

Fluidpower Group UK Limited

Annual Report and Financial Statements

Registered number 01672034

31 December 2019



Fluidpower Group UK Limited (formerly Fluidpower Limited)

Company Information

Directors

Bryce Brooks
Keith Dickinson (resigned 11 Aug 2020)
John Farmer
Russell Cash

Registered number

01672034

Registered office

Bollin House
Riverside Business Park
Wilmslow
SK9 1DP

Independent auditor

Grant Thornton UK LLP
Chartered Accountants and Statutory Auditors
4 Hardman Square
Spinningfields
Manchester
M3 3EB

Strategic Report

Introduction

The Directors' present their Strategic Report of Fluidpower Group UK Limited (the "Company") for the year ended 31 December 2019. The Company's principal activity is the purchasing and distribution of fluid power components, principally within the UK and Eire. The Company operates through 6 divisions following the hive up of trade and assets from HTL, Hydravalve and Nelson Hydraulics Lisburn & Dungannon in the year.

Business review

The Company's sales increased by 39% from the previous year to £55.0m (2018:£38.5m). This included sales of £11.5m from businesses hived up into the Company. Gross profit margin for the year was 36.6% (2018: 37.7%) and operating profit was £8.8m (2018: £7.3m). The Directors believe this represents a very satisfactory performance given the challenging trading conditions experienced during the year.

The net assets of the company increased to £54.9m (2018: £50.3M). Net profit generated during 2019 was £8.1M, of which £1.3M was contributed by businesses hived up into the Company during the year. Dividends of £3.5M were paid to the parent company, resulting in an accretion to net assts of £4.6M to £54.9M.

Principal risks and uncertainties

The Company operates in a highly competitive marketplace with an emphasis on the availability of stock and service. The Company manages this risk by having a broad spread of customers and focuses on delivering a quality level of service and building strong relationships with customers and suppliers. The Company is operationalising plans to consolidate stock holding at its warehousing facilities in Skelmersdale and Leicester and achieve purchasing synergies across its businesses. It has also commenced projects to strengthen its ecommerce platform to maximise the sales potential of its existing customer base.

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

Section 172 Statement

In accordance with Section 172 of the Companies Act 2006 (S172) the Directors, collectively and individually, confirm that during the year ended 31 December 2019, they have acted in good faith and have upheld their 'duty to promote the success of the company' to the benefit of its members, with consideration for its wider stakeholders. Section 172 describes a diverse range of stakeholders whose interests are said to feature in the 'success of the Company'; comments on each of these areas are provided below:

- As part of Flowtech Fluidpower Plc (Group), with a leading position in the UK, the Board and Directors are acutely aware of the potential impact that their decisions may have on certain stakeholders, including employees, customers, suppliers and as Shareholders. The Board's emphasis on a sustainable business model makes the procurement and supply of fluid power supply products efficient for customers and suppliers, thereby supporting the Company's ambition of delivering growth and return for Shareholders.
- Investment made in the Engagement Surveys across the businesses, combined with the training and career development plans put in place for a number of employees, demonstrates the Board and Directors' commitment to ensuring the workplaces provides a positive environment for staff. Of course, on occasion, decisions necessarily have to be taken which adversely impact on employees; in such scenarios the Board and Directors are careful to provide the necessary degree of compassion with the processes they adopt without removing the focus to deliver the commercial benefit for the greater good of the business. Through this flexible approach, employees are driven towards finding solutions which create efficiencies for the business but

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Directors' Report

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

Directors

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

Bryce Brooks
Keith Dickinson (resigned 11 Aug 2020)
John Farmer
Russell Cash

Dividends

Dividends paid during the period were £3,500,000 (2018: £4,000,000), the Directors do not recommend a final dividend.

Financial instruments

The Company finances its activities with a combination of inter group loans, cash and short term deposits, as disclosed in notes 15 and 16. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company purchases foreign currency as necessary on a spot basis. Further details of financial risk management are provided in note 20.

Environment

The Company recognises the importance of its environmental responsibilities and operates in accordance with policies agreed through a Health and Safety Committee and a Staff Consultative Committee. Initiatives designed to minimise the Company's impact on the environment include the recycling of waste where practical.

Employees

Details of the number of employees and related costs can be found in note 5 to the Financial Statements. The Company is committed to providing staff and management with training designed to develop attitudes and skills and give opportunities for advancement. The Company promotes good communication and consultation with regular management meetings, staff briefings, and a Staff Consultative Committee to involve staff in the progress of the Company and its future.

The Company operates various performance bonus schemes related to KPI achievements within in the operational functions. The Company believes that these schemes demonstrate the Company's commitment to involving employees in performance.

It is the policy of the Company that no employee, or potential employee, is not discriminated against on the grounds of disability, age, race, religion, sex, sexual orientation or political belief and to offer the same employment opportunities, training, career development and promotion prospects to all.

As explained in Strategic Report, as part of the statement under Section 172 of the Companies Act 2006, the Directors have had regard to the welfare of the employees in their decision making process, ensuring at all times the business engages with its employees in a spirit of partnership and compassion, without removing the focus on the commercial benefit for the greater good for the overall business and its stakeholders.

