

HCS Control Systems Group Limited

Annual report and financial statements

For the year ended 31 December 2019

Registered number: SC427652



HCS Control Systems Group Limited

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HCS Control Systems Group Limited

Officers and professional advisers

Directors

K Balfour
G Welsh
N McGuinness

Company secretary

Burness Paull LLP

Registered Office

Unit V2
Viewfield Road
Viewfield Industrial Estate
Glenrothes
KY6 2QX

Registered Number

SC427652

Independent auditor

Deloitte LLP
Aberdeen
United Kingdom

HCS Control Systems Group Limited

Strategic report

The directors present their strategic report for the year ended 31 December 2019. HCS Control Systems Group Limited ("the Company") was incorporated on 4 July 2012. On 14 June 2013, the Company acquired 100% of the issued share capital of HCS Controls Systems (Holdings) Limited. Prior to this date the Company did not trade.

Principal activities

The principal activity of HCS Control Systems Group Limited is a holding company.

The principal activity of the Company and its subsidiaries ("the Group") is that they specialise in the design, in-house manufacture, assembly and test and servicing of equipment for the subsea oil and gas industry worldwide.

Results and business review and key performance indicators

These financial statements have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102") including comparatives.

The directors consider turnover, operating and net profit to be key performance indicators in their ability to monitor the Group's strategic and operational effectiveness. The Board are pleased to note that turnover increased by more than 45% over 2018 and EBITDA increased by over 36% to £1.1m.

The loss for the year before taxation was £416,797 (2018: loss £1,662,548).

Principal risks and uncertainties

The Group faces the economic risks associated with the oil sector, particularly the oil price and level of offshore exploration. The price of oil was relatively stable in 2019 and that increased the level of activity in the industry and allowed the Group to significantly increase its turnover.

Future developments

The market improvement in 2019 allowed the Group to move back into profitable trading at the EBITDA level. 2020 has thrown new challenges at us with the Covid19 pandemic and the effects on crude oil prices and the activity levels in the industry. That said, the Board has been encouraged by the resilience of the Group's businesses in 2020 as they have maintained profitability and cash generation throughout 2020 and we remain hopeful this will continue.

Brexit

Brexit, and the outcome of the negotiations between the UK and the EU, is clearly an uncertainty that will affect the Group's businesses throughout 2020 and beyond. The majority of our equipment sales are either to UK based clients, or to clients further afield than the EU. Similarly, our manpower is focussed on the North Sea, the Gulf of Mexico and the Far East. We conclude therefore that Brexit does not represent a significant risk to the Group's activities, and our planning, together with the planning of our supply chain, means we will be able to trade effectively after the end of the transition period.

Going concern

The Covid19 situation has placed greater focus than ever on the adoption of the going concern concept for the preparation of Group's accounts. In line with the recommendations of the Financial Reporting Council, a board paper was presented to our August 2020 Group board meeting detailing the work carried out by each of our companies in terms of financial projections, scenario planning and cost mitigations in light of the market downturn. Our scenario planning included losing significant levels of turnover, individual large clients and debtor days increasing significantly.

The Group prepared a reforecast for 2020 and an outline budget for 2021 including profit and loss account, cash flow and balance sheet projections. The Group updates these reforecasts regularly throughout the remainder of the year. At 31 December 2019 the Company has net current liabilities of £1,773,430 (2018: £1,171,613) including £2,597,978 (2018: £1,987,378) of accrued interest costs (note 16).

The Group continues to maintain an absolute focus on working capital management and in particular debtor recoverability. Additionally, the Group benefits from a supportive shareholders who continues to support the business with increasing levels of finance.

The projections for Group for 2020 and beyond give confidence to the board that the Group will be able to meet its liabilities as they fall due from its existing facilities.

HCS Control Systems Group Limited

Strategic report (continued)

Financial risk management objectives and policies

The Group's activities expose it to a number of financial risks including foreign currency exposure, credit risk and liquidity risk.

Foreign currency risk

We minimise our foreign currency exposure by billing the vast majority of our clients in Sterling thereby eliminating the exposure to currency fluctuation. The cost base of the Group is almost exclusively in Sterling.

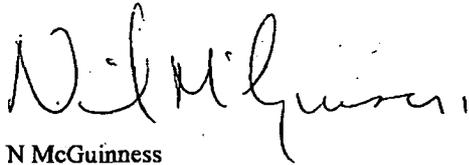
Credit risk

The Group's principal credit risk is in trade debtors. The Group's clients tend to be large multi-nationals with high credit ratings. At times there is a concentration risk where debts are due from a small number of large customers. An appropriate provision is made in the accounts where the Group believe there is a question over the recoverability of the debt.

