

Registered No: 06624632

# Hydreco Hydraulics Limited

## Report and Financial Statements

31 December 2020



Registered No: 06624632

## Company Information

### Directors

M H Holland

K J McColl

I J Spruce

### Secretary

M H Holland

### Auditors

Hamlyns LLP

Sundial House

High Street

Horsell

Woking

GU21 4SU

### Bankers

HSBC Bank plc

12a North Street

Guildford

GU1 4AF

### Registered office

32 Factory Road

Poole

Dorset

BH16 5SL

## Strategic Report

The directors present their strategic report for the year ended 31 December 2020.

### Principal activities and review of the business

The company's principal activities during the year continued to be the design and supply of hydraulic pumps, valves, steering units and related products. The key financial and other performance indicators for the year were as follows:

	2020	2019
Turnover (£000)	7,412	8,149
Gross profit percentage	21.6%	22.5%
Operating profit before amortisation and exceptional items (£000)	496	634
Average number of employees	32	29

The emergence of the COVID-19 global pandemic during early 2020 particularly impacted our core customers in the mobile construction market. Many of their new production operations shut down in April and part of May to safeguard employees' health, safety and wellbeing in line with government guidelines. On reopening they were at a reduced activity level as a result of lower market demand and capacity constraints from safe working conditions. These changes have caused a reduction in the company's revenue in this sector. However, order bookings levels progressively increased from the May low point, being back above pre-COVID levels by the end of the year. The defence activity has however continued unabated during the year with key worker status having been conferred upon our employees servicing customers with contracts ultimately with the UK MoD. The company therefore did not have a shut-down period and, with a significant new defence contract that commenced from the start of the year for which volumes have progressively grown, there was a £0.8m 2020 increase in revenue from this sector, primarily from hydrostatic steering unit projects.

The increasing level of defence activity was supported by recruitment into workshop, supply chain and engineering positions, with an overall increase in average of 3 employees over prior year. In addition the company invested a total of £439,000 in capital expenditure on plant, machinery and equipment, mainly to expand capability and capacity in this area.

On 31 December 2020, Hydreco Inc, the company's US subsidiary was sold to Continental Hydraulics Inc, a fellow subsidiary of Duplomatic MS SpA. This completes the integration of the Duplomatic Group activities in the US market. The disposal gave rise to a small exceptional gain as shown in Note 4 and also included the assumption of a £493,000 loan which will be repaid to the Company during 2021.

The business model is a flexible, low overhead structure concentrating on maximum leverage of the company's intellectual property. Most of the supply chain is outsourced but a small amount of manufacturing takes place in house. Items manufactured by the company have minimal environmental impact. Manufacturing processes which have potential environmental impact are regularly monitored to ensure compliance with statutory requirements and are continuously reviewed within the environmental health and safety policy and action plans. The company bears its environmental responsibilities in mind as part of its decision-making process.

## Strategic Report (Continued)

### Key performance indicators

The 9% reduction in turnover from prior year was the result of the first wave COVID-19 disruption to our customer base. The impact was lessened by the progressive growth in turnover to our customers in the defence sector. The mix shift towards this sector was also beneficial to gross profit percentage, with the reduction being limited to 0.9% despite the lower overall volume.

Administrative expenses and distribution costs were reduced by £94,000 relative to prior year. This resulted in an operating profit of £496,000 at 6.7% of turnover which, under the unprecedented circumstances, compares well with the 7.8% return for 2019.

### Subsequent events and Future developments

Whilst the COVID-19 global pandemic is expected to continue for some time, the experience from 2020 showing customer recovery after the first wave and the level of order bookings so far in 2021 are strong indicators of turnover growth in 2021 from our customers in the mobile construction market. In addition, the company is set for continuing revenue growth from ongoing projects with its defence customers. New projects continue to be progressed in this sector.

Brexit has caused transportation delays and some additional administrative burdens but overall is not expected to have a significant adverse impact to trading in 2021.