Strategic Report (*Continued*)

more importantly benefit its customers. This requires extensive knowledge, creativity and collaboration with customers and suppliers

- The Company works closely with its key suppliers, developing relationships in partnership with them. Suppliers are keen for their products, and in many cases an increasing proportion of their products, to be distributed via a professional distribution channel and for their brand/reputation to be protected when doing so. The company's management regularly meet with key suppliers to develop these relationships, largely with a view to accomplishing a collective ambition of achieving the best possible experience for the vast network of customers.
- The Company aims to be the most cost-effective provider of a quality service to all customers, ensuring it delivers end-to-end fluid power solutions from a single source, by collaborating, where necessary, with businesses in the wider group.
- The Company and the wider Group retains membership of a number of trade bodies in the fluid power industry, including the British Fluid Power Association (BFPA) and the British Fluid Power Distributors Association (BFPDA). The Company and the wider Group works closely with these organisations and invest in them with representation from the Group at their various gatherings throughout the year. In November 2019, the Group's Commercial Director, John Farmer was appointed as Vice President for the BFPA, which is a positive step towards further aligning the Group's activities within the industry bodies and helping to shape the industry for the future, especially in the areas of compliance and talent management.
- The Company has been supporting local communities for many years and the Board encourages them to continue this good work. This takes many forms, including supporting charitable events, recruitment of local apprentices, open day support for local schools and educational events with local communities where members carry out projects to make the environment or services better.
- The company uses the Group Handbook, Standard Practice Instructions, Health and Safety committees and various Group-wide and localised initiatives. This ensures that best practices are adopted for its employees, suppliers, customers and in turn Shareholders.

Key performance indicators

The Company's management uses a number of key measures to monitor and manage the performance of the business. The performance of individual customers and individual products is reviewed daily in terms of turnover and profitability, with particular focus on service and the comparison of actual performance with prior year and target performance. At the company level the key performance indicators are sales, gross margin, EBITA, cash generation together with working capital measures against stock and debtors. Of key focus is the daily gross profit; the average gross profit per day achieved was £80,767 compared to prior year £59,836.

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

Russell Cash
Director
15 December 2020

Russell Cash

Directors' Responsibility Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law including FRS 101 'Reduced Disclosure Framework').

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;¹
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

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

To the best of our knowledge:

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

Directors' Report *(Continued)*

Subsequent events

Note 30 contains information about the significant events occurring since the balance sheet date. The note makes reference to the COVID-19 pandemic and its impact on going concern which is considered below.

Going concern

The directors have carefully considered the forecasts for the business and the availability of group banking facilities, which have been renewed recently for a further period of 3 years. Based on this review, they have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing financial statements for the company. Please refer note 2.2 for details.

Covid-19

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

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

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

As a result, the Company and wider Group expects to remain profitable and cash generative in its operations.

Disclosure of information to the Auditor

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

Auditor

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

By order of the Board

Russell Cash
Director



15 December 2020

accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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

Opinion

We have audited the financial statements of Fluidpower Group UK Limited (the 'company') for the year ended 31 December 2019, which comprise Income statement, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

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

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

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of

Income Statement

for the year ended 31 December 2019

	Note	2019 £	2018 £
Turnover (*)	3	55,002,806	39,529,639
Cost of sales (*)		(34,891,864)	(24,630,593)
Gross profit (*)		20,110,942	14,899,047
Distribution costs (*)		(2,974,873)	(2,538,897)
Administrative expenses (**)		(8,179,087)	(5,028,971)
Operating profit (**)	4	8,956,982	7,331,178
Interest receivable and similar income	6	-	11,084
Interest payable and similar cost	7	(179,305)	(11,478)
Profit on ordinary activities before taxation		8,777,677	7,330,784
Tax expense	8	(676,276)	(1,743,853)
Profit for the financial year		8,101,401	5,586,931

(*) Prior year values have been restated as described in Note 2.19

(**) In the current year, the Company adopted IFRS 16 and applied the modified retrospective approach. The impact of the new standard on the financial statements is detailed in Note 23.

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

All turnover and operating profits are derived from continuing operations.

The notes form part of the financial statement.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Grant Thornton UK LLP

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

Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £	Share premium £	Share-based payment reserve £	Capital contribution £	Retained earnings £	Total Equity £
Balance at 1 January 2018	112	9,974	1,071	-	48,230,018	48,241,175
Profit for the year	-	-	-	-	5,586,931	5,586,931
Total comprehensive income for the year	-	-	-	-	5,586,931	5,586,931
Transactions with owners						
Capital contribution	-	-	-	500,000	-	500,000
Share-based payment charge	-	-	21,060	-	-	21,060
Share options settled	-	-	(12,075)	-	-	(12,075)
Equity dividends paid (note 9)	-	-	-	-	(4,000,000)	(4,000,000)
Total transactions with owners	-	-	8,985	500,000	(4,000,000)	(3,491,015)
Balance at 1 January 2019	112	9,974	10,056	500,000	49,816,949	50,337,091
Profit for the year	-	-	-	-	8,101,401	8,101,401
Total comprehensive income for the year	-	-	-	-	8,101,401	8,101,401
Transactions with owners						
Capital contribution	-	-	-	38,250	-	38,250
Share-based payment charge	-	-	10,530	-	-	10,530
Share options settled	-	-	(12,489)	-	-	(12,489)
Purchase of minority shares	-	-	-	-	(290,377)	(290,377)
Equity dividends paid (note 9)	-	-	-	-	(3,500,000)	(3,500,000)
Total transactions with owners	-	-	(1,959)	38,250	(3,790,377)	(3,754,086)
Balance at 31 December 2019	112	9,974	8,097	538,250	54,127,973	54,684,406