Liquidity risk

The Group forecasts future cashflows to ensure sufficient facilities are available to support on-going operations. Liquidity risk can increase if a large customer delays any payment. The Group maintains vigilance in credit control and reforecast regularly, to ensure projections remain up to date.

Approved by the Board and signed on its behalf by:



N McGuinness
Director

26 November 2020

HCS Control Systems Group Limited

Directors' responsibilities statement

The directors present their annual report with the consolidated financial statements of the Group for the year ended 31 December 2019.

Directors

The directors who served during the year and to the date of this report were:

K Balfour
N McGuinness
G Welsh

Dividends

No dividends were paid or declared in the year (2018: £nil).

Future developments, going concern, financial risk objectives and policies and events after the balance sheet date

Details of future developments, going concern, financial risk objectives and policies and events that have occurred after the balance sheet date can be found in the Strategic Report on pages 2-3 and form part of this report by cross-reference.

Disclosure of information to the auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor's area aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

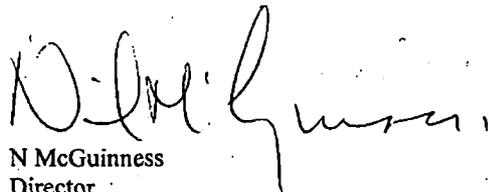
Events after the balance sheet date

The Covid19 pandemic has been the most significant event of 2020. However, the Group has continued to trade profitably to date at operational level, and the board are confident we will continue to do so. There remains uncertainty surrounding the full effects of the second wave of Covid, any reintroduced national lockdown and the ongoing restrictions on international travel. The financial impact of these uncertainties is difficult to predict with any degree of certainty. No adjustments have been made in the 2019 accounts.

Auditor

Deloitte LLP has indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed auditors in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:



N McGuinness
Director

26 November 2020

HCS Control Systems Group Limited

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report to the members of HCS Control Systems Group Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent Company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of HCS Control Systems Group Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated profit and loss account and statement of comprehensive loss;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of HCS Control Systems Group Limited (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

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 group's and the parent 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 group or the parent 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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent auditor's report to the members of HCS Control Systems Group Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

We have nothing to report in respect of these matters

Use of our report

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

L Cowie

Lyn Cowie, CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Aberdeen, United Kingdom
30 November 2020

HCS Control Systems Group Limited

Consolidated profit and loss account and statement of comprehensive loss For the year ended 31 December 2019

	Note	2019 £	2018 £
Turnover	3	15,597,343	10,711,095
Cost of sales		(12,136,099)	(8,052,981)
Gross profit		<u>3,461,244</u>	<u>2,658,114</u>
Administrative expenses - recurring		(2,903,411)	(3,045,921)
Other operating income		557,833	(387,807)
		<u>3,848</u>	<u>1,310</u>
Operating income / (loss)		<u>561,681</u>	<u>(386,497)</u>
Interest payable and similar charges	4	(978,478)	(1,276,051)
Loss on ordinary activities before taxation	5	(416,797)	(1,662,548)
Tax charge on loss on ordinary activities	8	-	(59,226)
Loss for the financial year		<u>(416,797)</u>	<u>(1,721,774)</u>
Other comprehensive income / (loss)			
Foreign currency translation		376	(841)
Total other comprehensive income/(loss)		<u>376</u>	<u>(841)</u>
Total comprehensive loss for the year		<u>(416,421)</u>	<u>(1,722,615)</u>
Total comprehensive loss for the year attributable to:			
Non-controlling interest		(13,541)	(130,443)
Equity shareholders of the Company		(402,880)	(1,592,172)
		<u>(416,421)</u>	<u>(1,722,615)</u>

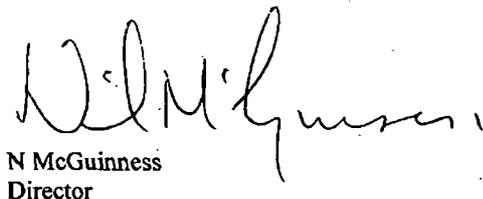
All of the results for the current year and prior year are derived from continuing operations.

