Essex, CM14 4HE.

2. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

3. Accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through profit or loss.

The financial statements are prepared in sterling, which is the functional currency of the entity.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revenue recognition

Turnover is measured at the fair value of the consideration received or receivable for goods supplied and services rendered, net of discounts and Value Added Tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have transferred to the buyer (usually on despatch of the goods); the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the entity; and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

Income tax

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Hydraquip Hose & Hydraulics Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2019

3. Accounting policies *(continued)*

Operating leases

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of lease incentives is recognised as a reduction to expense over the lease term, on a straight-line basis.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful life of that asset as follows:

Goodwill	- 10% straight line
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If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new estimates.

Tangible assets

Tangible assets are initially recorded at cost, and subsequently stated at cost less any accumulated depreciation and impairment losses. Any tangible assets carried at revalued amounts are recorded at the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation, is recognised in other comprehensive income and accumulated in equity, except to the extent it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A decrease in the carrying amount of an asset as a result of revaluation, is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity in respect of that asset. Where a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

Depreciation

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Improvement to premises	- 10% straight line
Plant and machinery	- 15% reducing balance
Fixtures, fittings and equipment	- 15 / 25 % reducing balance
Motor vehicles	- 25% reducing balance

Investments

Fixed asset investments are initially recorded at cost, and subsequently stated at cost less any accumulated impairment losses.

Listed investments are measured at fair value with changes in fair value being recognised in profit or loss.

Investments in associates

Investments in associates accounted for in accordance with the cost model are recorded at cost less any accumulated impairment losses.

Hydraquip Hose & Hydraulics Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2019

3. Accounting policies *(continued)*

Investments in associates *(continued)*

Investments in associates accounted for in accordance with the fair value model are initially recorded at the transaction price. At each reporting date, the investments are measured at fair value, with changes in fair value recognised in other comprehensive income/profit or loss. Where it is impracticable to measure fair value reliably without undue cost or effort, the cost model will be adopted.

Dividends and other distributions received from the investment are recognised as income without regard to whether the distributions are from accumulated profits of the associate arising before or after the date of acquisition.

Investments in joint ventures

Investments in jointly controlled entities accounted for in accordance with the cost model are recorded at cost less any accumulated impairment losses.

Investments in jointly controlled entities accounted for in accordance with the fair value model are initially recorded at the transaction price. At each reporting date, the investments are measured at fair value, with changes in fair value recognised in other comprehensive income/profit or loss. Where it is impracticable to measure fair value reliably without undue cost or effort, the cost model will be adopted.

Dividends and other distributions received from the investment are recognised as income without regard to whether the distributions are from accumulated profits of the joint venture arising before or after the date of acquisition.

Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

For the purposes of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that largely independent of the cash inflows from other assets or groups of assets.

For impairment testing of goodwill, the goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the company are assigned to those units.

Stocks

Stocks are measured at the lower of cost and estimated selling price less costs to complete and sell. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the stock to its present location and condition.

Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense.

Hydraquip Hose & Hydraulics Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2019

3. Accounting policies *(continued)*

Provisions *(continued)*

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

Defined contribution plans

Contributions to defined contribution plans are recognised as an expense in the period in which the related service is provided. Prepaid contributions are recognised as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

When contributions are not expected to be settled wholly within 12 months of the end of the reporting date in which the employees render the related service, the liability is measured on a discounted present value basis. The unwinding of the discount is recognised as a finance cost in profit or loss in the period in which it arises.