The notes form part of the financial statements

Statement of Financial Position

at 31 December 2019

	Note	2019 £	2018 £
Fixed assets			
Goodwill	10	16,716,903	7,413,724
Intangible assets	11	41,600	41,600
Tangible assets	12	3,957,054	3,440,933
Right of use assets	23	4,964,649	-
Investments	13	2,147,092	2,147,092
Total fixed assets		27,827,298	13,043,349
Current assets			
Stocks	14	15,590,644	13,081,088
Trade and other debtors	15	199,376,329	80,685,355
Cash and cash equivalents	16	2,003,924	695,959
Total current assets		216,970,897	94,462,402
Creditors: amounts falling due within one year			
Interest-bearing loans and borrowings	17	35,004	2,014,087
Trade and other creditors	18	184,391,531	53,490,854
Deferred and contingent consideration	25	213,877	-
Lease liability - current	23	745,441	-
Tax payable		-	1,411,137
Total creditors: amounts falling due within one year		185,385,853	56,916,078
Net current assets		31,585,044	37,546,324
Total assets less current liabilities		59,412,342	50,589,673
Creditors: amounts falling due after one year			
Interest-bearing loans and borrowings	17	-	1,875
Lease liability - non current	23	4,323,314	-
Provisions for liabilities	19	151,999	30,999
Deferred tax liabilities	8	252,623	219,708
Total creditors: amounts falling due after one year		4,727,936	252,582
Net assets		54,684,406	50,337,091
Capital and reserves			
Share capital	21	112	112
Share premium account		9,974	9,974
Share-based payment reserve		8,097	10,056
Capital contribution		538,250	500,000
Retained earnings		54,127,973	49,816,949
Total equity		54,684,406	50,337,091

The notes form part of the financial statement.

The Financial Statements on pages 10 to 37 were approved by the Directors on 15 December 2020 and were signed by:

Russell Cash
Director
Bollin House
Riverside Business Park
Wilmslow
England SK9 1DP

Russell Cash

Notes to the financial statements

for the year ended 31 December 2019

2 Accounting policies (continued)

- (g) the requirements in IAS 24 "Related Party Disclosures" to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

New standards adopted as at 1 January 2019

IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the company's financial statements. The accounting policy is set out in full in note 2.17 and the impact of the policy is set out in note 23. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the company's financial statements.

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

2.2 Going Concern

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

- The Company generated a net profit of £8,003,961 for the year (2018: £5,586,931)
- The Company is expected to generate positive cash flows on its own account for the foreseeable future.
- The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Group has recently renewed its banking facilities, with the £25 Million aggregate facilities in place for three years.

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

The company is dependant for its working capital on funds generated by other group companies. The Company's ultimate parent Flowtech Fluidpower plc, has provided the Company with confirmed support for at least 12 months from the date of approval of these Financial Statements; it will continue to make available such funds and guarantees as are needed by the Company. This should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these Financial Statements, they have no reason to believe that it will not do so.

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

Notes to the Financial Statements

for the year ended 31 December 2019

1 Authorisation of financial statements and statement of compliance with FRS 101

The Financial Statements of Fluidpower Group UK Limited (formerly Fluidpower Limited) (the "Company") for the year ended 31 December 2019 were authorised for issue by the Board of Directors 15 December 2020 and the Statement of Financial Position was signed on the Board's behalf by Russell Cash. Fluidpower Group UK Limited is incorporated and domiciled in England and Wales.

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

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

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

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

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

2 Accounting policies

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

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31 December 2019.

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

- (a) the requirements of paragraphs 45(b) and 46-52 of "IFRS 2 Share based Payment", as the share based payment arrangement concerns the instruments of another group entity;
- (b) the requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 "Property, Plant and Equipment";
- (c) the requirements of paragraphs 10(d) and 134-136 of IAS 1 "Presentation of Financial Statements" and the requirements of IAS 7 "Statement of Cash Flows";
- (d) the requirements of paragraphs 30 and 31 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors";
- (e) the requirements of paragraph 17 of IAS 24 "Related Party Disclosures";
- (f) disclosure requirements of IFRS 7 'Financial Instruments'.

Notes to the financial statements

for the year ended 31 December 2019

2 Accounting policies (continued)

Trade and other creditors

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

Derivative financial instruments

Derivative financial instruments held by the Company include forward foreign currency contracts and are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Derecognition of financial liabilities

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

2.5 Investments

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

2.6 Tangible fixed assets and depreciation

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

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

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

Notes to the financial statements

for the year ended 31 December 2019

2 Accounting policies (continued)

2.3 Significant judgements, key assumptions and estimates

In the process of applying the Company's accounting policies, which are described above, management has made judgements and estimations about the future that may have a significant effect on the amounts recognised in the Financial Statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant management judgements

There were no significant judgements during this accounting period.