HCS Control Systems Group Limited

Consolidated balance sheet As at 31 December 2019

	Notes	2019 £	2018 £
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	1,008,621	699,643
		<u>1,008,621</u>	<u>699,643</u>
Current assets			
Stocks	13	344,657	601,103
Debtors	14	6,133,128	3,322,923
Cash at bank and in hand		117,484	18,041
		<u>6,595,269</u>	<u>3,942,067</u>
Creditors: amounts falling due within one year	15	<u>(7,374,587)</u>	<u>(4,280,561)</u>
Net current liabilities		<u>(779,318)</u>	<u>(338,494)</u>
Total assets less current liabilities		<u>229,303</u>	<u>361,149</u>
Creditors: amounts falling due after more than one year	16	<u>(13,405,604)</u>	<u>(13,121,029)</u>
Net liabilities		<u>(13,176,301)</u>	<u>(12,759,880)</u>
Capital and reserves			
Called-up share capital	17	22,504	22,504
Share premium account	17	1,061,002	1,061,002
Foreign currency translation reserve	17	(9,618)	(9,994)
Profit and loss account	17	(14,145,405)	(13,742,149)
Shareholders' deficit		<u>(13,071,517)</u>	<u>(12,668,637)</u>
Non-controlling interest		<u>(104,784)</u>	<u>(91,243)</u>
Total capital employed		<u>(13,176,301)</u>	<u>(12,759,880)</u>

The financial statements of HCS Control Systems Group Limited (registered number SC427652) were approved by the Board of Directors and authorised for issue on 26 November 2020. They were signed on behalf of the Board by:



N McGuinness
Director

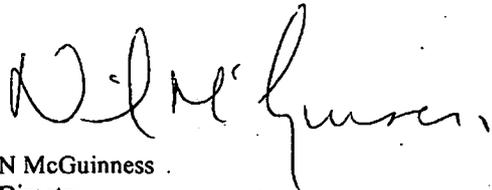
HCS Control Systems Group Limited

Company balance sheet As at 31 December 2019

	Notes	2019 £	2018 £
Fixed assets			
Investments	12	<u>4,000,000</u>	<u>4,000,000</u>
Current assets			
Debtors	14	848,003	819,071
Cash at bank and in hand		755	664
		<u>848,758</u>	<u>819,735</u>
Creditors: amounts falling due within one year	15	<u>(2,622,188)</u>	<u>(1,991,348)</u>
Net current liabilities		<u>(1,773,430)</u>	<u>(1,171,613)</u>
Total assets less current liabilities		2,226,570	2,828,387
Creditors: amounts falling due after more than one year	16	<u>(13,405,604)</u>	<u>(13,112,128)</u>
Net liabilities		<u>(11,179,034)</u>	<u>(10,283,741)</u>
Capital and reserves			
Called-up share capital	17	22,504	22,504
Share premium account	17	1,061,002	1,061,002
Profit and loss account	17	<u>(12,262,540)</u>	<u>(11,367,247)</u>
Shareholders' deficit		<u>(11,179,034)</u>	<u>(10,283,741)</u>

The loss for the financial year included in the financial statements of the parent company was £895,293 (2018: £1,215,028). As permitted by section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company.

The financial statements of HCS Control Systems Group Limited (registered number SC427652) were approved by the Board of Directors and authorised for issue on 26 November 2020. They were signed on behalf of the Board by:



N McGuinness
Director

HCS Control Systems Group Limited

Consolidated statement of changes in equity For the year ended 31 December 2019

	Equity attributable to equity shareholders of the Group						
	Called-up share capital £	Share premium account £	Foreign currency translation reserve £	Profit and loss account £	Total £	Non- controlling interest £	Total £
At 31 December 2017	22,504	1,061,002	(9,153)	(12,150,818)	(11,076,465)	-	(11,076,465)
Loss for the financial year	-	-	-	(1,591,331)	(1,591,331)	(130,443)	(1,721,774)
Other comprehensive loss	-	-	(841)	-	(841)	-	(841)
Associate share capital	-	-	-	-	-	39,200	39,200
Total comprehensive loss	-	-	(841)	(1,591,331)	(1,592,172)	(130,443)	(1,722,615)
At 31 December 2018	22,504	1,061,002	(9,994)	(13,742,149)	(12,668,637)	(91,243)	(12,759,880)
Loss for the financial year	-	-	-	(403,256)	(403,256)	(13,541)	(416,797)
Other comprehensive income	-	-	376	-	376	-	376
Associate share capital	-	-	-	-	-	-	-
Total comprehensive loss	-	-	376	(403,256)	(402,880)	(13,541)	(416,421)
At 31 December 2019	<u>22,504</u>	<u>1,061,002</u>	<u>(9,618)</u>	<u>(14,145,405)</u>	<u>(13,071,517)</u>	<u>(104,784)</u>	<u>(13,176,301)</u>