4. Turnover

Turnover arises from:

	2019 £	2018 £
Sale of goods	<u>24,224,134</u>	<u>24,333,918</u>

The turnover is attributable to the one principal activity of the company. An analysis of turnover by the geographical markets that substantially differ from each other is given below:

	2019 £	2018 £
United Kingdom	24,005,356	24,111,918
Overseas	<u>218,778</u>	<u>222,000</u>
	<u>24,224,134</u>	<u>24,333,918</u>

5. Operating profit

Operating profit or loss is stated after charging/crediting:

	2019 £	2018 £
Amortisation of intangible assets	6,148	3,900
Depreciation of tangible assets	482,892	316,510
Gains on disposal of tangible assets	(1,956)	(14,881)
Impairment of trade debtors	119,471	160,706
Operating lease rentals	<u>692,247</u>	<u>767,259</u>

Hydraquip Hose & Hydraulics Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2019

6. Auditor's remuneration

	2019	2018
	£	£
Fees payable for the audit of the financial statements	<u>8,000</u>	<u>6,000</u>

7. Staff costs

The average number of persons employed by the company during the year, including the directors, amounted to:

	2019	2018
	No.	No.
Production staff	148	153
Administrative staff	94	92
	<u>242</u>	<u>245</u>

The aggregate payroll costs incurred during the year, relating to the above, were:

	2019	2018
	£	£
Wages and salaries	8,227,049	8,108,743
Social security costs	789,796	791,227
Other pension costs	156,631	107,904
	<u>9,173,476</u>	<u>9,007,874</u>

8. Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services was:

	2019	2018
	£	£
Remuneration	171,156	79,729
Company contributions to defined contribution pension plans	2,263	703
	<u>173,419</u>	<u>80,432</u>

The number of directors who accrued benefits under company pension plans was as follows:

	2019	2018
	No.	No.
Defined contribution plans	<u>2</u>	<u>2</u>

9. Income from shares in group undertakings

	2019	2018
	£	£
Dividends from group undertakings	<u>153,958</u>	<u>—</u>

10. Other interest receivable and similar income

	2019	2018
	£	£
Interest on corporation tax	<u>1,329</u>	<u>23</u>

Hydraquip Hose & Hydraulics Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2019

11. Interest payable and similar expenses

	2019 £	2018 £
Interest on banks loans and overdrafts	<u>3,150</u>	<u>—</u>

12. Tax on profit

Major components of tax expense

	2019 £	2018 £
Current tax:		
UK current tax expense	188,793	251,690
Adjustments in respect of prior periods	<u>(72,794)</u>	<u>(6,837)</u>
Total current tax	<u>115,999</u>	<u>244,853</u>
Deferred tax:		
Origination and reversal of timing differences	<u>106,725</u>	<u>7,381</u>
Tax on profit	<u>222,724</u>	<u>252,234</u>

Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the year is lower than (2018: higher than) the standard rate of corporation tax in the UK of 19% (2018: 19%).

	2019 £	2018 £
Profit on ordinary activities before taxation	<u>1,702,184</u>	<u>1,324,110</u>
Profit on ordinary activities by rate of tax	323,415	251,581
Adjustment to tax charge in respect of prior periods	<u>(72,794)</u>	<u>(6,837)</u>
Effect of expenses not deductible for tax purposes	<u>(27,897)</u>	<u>741</u>
Effect of capital allowances and depreciation	<u>(106,725)</u>	<u>(632)</u>
Deferred taxation charge	<u>106,725</u>	<u>7,381</u>
Tax on profit	<u>222,724</u>	<u>252,234</u>

13. Dividends

	2019 £	2018 £
Dividends paid during the year (excluding those for which a liability existed at the end of the prior year)	<u>200,000</u>	<u>90,000</u>

Hydraquip Hose & Hydraulics Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2019

14. Intangible assets

	Goodwill £
Cost	
At 1 January 2019	41,479
Additions	—
Acquisitions through business combinations	20,000
At 31 December 2019	61,479
Amortisation	
At 1 January 2019	10,281
Charge for the year	6,148
At 31 December 2019	16,429
Carrying amount	
At 31 December 2019	45,050
At 31 December 2018	31,198