Significant management estimates

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

Provision for impairment of stock

The carrying value of stocks as at 31 December 2019 is £ 15,590,644 (2018: £13,081,088) and included a provision against the stocks of £1,167,757 (2018: £1,581,788). During the year £ 929,416 (2018: £113,661) of the provision was utilised. The provision for impairment of stocks is based on sales trends for all stock and management's estimation of recoverability. There is a risk that the provision will not match the stocks that ultimately prove to be impaired.

Share based payments

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

2.4 Financial instruments

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

Trade and other debtors

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

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

Notes to the financial statements

for the year ended 31 December 2019

2 Accounting policies (continued)

2.10 Stocks

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

2.11 Employee benefits - defined contribution plans

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

2.12 Revenue

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

2.13 Cost of sales

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

2.14 Taxation

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

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Notes to the financial statements

for the year ended 31 December 2019

2 Accounting policies (continued)

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

Plant, machinery and equipment	3 to 20 years – straight line
Motor vehicles	4 to 5 years – reducing balance
Right-of-use property	2 to 12 years – straight line
Right-of-use motor vehicles	2 to 5 years – straight line

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

2.7 Finance leases (2018)

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

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

2.8 Operating lease payments (2018)

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

2.9 Intangible assets

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment, or earlier if there is an indication of impairment.

Acquired intangibles

Intangible assets acquired as part of trade and asset business purchases are capitalised at fair value at the date of acquisition. Following the initial recognition, the carrying amount of an intangible is its cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged on the basis of the estimated useful life on a straight-line basis and the expense is taken to the income statement and included in administration expenses.

Impairment reviews are undertaken annually and whenever the Directors consider that there has been a potential indication of impairment.

Notes to the financial statements

for the year ended 31 December 2019

2 Accounting policies (continued)

2.18 Right of use assets and liabilities

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

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

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

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

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

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

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

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

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

Extension and termination options

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

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). No

Notes to the financial statements

for the year ended 31 December 2019

2 Accounting policies (continued)

2.15 Provisions

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

2.16 Foreign currency translation

Functional and presentation currency

The financial statements are presented in Sterling, which is also the functional currency of the ultimate parent company.

Foreign currency transactions and balances

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

Currency risks

The main currency related risk to the Company comes from forward purchasing of stocks, settling transactions in foreign currencies and from group foreign operations. This risk is managed by using natural hedges, and where appropriate, entering forward currency contracts. The Company does not apply hedge accounting in respect of these forward currency contracts, the changes in fair value have been recognised in the income statement.

2.17 Equity, reserves and dividend payments

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares
- "Share premium" represents the excess over nominal value of consideration received for equity share net of expenses of the share issue, less any costs associated with the issuing of shares
- "Share-based payment reserve" represents the provision made to date for share based payments as detailed in note 22.2
- "Retained earnings" represent retained earnings of the Company
- "Capital contribution" represents shares issued in parent company

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

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

Notes to the financial statements

for the year ended 31 December 2019

3 Turnover (Continued)

	2019 £	2018 £
Sale of goods	54,027,102	38,742,373
Delivery income	975,704	1,057,266
Total turnover	55,002,806	39,529,639

4 Operating profit

This is stated after charging/(crediting):

	2019 £	2018 £
(Gain) from reversal of/Impairment loss on trade debtors	47,373	(985)
(Gain)/loss on foreign currency transactions	33,303	(200,515)
Impairment loss on stock	929,416	85,131
Depreciation of property, plant and equipment held under right of use assets (*) (Note 23)	658,029	-
Depreciation of owned tangible fixed assets (Note 12)	604,363	539,435
Depreciation of leased tangible fixed assets	-	9,525
Amortisation of intangible assets	-	19,200
(Profit)/loss on sale of tangible fixed assets	(1,500)	(5,645)
Operating lease rentals		
- Land and buildings	-	434,988
- Other	-	132,485
Repairs and maintenance expenditure on tangible fixed assets	98,557	109,430

Auditor's remuneration

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

5 Staff costs and Directors' remuneration

	2019 £	2018 £
Staff costs		
Wages and salaries	6,178,276	4,096,134
Social security costs	569,464	408,458
Contributions to defined contribution pension plans	161,902	55,892
Share-based payments	10,530	21,060
Total staff costs	6,920,172	4,581,544

Notes to the financial statements

for the year ended 31 December 2019

2 Accounting policies (continued)

potential future cash outflows have been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Residual value guarantees

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

Estimating the amount payable under residual value guarantees

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

2.19 Restatement of prior year financial statement

Over the years, the Company has evolved its offer of value-added delivery services to its customers, and now holds a sector-leading position with respect to e-commerce trading. In response to the changing emphasis in fulfilment capabilities and the opportunities for enhancement of revenue, the management has reassessed and re-aligned its accounting policies with respect to income from delivery charged to customers. All delivery income, excluding VAT will henceforth be included in revenue from sale of goods and shall no longer be netted off against delivery costs. The 2018 financial statements presented within this Annual Report have been restated to reflect £1,057k of delivery income in Revenue. These have been re-categorised from cost of sales and distribution costs as shown in the table below. There is no impact of the reclassification on reported profit or on the opening reserves for 2019.