HCS Control Systems Group Limited

Company statement of changes in equity For the year ended 31 December 2019

Equity attributable to equity shareholders of the Company

	Called-up share capital £	Share premium account £	Profit and loss account £	Total £
At 31 December 2017	22,504	1,061,002	(10,152,219)	(9,068,713)
Loss for the financial year	-	-	(1,215,028)	(1,215,028)
Total comprehensive loss	-	-	(1,215,028)	(1,215,028)
At 31 December 2018	22,504	1,061,002	(11,367,247)	(10,283,741)
Loss for the financial year	-	-	(895,293)	(895,293)
Total comprehensive loss	-	-	(895,293)	(895,293)
At 31 December 2019	22,504	1,061,002	(12,262,540)	(11,179,034)

HCS Control Systems Group Limited

Consolidated cash flow statement For the year ended 31 December 2019

	Note	2019 £	2018 £
Net cash flows from operating activities	18	359,469	(280,356)
Cash flows from investing activities			
Purchase of tangible assets		(743,301)	(263,175)
Issue of new shares		-	40,800
Net cash flows used in investing activities		(743,301)	(222,375)
Cash flows from financing activities			
Interest paid		(74,027)	(62,049)
Net movement in bank overdrafts and loans		570,653	-
Repayment of obligations under finance lease		(13,351)	(9,737)
Net cash flows used in financing activities		483,275	(71,786)
Net increase/(decrease) in cash and cash equivalents		99,443	(574,517)
Cash and cash equivalents at beginning of year		18,041	592,558
Cash and cash equivalents at end of year		117,484	18,041
Reconciliation to cash and cash equivalents			
Cash at bank and in hand		117,484	18,041

HCS Control Systems Group Limited

Notes to the financial statements

For the year ended 31 December 2019

1. Significant accounting policies

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

a. General information and basis of accounting

HCS Control Systems Group Limited is a company limited by shares incorporated in Scotland under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the strategic report on page 2.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of HCS Control Systems Group Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are presented in pounds sterling.

HCS Control Systems Group Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, related party transactions within the group and preparation of a separate cash flow statement.

b. Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

c. Going concern

As explained in strategic report, the Covid19 situation has placed greater focus than ever on the adoption of the going concern concept for the preparation of Group's accounts. In line with the recommendations of the Financial Reporting Council, a board paper was presented to our August 2020 Group board meeting detailing the work carried out by each of our companies in terms of financial projections, scenario planning and cost mitigations in light of the market downturn. Our scenario planning included losing significant levels of turnover, individual large clients and debtor days increasing significantly.

The Group prepared a reforecast for 2020 and an outline budget for 2021 including profit and loss account, cash flow and balance sheet projections. The Group updates these reforecasts regularly throughout the remainder of the year. At 31 December 2019 the Company has net current liabilities of £1,773,430 (2018: £1,171,613) including £2,597,978 (2018:£1,987,378) of accrued interest costs (note 16).

The Group continues to maintain an absolute focus on working capital management and in particular debtor recoverability. Additionally, the Group benefits from a supportive shareholders who continues to support the business with increasing levels of finance. The projections for Group for 2020 and beyond give confidence to the board that the Group will be able to meet its liabilities as they fall due from its existing facilities..

d. Stocks

Raw materials are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving stock. Accounting of work in progress is covered under long term contracts (paragraph k below).

e. Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life of 5 years. Provision is made for any impairment.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Significant accounting policies (continued)

f. Intangible assets – patents and trademarks

Patents and trademarks are included at cost and depreciated in equal annual instalments over a period of up to five years which is their estimated useful economic life. Provision is made for any impairment.

g. Development costs

Development expenditure is written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is capitalised as an intangible asset and amortised over the period during which the Group is expected to benefit. This period is between three and five years. Provision is made for any impairment.

h. Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life, as follows:

Leasehold improvements	over period of lease
Plant and machinery	25% on reducing balance
Office equipment	25% on reducing balance
Motor vehicles	25% on reducing balance

i. Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

j. Turnover

Turnover represents the value of goods and services provided in the normal course of business, net of Value Added Taxes and discounts. Turnover is recognised when goods are sold, being the point at which risks and rewards of ownership are transferred to the customer. Turnover is recognised on long-term contracts as set out in the respective accounting policy below.

k. Long-term contracts

Turnover is calculated by reference of the value of work performed to date as a proportion of the total contract value. If the final outcome can be assessed with reasonable certainty, profit is recognised on long-term contracts by including it in the profit and loss account turnover and related costs, as contract activity progresses.