15. Tangible assets

	Land and buildings £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Total £
Cost					
At 1 January 2019	65,003	696,099	435,499	1,619,486	2,816,087
Additions	2,240	54,773	15,317	943,000	1,015,330
Disposals	—	—	—	(194,939)	(194,939)
At 31 December 2019	67,243	750,872	450,816	2,367,547	3,636,478
Depreciation					
At 1 January 2019	17,136	334,288	267,437	982,990	1,601,851
Charge for the year	6,724	61,462	29,942	384,763	482,891
Disposals	—	—	—	(154,496)	(154,496)
At 31 December 2019	23,860	395,750	297,379	1,213,257	1,930,246
Carrying amount					
At 31 December 2019	43,383	355,122	153,437	1,154,290	1,706,232
At 31 December 2018	47,867	361,811	168,062	636,496	1,214,236

Hydraquip Hose & Hydraulics Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2019

16. Investments

	Shares in group undertakings £
Cost	
At 1 January 2019	100
Additions	560,000
At 31 December 2019	560,100
Impairment	
At 1 January 2019 and 31 December 2019	—
Carrying amount	
At 31 December 2019	560,100
At 31 December 2018	100

Investments in associates and joint ventures

Valuation £560,100 at 31st December 2019.

17. Stocks

	2019 £	2018 £
Finished goods and goods for resale	2,678,827	2,721,356

18. Debtors

	2019 £	2018 £
Trade debtors	4,321,248	4,930,952
Prepayments and accrued income	254,061	160,858
Corporation tax repayable	154,747	58,417
Other debtors	20,851	83,055
	4,750,907	5,233,282

19. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2019 £	2018 £
Cash at bank and in hand	11,834	10,052
Bank overdrafts	(30,097)	(500,168)
	(18,263)	(490,116)

Hydraquip Hose & Hydraulics Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2019

20. Creditors: amounts falling due within one year

	2019	2018
	£	£
Bank loans and overdrafts	30,097	500,168
Trade creditors	1,688,115	2,005,136
Amounts owed to group undertakings	62,211	—
Accruals and deferred income	335,212	442,463
Social security and other taxes	579,847	759,519
Factoring	1,940,081	1,812,892
Other creditors	42,803	1,647
	<u>4,678,366</u>	<u>5,521,825</u>

21. Provisions

	Deferred tax (note 22)
	£
At 1 January 2019	129,033
Other movements 1	106,725
At 31 December 2019	<u>235,758</u>

22. Deferred tax

The deferred tax included in the statement of financial position is as follows:

	2019	2018
	£	£
Included in provisions (note 21)	<u>235,758</u>	<u>129,033</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2019	2018
	£	£
Accelerated capital allowances	<u>235,758</u>	<u>129,033</u>

23. Employee benefits

Defined contribution plans

The amount recognised in profit or loss as an expense in relation to defined contribution plans was £154,368 (2018: £107,201).

24. Called up share capital

Issued, called up and fully paid

	2019		2018	
	No.	£	No.	£
Ordinary A shares of £1 each	<u>229,608</u>	<u>229,608</u>	<u>229,608</u>	<u>229,608</u>

Hydraquip Hose & Hydraulics Limited

Notes to the Financial Statements *(continued)*

Year ended 31 December 2019

25. Reserves

Share premium account - This reserve records the amount above the nominal value received for shares sold, less transaction costs. Revaluation reserve - This reserve records the value of asset revaluations and fair value movements on assets recognised in other comprehensive income. Profit and loss account - This reserve records retained earnings and accumulated losses.

26. Analysis of changes in net debt

	At 1 Jan 2019	Cash flows	At 31 Dec 2019
	£	£	£
Cash at bank and in hand	10,052	1,782	11,834
Bank overdrafts	(500,168)	470,071	(30,097)
Debt due within one year	—	(62,211)	(62,211)
	<u>(490,116)</u>	<u>409,642</u>	<u>(80,474)</u>

27. Operating leases

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

	2019	2018
	£	£
Not later than 1 year	304,865	408,970
Later than 1 year and not later than 5 years	631,965	1,142,492
Later than 5 years	70,000	102,797
	<u>1,006,830</u>	<u>1,654,259</u>