	Restated £000	Original £000	Variance £000
Revenue	39,529	38,472	1,057
Cost of sales	(24,630)	(23,918)	(712)
Gross profit	14,899	14,554	345
Distribution expenses	(2,539)	(2,194)	(345)
Operating profit	7,331	7,331	-
Profit from continuing operations	5,587	5,587	-
Gross profit % to revenue	37.7	37.8	1bps

3 Turnover

All turnover is derived from the sale of goods and delivery income.

	2019 £	2018 £
United Kingdom	50,806,816	36,637,305
Europe	3,659,008	2,775,497
Rest of World	536,982	116,837
Total turnover	55,002,806	39,529,639

Notes to the financial statements

for the year ended 31 December 2019

8 Taxation

a) Tax charged in the income statement

	2019 £	2018 £
Current tax		
UK corporation tax payable	686,096	1,417,668
Adjustment in respect of prior year	(57,070)	264,667
Total current tax	629,026	1,682,335
Deferred tax		
Origination and reversal of temporary differences	42,600	20,962
Adjustments in respect of prior periods	4,650	40,556
Change in tax rate	-	-
Total deferred tax	47,250	61,518
Total tax expense	676,276	1,743,853

b) Reconciliation of the total tax charge

The tax assessed in the income statement for the year is lower from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019 £	2018 £
Profit before taxation	8,777,677	7,330,784
Tax calculated at the UK standard rate of corporation tax of 19% (2018: 19%)	1,667,759	13,928,49
Effect of share option exercises	-	-
Impact of change in tax rate	(6,761)	4,292
Amounts not deductible	(2,348)	47,171
Deferred tax on acquisition	-	(5,682)
(Over)/under provided in prior years	(52,420)	305,223
Other adjustments	18,514	-
Group relief	(911,440)	-
Total tax expense	676,276	1,743,853

c) Change in corporation tax rate

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

Notes to the financial statements

for the year ended 31 December 2019

5 Staff costs and Directors' remuneration (continued)

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

	2019 Number	2018 Number
Distribution	116	84
Administration	129	89
Total number	245	173

	2019 £	2018 £
Directors' remuneration		
Remuneration	257,754	285,181
Contributions to defined contribution pension plans	1,274	1,850
Benefits in kind	26,605	13,911
Total Directors' remuneration	285,633	300,942

During the year one Director (2018: one) participated in defined contribution pension schemes. No Directors participated in defined benefit schemes (2018: none).

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

	2019 £	2018 £
Highest paid Director's remuneration		
Remuneration	129,406	164,691
Contributions to defined contribution pension plans	-	1,850
Benefits in kind	11,045	-
Total highest paid Director's remuneration	140,451	166,541

6 Interest receivable and similar income

	2019 £	2018 £
Interest receivable and similar income		
Interest income from cash and cash equivalents	-	11,084
Total interest receivable and similar income	-	11,084

7 Interest payable and similar cost

	2019 £	2018 £
Interest payable and similar cost		
Invoice discounting, stock loan and revolving credit facilities	-	7,874
Operating lease interest under IFRS 16 (*)	158,866	-
Finance charges payable in respect of finance leases	9,504	3,604
Other credit related interest	10,935	-
Total interest payable and similar cost	179,305	11,478

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

Notes to the financial statements

for the year ended 31 December 2019

10 Goodwill

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

	2019
	£
Cost	
At 1 January 2019	7,413,724
Additions	9,303,179
Additions	
At 31 December 2019	16,716,903
Accumulated impairment	
At 1 January 2019	-
Charge for year	-
At 31 December 2019	-
Net book value	
As at 31 December 2019	16,716,903
As at 31 December 2018	7,413,724

Goodwill has been reviewed for impairment at the profit centre level, each of which represents a set of independent cash flows. These cash generating units represent the lowest level within the Company at which goodwill is monitored for internal management purposes. The carrying amount of goodwill comprises 3 profit centres, namely, Beaumanor £6,782,135, Nelson Hydraulics £6,455,881, Hydravalve £2,747,196, Indequip £631,691 and Derek Lane £100,000.

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

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

Notes to the financial statements

for the year ended 31 December 2019

8 Taxation (continued)

d) Deferred tax

	Assets		Liabilities	
	2019	2018	2019	2018
	£	£	£	£
Intangible assets		-	(3,808)	(7,072)
Tangible fixed assets		-	(301,885)	(211,893)
Financial assets	5,210	5,517		-
Provisions	36,072	11,156		-
Employee benefits	50,544	24,598		-
Tax assets/(liabilities)	91,826	41,270	(305,693)	(218,965)
Net deferred tax liability			(213,867)	(177,695)

Movement in deferred tax during the year ended 31 December 2019

	1 January 2019	Recognised in Equity	Recognised in income	31 December 2019
	£	£	£	£
Intangible assets	7,073	-	(3,265)	3,808
Tangible fixed assets	211,893	-	89,992	301,885
Financial assets	(5,517)	-	307	(5,210)
Provisions	(11,156)	-	(24,916)	(36,072)
Employee benefits	(24,598)	(11,077)	(14,869)	(50,544)
	177,695	11,077	(47,250)	(213,867)

Movement in deferred tax during the year ended 31 December 2018

	1 January 2018	Acquired in year	Recognised in income	31 December 2018
	£	£	£	£
Intangible assets	13,056	-	(5,984)	7,072
Tangible fixed assets	180,841	-	31,052	211,893
Financial assets	(2,168)	-	(3,349)	(5,517)
Provisions	(12,124)	-	968	(11,156)
Employee benefits	(88,551)	25,123	38,830	(24,598)
	91,054	25,123	61,518	177,695

9 Dividends paid and proposed

	2019	2018
	£	£
Declared and paid during the year		
Equity dividends of £ 350 per A ordinary share (2018: £400)	3,500,000	4,000,000
Total dividends paid	3,500,000	4,000,000

No dividends are proposed at the end of the period.