Where the invoiced value of work performed on a long-term contract is less than the actual value of work performed, the difference is recorded as amounts recoverable on long-term contracts and included within debtors due within one year.

Where invoices issued to customers exceed the value of the work performed on a long-term contract the excess amounts are recorded as amounts payable under long-term contracts and included within creditors falling due within one year.

Where actual cost spent as at year end is greater than cost estimated as a proportion of the total contract value, work in progress ("WIP") balance and accrued costs are recognised within inventory and creditors falling due within one year correspondingly.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Significant accounting policies (continued)

l. Employee benefits

The group operates a defined contribution pension scheme. Contributions payable to the pension scheme are charged to the profit and loss account in the period to which they relate. Differences between contributions payable in the year and contributions actually paid are included as a creditor and paid in arrears.

m. Foreign currency

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

n. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Assets held by the Group under finance leases are recognized as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised directly to the statement of comprehensive income and are classified as finance costs.

o. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities of the Group are represented by cash and cash equivalents, account receivables, borrowings, account payables and other financial liabilities.

When a financial asset or financial liability is recognised initially, it is measured at transaction price unless the arrangement constitutes, in effect, a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is initially measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

The Group has no financial instruments that upon their initial recognition are designated as at fair value through profit or loss. Therefore, subsequent to initial recognition financial asset and liabilities of the Group are measured at amortised cost using the effective interest method, unless they are classified as payable or receivable within one year on initial recognition, in which case they are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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

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

The accounting policies for key financial instruments held by the Group are set out below in this Note.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Significant accounting policies (continued)

Accounts receivable

Accounts receivable held by the Group, are non-interest bearing and current, and are stated at transaction price, which approximate their fair value at initial recognition. Appropriate allowances for estimated irrecoverable amounts are recognised subsequent to initial recognition in the profit and loss statement when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash with banks, and deposits with an original maturity of less than three months.

Bank loans, loan notes and preference shares ("Borrowings")

Borrowings are initially measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument which is normally approximated by the amount of net proceeds received, and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds and the settlement or redemption amount is recognised over the term of the borrowings and recorded as finance costs.

Trade and other accounts payable

Accounts payable are short term and are measured at the undiscounted amount of the cash or other consideration expected to be paid which normally constitute a transaction price.

p. Investments

Investments in subsidiaries are valued at cost less provision for impairment.

2. Critical accounting judgements and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. There were no critical judgements, apart from those involving estimations (that are dealt with separately below), that the directors made in the process of applying the group's accounting policies.

Key source of estimation uncertainty

Impairment of investment in subsidiary

Determining whether investments are impaired requires an estimations of the investments' value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate the present values. The carrying amount of the investment in HCS Control Systems (Holdings) Limited at the balance sheet date was £4,000,000.

Percentage of completion of long term contracts

As described in note 1 the directors of the Company estimate the percentage stage of completion of long term contracts to determine revenue, amounts recoverable on contract, WIP as well as cost accrued on these contracts during the year. In making their judgement on the percentage of a contract completion, directors assess costs to complete as the proportion of the total costs budgeted as well as time patterns of a contract execution.

3. Turnover

Turnover represents amounts derived from the contracts for provision of goods which fall within the Group's principal activity, excluding Value Added Taxes.

HCS Control Systems Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

No analysis of turnover is provided as the directors believe this would be prejudicial to the best interests of the Group.

4. Interest payable and similar charges

	2019 £	2018 £
10% Secured loan notes 2022 interest	610,600	610,600
10% Unsecured loan notes 2022 interest	97,075	97,075
10% C and E shares yield	196,400	196,400
10% Secured loan notes premium	-	263,424
Amortisation of deal fees	5,000	46,502
Bank interest and similar charges	66,831	56,814
Hire purchase interest	2,572	3,215
Shareholder loan interest	-	2,021
	<u>978,478</u>	<u>1,276,051</u>

5. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2019 £	2018 £
Amortisation of goodwill (note 10)	-	634,903
Depreciation of tangible fixed assets (note 11)	377,436	306,688
Operating lease rentals	142,500	236,382
Loss on disposal of fixed assets	56,887	362
	<u>576,823</u>	<u>1,178,335</u>

HCS Control Systems Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

5. Loss on ordinary activities before taxation (continued)

The analysis of the auditor's remuneration is as follows:

	2019 £	2018 £
Fees payable to the Company's auditor and its associates for the audit of the Group's annual accounts	26,500	22,000
Fees payable to the Company's auditor and its associates for other services to the Group tax services	10,500	14,000
Total fees	37,000	36,000

The fees above are the total fees paid for the audit of the entire group. In the opinion of the directors, it is not practical to apportion audit or tax fees between group companies.