Notes to the financial statements

for the year ended 31 December 2019

13 Investments

	2019 £
As at 1 January 2019	2,147,092
As at 31 December 2019	2,147,092

Details of subsidiary undertakings

	Principal activity	Holding	Country of incorporation
Balu Limited	Holding company	100%	UK
Derek Lane Limited	Assembly & distribution of components	10%	UK

For all the subsidiary above the class of shares held are ordinary shares and the subsidiary is a direct subsidiary of the Company. The registered office of the subsidiary company noted above is Bollin House, Riverside Business Park, Wilmslow, England, SK9 1DP.

14 Stocks

	2019 £	2018 £
Finished goods and goods for resale	15,590,644	13,081,088

Changes in finished goods recognised as cost of sales in the year amounted to £30,523,392 (2018: £22,274,347). The provision made against stock at the reporting date was £1,167,757 (2018: £1,581,788).

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

15 Trade and other debtors

	2019 £	2018 £
Current:		
Trade debtors	11,597,544	9,340,907
Other debtors	201,802	132,963
Prepayments and accrued income	405,891	259,311
Corporation tax recoverable	624,061	-
Amounts owed by group undertakings	186,547,031	70,952,174
Total trade and other debtors	199,376,329	80,685,355

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Trade debtors are stated after provisions of impairment of £104,859 (£174,421)

Notes to the financial statements

for the year ended 31 December 2019

11 Other intangible assets

	2019 £
Gross carrying value	
At 1 January 2019	96,000
Additions	-
At 31 December 2019	96,000
Amortisation and impairment	
At 1 January 2019	54,400
Amortisation charge for year	-
At 31 December 2019	54,400
Net book value	
As at 31 December 2019	41,600
As at 31 December 2018	41,600

Other intangibles relate to the acquisition of the trade and assets of Indequip on 19 February 2017 and are the valuation of the brand value of the trade. No charge was made for amortisation of intangible during the year.

12 Tangible fixed assets

	Plant, machinery & equipment £
Cost	
At 1 January 2019	8,895,846
Additions	541,551
Acquisitions through business combinations	591,690
Disposals	(12,757)
At 31 December 2019	10,016,330
Depreciation	
At 1 January 2019	5,454,913
Charge for year	604,363
Disposals	-
At 31 December 2019	6,059,276
Net book value	-
At 31 December 2019	3,957,054
At 31 December 2018	3,440,933

Notes to the financial statements

for the year ended 31 December 2019

18 Trade and other creditors

	2019 £	2018 £
Current:		
Trade creditors	5,480,965	3,549,542
Social security and other taxes	1,111,835	773,106
Accruals and deferred income	1,354,281	1,262,935
Amounts owed to other group undertakings	176,444,450	47,905,271
Total trade and other creditors	184,391,531	53,490,854

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand

19 Provisions for liabilities

	Provisions for dilapidations £	Other £	Total £
Non-current liabilities:			
Balance at 1 January 2019	(30,999)	-	(30,999)
Provisions made during the year	(97,000)	-	(97,000)
Amount utilised	(24,000)	-	(24,000)
Balance at 31 December 2019	(151,999)	-	(151,999)

The dilapidation provision is held in respect of leasehold properties held by the Company and represents management's best estimate of the amount which is expected to be settled in respect of dilapidation costs for the relevant sites. During the year £nil (2018: £nil) of the provision was utilised. The ongoing provision is expected to be utilised in more than 5 years.

20 Financial instruments

20.1 Interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	2019 £	2018 £
Fixed rate instruments		
Financial liabilities	35,004	21,328

Fixed rate instruments relate to finance leases.

Notes to the financial statements

for the year ended 31 December 2019

16 Cash and cash equivalents

	2019 £	2018 £
Cash and cash equivalents:		
Sterling	1,574,107	530,078
Euro	372,084	16,606
Dollar	57,733	149,275
Total cash and cash equivalents	2,003,924	695,959

17 Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 20.

	2019 £	2018 £
Non-current liabilities:		
Finance lease liabilities	1,838	1,875
Right of use and other lease liabilities	4,323,314	-
Total non-current liabilities	4,325,152	1,875
Current liabilities:		
Overdraft	-	1,994,634
Finance lease liabilities	33,166	19,453
Right use of liabilities	745,441	-
Total current liabilities	778,607	2,014,087
Total interest bearing loans and borrowings	5,103,760	2,015,962

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Carrying value 2019 £	Carrying value 2018 £
Overdraft	GBP	2.9%	2019	-	1,994,634
Finance lease liabilities	GBP	Various	2020 to 2021	35,004	21,328
Right of use liabilities	GBP	Various	2020 to 2031	5,068,756	-
				5,103,760	2,015,962

Finance lease liabilities

	Minimum lease payments 2019 £	Interest 2019 £	Principal 2019 £	Minimum lease payments 2018 £	Interest 2018 £	Principal 2018 £
Less than one year	36,294	3,128	33,166	21,683	2,330	19,353
Between one and five years	2,038	200	1,838	2,249	374	1,875
Total	38,332	3,328	35,004	23,932	2,704	21,228

Notes to the financial statements

for the year ended 31 December 2019

20 Financial instruments (continued)

	2019 £	2018 £
UK	11,145,222	8,929,345
Europe	348,353	388,382
Rest of World	103,969	23,180
Total	11,597,544	9,340,907

Credit quality of financial assets and impairment losses

The aging of trade debtors at the reporting date was:

	Gross 2019 £	Impairment 2019 £	Gross 2018 £	Impairment 2018 £
Not past due	10,500,287	29,130	8,922,070	94,757
Past due 0 – 30 days	874,800	4,374	308,005	12,173
More than 30 days	327,316	71,355	285,252	67,490
Total	11,702,403	104,859	9,515,327	174,420

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

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

	2019 £	2018 £
Balance at 1 January	174,420	81,780
Acquired	80,926	126,715
Provision utilised	(150,487)	(33,090)
Increase in provision	-	(985)
Balance at 31 December	104,859	174,420

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

20.4 Liquidity risk

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

The following are the contractual maturities of financial liabilities:

Notes to the financial statements

for the year ended 31 December 2019

20 Financial instruments (continued)

20.2 Foreign currency risk

The main currency related risk to the Company comes from forward purchasing of stocks, settling of transactions in foreign currency and from transactions with other group foreign operations. This risk is mainly managed by entering into forward currency contracts. The Company does not apply hedge accounting in respect of these forward currency contracts, the changes in fair value have been recognised in the profit or loss.

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

	Sterling £	Euro £	US Dollar £	Total £
31 December 2019				
Cash and cash equivalents	1,574,107	372,084	57,733	2,003,924
Trade and other debtors	11,617,780	183,958	(2,392)	11,799,346
Right of use Asset Liabilities (Under IFRS 16)	(5,068,756)	-	-	(5,068,756)
Finance lease liabilities	(35,004)	-	-	(35,004)
Trade creditors	(2,887,452)	(2,674,683)	81,171	(5,480,965)
Net exposure	5,200,675	(2,118,641)	136,512	3,218,545
	Sterling £	Euro £	US Dollar £	Total £
31 December 2018				
Cash and cash equivalents	530,078	16,606	149,275	695,959
Trade and other debtors	9,176,688	103,001	61,218	9,473,870
Trade creditors	(2,100,787)	(498,967)	(949,788)	(3,549,542)
Overdraft	(1,994,634)	-	-	(1,994,634)
Net exposure	5,611,345	(379,360)	(739,295)	4,625,653

20.3 Credit risk

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

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

Notes to the financial statements

for the year ended 31 December 2019

22 Employee benefits

22.1 Pension plans

The Company operates a defined contribution plan. The total expense relating to this plan in each year was £161,901 (2018: £55,892).

22.2 Share based payments

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

In total £10,530 (2018: £21,060) of employee remuneration expenses all of which related to equity-settled share-based payment transactions has been included in the Income Statement.

23 Right of use assets and liabilities

The Company has adopted IFRS 16 retrospectively from 1 January, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The adoption of IFRS 16 for 2019 has led to the elimination of lease payments of £680,534 and the introduction of additional depreciation of £659,017 and finance costs of £158,866. The impact of this is an increase in operating profit of £21,517 and, after taking account of finance costs, a reduction in profit before tax of £137,349.

Impact of transition to IFRS 16

	Restated £000
Operating lease commitments disclosed as at December 2018 (Restated)*	4,226
Operating lease commitments discounted using the lessee's incremental borrowing rate at the date of initial application	(869)
(Less): short-term leases recognised on a straight-line basis as expense	-
(Less): short-term leases recognised on a straight-line basis as expense	(43)
Add/(less): adjustments as a result of a different treatment of extension and termination options	(11)
Other movements	16
Lease liability recognised as at 1 January 2019	4,421

* Following a detailed review of the lease commitments on transition to IFRS 16, the opening balance of the operating lease commitments in respect of land and building disclosed as at 31 December 2018 was corrected.

Notes to the financial statements

for the year ended 31 December 2019

20 Financial instruments (continued)

Year ended 31 December 2019	Carrying amount £	1 year or less £	1 to 2 years £	2 to 5 years £
Non-derivative financial liabilities				
Trade creditors	5,480,965	5,480,965	-	-
Right of use Asset Liabilities (Under IFRS 16)	5,068,756	745,441	635,667	1,671,070
Finance lease liabilities	35,004	35,004	-	-
Total	10,584,725	6,261,410	635,667	1,671,070

Year ended 31 December 2018	Carrying amount £	1 year or less £	1 to 2 years £	2 to 5 years £
Non-derivative financial liabilities				
Trade creditors	3,549,542	3,549,542	-	-
Finance lease liabilities	21,328	1,875	19,453	-
Overdraft	1,994,634	1,994,634	-	-
Total	5,565,504	5,546,051	19,453	-

There are no contractual maturities over five years, save for right of use asset liabilities, where the longest lease runs to 2031.