6. Staff numbers and costs

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

	2019 Number	2018 Number
Directors	3	3
Management and administration staff	30	31
Workshop staff	46	27
	<u>79</u>	<u>61</u>

Their aggregate remuneration including directors comprised:

	2019 £	2018 £
Wages and salaries	3,828,012	2,504,432
Social security costs	431,746	281,683
Pension costs	144,162	71,573
	<u>4,403,920</u>	<u>2,857,688</u>

HCS Control Systems Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

7. Directors' remuneration and transactions

	2019 £	2018 £
Directors' remuneration		
Emoluments	218,000	158,000
	<u>218,000</u>	<u>158,000</u>
	218,000	158,000
	<u>218,000</u>	<u>158,000</u>
	2019 £	2018 £
Remuneration of the highest paid director:		
Emoluments	128,000	158,000
	<u>128,000</u>	<u>158,000</u>
	128,000	158,000
	<u>128,000</u>	<u>158,000</u>

8. Tax on loss on ordinary activities

The tax credit comprises:

	2019 £	2018 £
Current tax on loss on ordinary activities		
Adjustment in respect of prior periods	-	(974)
Foreign tax suffered	-	60,200
	<u>-</u>	<u>59,226</u>
Total current tax	-	59,226
	<u>-</u>	<u>-</u>
Total deferred tax	-	-
	<u>-</u>	<u>-</u>
Total tax credit on loss on ordinary activities	-	59,226
	<u>-</u>	<u>59,226</u>

Finance Bill 2016 enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020. However, in the March 2020 Budget it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As substantive enactment is after the balance sheet date, deferred tax balances as at 31 December 2019 continue to be measured at a rate of 17%. If the amended tax rate had been used, the deferred tax impact would be immaterial.

HCS Control Systems Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

8. Tax on loss on ordinary activities (continued)

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

	2019	2018
	£	£
Group loss on ordinary activities before tax	<u>(416,797)</u>	<u>(1,662,548)</u>
Tax on Group loss on ordinary activities at standard UK corporation tax rate of 19% per cent (2018: 19.00%)	(79,191)	(315,884)
Effects of:		
- Income not taxable	-	-
- Expenses not deductible for tax purposes	131,335	399,951
- Adjustments to tax charge in respect of prior periods	-	(974)
- Effects of overseas tax rates	-	48,762
- Deferred tax not provided	(52,144)	(72,629)
Group total tax charge/(credit) for year	<u>-</u>	<u>59,226</u>

In addition there is an unrecognised deferred tax asset of £ 510,638 (2018: £ 241,789) relating to losses £ 239,014 (2018: £ 151,775), fixed asset timing differences £ 13,955 (2018: £ 87,987) and short term timing differences £ 2,350 (2018: £ 2,027). The deferred tax asset is unrecognised due to the uncertainty over timing of future profits against which to relieve the assets.

9. Loss attributable to the Company'

The loss for the financial included with in the financial statements of the parent Company was £ 895,293 (2018: £ 1,215,028). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent Company.

HCS Control Systems Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

10. Intangible fixed assets

Group	Development costs £	Goodwill £	Total £
Cost			
At 1 January 2019	246,039	6,926,056	7,172,095
At 31 December 2019			
Accumulated amortisation			
At 1 January 2019	246,039	6,926,056	7,172,095
At 31 December 2019	246,039	6,926,056	7,172,095
Net book value			
At 31 December 2019	-	-	-
At 31 December 2018	-	-	-

Amortisation of intangible fixed assets is included in administrative expenses.

11. Tangible fixed assets

Group	Leasehold improvements £	Plant and machinery £	Office equipment £	Motor vehicles £	Total £
Cost					
At 1 January 2019	284,019	1,750,154	300,284	38,613	2,373,070
Additions	69,726	604,834	58,746	9,995	743,301
Disposals	-	(673,258)	-	-	(673,258)
At 31 December 2019	353,745	1,681,730	359,030	48,608	2,443,113
Accumulated depreciation					
At 1 January 2019	179,702	1,290,217	190,800	12,708	1,673,427
Charge for the year	52,561	279,407	36,700	8,768	377,436
Disposals	-	(616,371)	-	-	(616,371)
At 31 December 2019	232,263	953,253	227,500	21,476	1,434,492
Net book value					
At 31 December 2019	121,482	728,477	131,530	27,132	1,008,621
At 31 December 2018	104,317	459,937	109,484	25,905	699,643