21 Authorised, issued and called up share capital

	2019 £	2018 £
Authorised		
100,000 "A" Ordinary shares of 1 pence each	1,000	1,000
560 "B" Ordinary shares of 1 pence each	6	6
560 "C" Ordinary shares of 1 pence each	6	6
Total authorised	1,012	1,012
Allotted, called up and fully paid		
10,000 "A" Ordinary shares of 1 pence each	100	100
560 "B" Ordinary shares of 1 pence each	6	6
560 "C" Ordinary shares of 1 pence each	6	6
Total allotted, called up and fully paid	112	112

Each category of share has equivalent rights in respect of both voting and on a winding-up of the company.

Notes to the financial statements

for the year ended 31 December 2019

The statement of profit or loss shows the following amounts relating to leases:	2019 £'000	2018 £'000
Depreciation of charge of right-of-use assets		
– Land and buildings (*)	510,777	-
– Other (*)	147,252	-
Interest expenses (included in finance cost)	158,866	-

24 Acquisitions and hive ups

On 1st May 2019, as part of a group wide simplification plan, the trade and assets of some businesses operating within the Group were hived up into the Company at the cost.

Details of the net asset value hived up into the Company are as follows:

	Net asset value £
Hydravalve	319,323
HTL	1,098,190
Nelson Hydraulics UK, Lisburn & Dungannon	4,360,535
Total net assets	5,778,048

Acquisition of minority interest in Derek Lane & Co Limited

The Company entered into an agreement to purchase the minority shareholding of Derek Lane & Co. Limited for a total maximum consideration of £300,000, including initial consideration of £38,250 in Consideration Shares and £38,250 in cash. The remaining consideration is deferred and is subject to performance criteria ('Contingent Consideration'). The contingent consideration will become payable in 2020. On 29 July 2019 28,760 ordinary shares of 50 pence each, in the Company's parent, Flowtech Fluidpower Plc, was issued at a price of £1.33 per share in part settlement of the initial consideration for the minority shareholding in Derek Lane & Co. Limited. Fluidpower Plc also made a cash payment of £38,250 to the minority shareholders as part settlement of the purchase consideration. Based on the performance of the underlying business, the Accounts contain an accrual of £213,877 towards settlement of the contingent consideration. The liability was discharged during the following year by issuing number of ordinary shares in Flowtech Fluidpower Plc.

25 Deferred and contingent consideration

	2019 £	2018 £
Current liabilities:		
Contingent consideration	213,877	-
Total current liabilities	213,877	-
Non-current liabilities:		
Contingent consideration	-	-
Total non-current liabilities	-	-

The company entered into an agreement to purchase the minority shareholding of 10% in Derek Lane & Co Limited for a maximum consideration of £300,000, including initial consideration of £38,250 in consideration shares and £38,250 in cash. The initial consideration was settled during the year and an accrual was made towards settlement

Right of Use assets

	Right of use assets		Total
	Land and property	Motor Vehicles	
	£	£	£
Cost			
Balance at 1 January 2019	–	–	–
Adjustment on transition to IFRS 16 on 1 January 2019	4,246,550	174,813	4,421,363
Additions	–	101,186	101,186
Assets transferred in on hive up	995,216	104,913	1,100,129
Disposals	–	–	–
Balance at 31 December 2019	5,251,766	380,912	5,622,678
Depreciation and amortisation			
Balance at 1 January 2019	–	–	–
Depreciation charge for the year	510,777	147,252	658,029
Depreciation transferred in on hive up	–	–	–
Disposals	–	–	–
Balance at 31 December 2019	510,777	147,252	658,029
Net book value			
At 31 December 2019	4,730,988	233,661	4,964,649

Right of Use Lease liabilities

	2019	2018
	£	£
At 1 January	4,421,362	–
Repayment	(712,788)	–
Interest	158,866	–
Transfers in on hive up	1,100,128	–
Acquisition	101,188	–
At 31 December	5,068,756	–

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

Lease liabilities have been analysed between current and non-current as follows:

	2019
	£
Current	745,441
Non Current	4,323,314
At 31 December	5,068,756

Notes to the financial statements

for the year ended 31 December 2019

25 Deferred and contingent consideration (continued)

of the contingent consideration, valued at £213,877, based on the accounts of the underlying business. This liability was discharged in the following year by issuing number of ordinary shares in the ultimate parent company, Flowtech Fluidpower Plc. The total value of investment of £290,377 has been accounted for as a charge to retained earnings.

26 Capital commitments

The Company had no capital expenditure contracted for but not provided at 31 December 2019 (2018: £163,000).

27 Contingent liabilities

The Company is party to an intra-group funding arrangement with the other group companies, and could be required to provide funds to enable them to meet their financial obligations. The total amount outstanding at the year end was £20,000,000 (2018: £21,994,635) comprising a bank loan and revolving credit facility which are secured by legal charges over certain of the Group's assets including trade receivables and stock.

28 Related party transactions

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

29 Ultimate group undertaking

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

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

30. Subsequent events

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