HCS Control Systems Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

11. Tangible fixed assets (continued)

Leased assets included above:

Group	Leasehold improvements £	Plant and machinery £	Office equipment £	Motor vehicles £	Total £
Net book value					
At 31 December 2019	7,889	36,515	-	22,398	66,802
At 31 December 2018	19,722	-	-	19,593	39,315

12. Fixed asset investments

	2019 £
Cost	
At 1 January and 31 December	8,117,777
Provision for impairment	
At 1 January and 31 December	4,117,777
Net book value	
At 31 December 2019	4,000,000

Principal Company's investments

The company has investments in the following subsidiary undertakings which principally affected the profits or net assets of the Group.

Subsidiary undertakings	Country of incorporation or principal business address	Principal activity	Holding	Holding %
HCS Control Systems (Holdings) Limited +	Scotland	Holding Company	Ordinary shares	100
HCS Control Systems Limited	Scotland	Equipment design, manufacturing and testing	Ordinary shares	100
HCS Control Systems LLC	USA	Equipment design, manufacturing and testing	Ordinary shares	100
HCS Aberdeen Limited +	Scotland	Equipment design, manufacturing and testing	Ordinary shares	51

+ Held by HCS Control Systems Limited.

The registered address of HCS Control Systems (Holdings) Limited, HCS Control Systems Limited and HCS Aberdeen Limited is Unit V2 Viewfield Road, Viewfield Industrial Estate, Glenrothes, KY6 2QX.

The registered address of HCS Control Systems LLC is 1675 South State St, Suite B, Dover, Delaware 19901.

HCS Control Systems Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

13. Stocks

Group	2019 £	2018 £
Raw materials and consumables	131,036	143,693
Work in progress	213,621	457,410
	<u>344,657</u>	<u>601,103</u>

14. Debtors

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Trade debtors	2,597,825	1,910,000	-	-
Amounts owed by Group undertakings	-	-	824,520	808,953
Amounts recoverable on contracts in progress	3,124,898	1,006,843	-	-
Prepayments	85,301	66,445	23,483	10,118
Accrued income	62,500	15,800	-	-
Other taxation	244,135	323,835	-	-
Other debtors	18,451	-	-	-
	<u>6,133,128</u>	<u>3,322,923</u>	<u>848,003</u>	<u>819,071</u>

Amounts owed to group undertakings are interest free and repayable on demand.

15. Creditors: amounts falling due within one year

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Bank loans and overdrafts	1,073,982	503,329	-	-
Hire purchase contracts (note 16)	8,902	13,353	-	-
10% Secured loan notes 2022 interest (note 16)	2,597,978	1,987,378	2,597,978	1,987,378
Trade creditors	1,396,312	944,654	20,287	-
Social security and other taxes	224,601	154,861	3,923	-
Other creditors	20,991	78,105	-	-
Accruals	1,679,033	598,881	-	3,970
Amounts owed to related party	372,788	-	-	-
	<u>7,374,587</u>	<u>4,280,561</u>	<u>2,622,188</u>	<u>1,991,348</u>

HCS Control Systems Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2019

16. Creditors: amounts falling due after one year

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
10% Secured loan notes 2022	6,106,000	6,106,000	6,106,000	6,106,000
10% Secured loan notes 2022 premium	2,442,400	2,442,400	2,442,400	2,442,400
10% Unsecured loan notes	970,745	970,745	970,745	970,745
10% Unsecured loan notes 2022 accrued interest	635,905	538,830	635,905	538,830
10% C and E shares	1,964,000	1,964,000	1,964,000	1,964,000
10% C and E shares yield	1,286,554	1,090,154	1,286,554	1,090,154
Hire purchase contracts	-	8,900	-	-
	<u>13,405,604</u>	<u>13,121,029</u>	<u>13,405,604</u>	<u>13,112,128</u>

Borrowings are repayable as follows:

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Borrowings				
Within one year (Note 15)	3,680,862	2,504,060	2,597,978	1,987,378
Between two and five years	13,405,604	13,121,029	13,405,604	13,158,631
	<u>17,086,466</u>	<u>15,625,089</u>	<u>16,003,582</u>	<u>15,146,009</u>
Unamortised deal fees	-	-	-	(46,502)
	<u>17,086,466</u>	<u>15,625,089</u>	<u>16,003,582</u>	<u>15,099,507</u>

The bank overdraft is secured by a floating charge over all assets of the subsidiary company which ranks above the bond and floating charge for the 10% Secured loan notes 2022. The facility charges interest at a rate of 4.50% above LIBOR.

The 10% Secured loan notes 2022 bear interest at 10% and are repayable on 31 March 2022 along with accrued premium and any unpaid interest. Accrued interest is payable on 30 June and 31 December each year if the group has sufficient funds to make the payments. The premium accrues to 40% of the principal value of secured loan notes and is repayable upon redemption. The loan notes are secured by cross-guarantees between the subsidiaries of the group and the parent company with bonds and floating charges over all the assets of the subsidiary companies.

The 10% Unsecured loan notes 2022 bear interest at 10% and are repayable at the earlier of an exit or 31 March 2022 along with accrued interest. Interest is payable upon redemption.

The C and E shares carry a fixed annual yield of 10% which does not compound. The C and E shares are due for redemption at par upon exit.

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

17. Called-up share capital and reserves

	2019 £	2018 £
Allotted, called-up and fully-paid		
22,416,700 Ordinary A shares of £0.001 each	22,417	22,417
73,008,800 Ordinary B shares of £0.000001 each	73	73
4,574,500 Ordinary D shares of £0.000001 each	4	4
7,502,000 Ordinary F shares of £0.000001 each	8	8
2,000,000 Ordinary G shares of £0.000001 each	2	2
	<u>22,504</u>	<u>22,504</u>

The redeemable C and E shares are presented as a liability (see note 16) and accordingly are excluded from called-up share capital in the balance sheet.

The Ordinary A, B, and D classes of Ordinary Shares rank *pari passu* in terms of entitlement to dividend and return of capital.

The Ordinary A, B, D and F shares carry equal voting rights. The Ordinary G shares carry no voting rights.

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

The foreign currency translation reserve contains the foreign currency revaluation on consolidation.

18. Cash flow statement

Reconciliation of operating loss to cash generated / (utilised) by operations:

	2019 £	2018 £
Operating profit/(loss)	561,681	(386,497)
Adjustment for:		
Amortisation of intangible fixed assets	-	634,903
Depreciation of tangible fixed assets	377,436	306,688
Loss on sale of fixed assets	56,887	362
Foreign exchange difference	-	(2,445)
Operating cash flow before movement in working capital	<u>996,004</u>	<u>553,011</u>
Decrease/(increase) in stocks	256,446	(396,501)
Increase in debtors	(2,810,205)	(994,608)
Increase in creditors	1,917,224	544,701
Movement in taxation	-	13,041
Cash generated / (utilised) by operations	<u><u>359,469</u></u>	<u><u>(280,356)</u></u>

HCS Control Systems Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2019

19. Financial commitments

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

Group	Land and buildings	
	2019	2018
	£	£
- within one year	142,500	142,500
- between one and five years	285,000	427,500
	<u>427,500</u>	<u>570,000</u>

20. Related party transactions

Maven Capital Partners UK LLP and Simmons Parallel Private LP, shareholders of the Company, each charged monitoring fees of £44,087 (2018: £36,023). During the year, interest on loan notes and C shares held by the parties each accrued £388,496 (2018: £520,208). At the year-end £6,950,133 (2018: £6,561,638) remained outstanding to each party.

During 2019, the Group had fees payable of £56,000 (2018: £87,496) to The McGuinness Family Company Limited, of which one of the group directors is a shareholder.

During the year HCS Control Systems Limited made sales of £64,663 (2018: £10,720), purchases of £39,556 (2018: £117,904) and interest charged of £44,108 (2018: £9,066) from HCS Aberdeen Limited.

During the year loan interest of £13,967 (2018: £2,021) was charged by Oak Tree (Aberdeen) Limited, a shareholder of the HCS Aberdeen Limited. At the 31 December 2019, £372,788 (2018: £60,821) was due to Oak Tree (Aberdeen) Limited. (note 15)

The Company has taken advantage of the exemption available under Financial Reporting Standard 102 with regard to non-disclosure of transactions between wholly owned group companies.

21. Events after the balance sheet date

The Covid19 pandemic has been the most significant event of 2020. However, the Group has continued to trade profitably to date at operational level, and the board is confident it will continue to do so. There remains uncertainty surrounding the full effects of the second wave of Covid, any reintroduced national lockdown and the ongoing restrictions on international travel. The financial impact of these uncertainties is difficult to predict with any degree of certainty. No adjustments have been made in the 2019 accounts.

22. Controlling party

No individual shareholder is considered to have overall control.