As part of the Duplomatic Group, opportunities are being developed to offer the extended range of products available and also to collaborate within the enlarged group in the development of products to fill gaps in our range.

### Principal risks and uncertainties

The principal risks and uncertainties facing the company are credit, liquidity and cash flow risks; all encompassed as financial risk.

The directors also consider market conditions and competitors to be risks to the company. These are managed through the day-to-day management of the company and through the product development program. The COVID-19 pandemic had an adverse impact to market conditions in the mobile construction and industrial sectors and monitoring will continue. This risk is being managed by the focus on growth in the defence sector.

### Financial risk management objectives and policies

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Company policies are aimed at minimising such losses and require that credit terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing cash generation and tracking against forecast targets. The company is structured such that it has good control over its working capital components.

Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability.

On behalf of the Board



M H Holland

Director

Date

14-7-21

## Directors' Report

The directors present their report and financial statements for the year ended 31 December 2020.

### Results and dividends

The profit for the year, after taxation, amounted to £699,000 (2019 : £760,000). The directors do not recommend the payment of a dividend.

### Directors

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

M H Holland	
K J McColl	
I J Spruce	Appointed 1 July 2020
D Colley	Resigned 31 January 2020

### Disabled employees

Disabled persons are employed by the company when they are suited to a particular vacancy, having regard to their particular aptitudes and abilities.

Where existing employees become disabled, it is the company's policy whenever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees whenever appropriate.

### Employee involvement

Employees are kept informed of the performance, challenges and objectives of the business through monthly employee meetings. Each operational part of the business updates the employees each month and provides an opportunity for employees to ask questions, make suggestions and feedback to the management of the business.

The business sees the employees as the greatest asset it has and has continued to invest in talented people who add value and new ideas to the business.

### Going Concern

The financial statements have been prepared on the going concern basis. As discussed in the Strategic Report, whilst the first wave of the COVID-19 pandemic led to a downturn in the mobile construction and industrial markets, our defence sector contracts have not been impacted. Significant growth from these contracts provides a good measure of offset at the gross profit level. Brexit is having only a minimal impact on the company's profitability and margins. The directors have updated existing forecasts for the business, including downside scenarios, and believe the company has adequate working capital resources to enable it to continue operations for the foreseeable future.

### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

## Directors' Report (Continued)

### Auditors

Pursuant to the company's articles of association, the company will propose the reappointment of Hamlyns LLP as the company's auditors at its Annual General Meeting in accordance with s.485 of the Companies Act 2006.

On behalf of the Board



M H Holland  
Director

Date: 14-7-21

Registered No. 06624632

## **Statement of directors' responsibilities in respect of the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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

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# **Independent auditors' report**

## **to the members of Hydreco Hydraulics Limited**

### **Opinion**

We have audited the financial statements of Hydreco Hydraulics Limited (the 'company') for the year ended 31 December 2020 which comprise the Income Statement, Balance Sheet, 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 2020 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 responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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## **Independent auditors' report (continued)**

**to the members of Hydreco Hydraulics Limited**

### **Other information**

The directors are responsible for the other information. The other information comprises the information in the Report of the Directors, but does not include the financial statements and our Report of the Auditor 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 this gives rise to a material misstatement in the financial statements themselves. 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 Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Report of the Directors has been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Report of the Directors.

We have nothing to report in respect of the following matters where 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption from the requirement to prepare a Strategic Report or in preparing the Report of the Directors.

### **Responsibilities of directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page six, 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 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.

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## **Independent auditors' report (continued)**

**to the members of Hydreco Hydraulics Limited**

### **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 a Report of the Auditors 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

The objectives of our audit in respect of fraud are to identify and assess the risks of material misstatement of the financial statements due to fraud, to obtain sufficient audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses to those assessed risks, and to respond accordingly to instances of fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the company.

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the entity and determined that the most significant are the Companies Act 2006, the reporting framework of the Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101) and UK taxation legislation.

We understood how the company is complying with those frameworks by discussions with management and those charged with governance. Where the risk was considered to be higher we performed audit procedures to address each identified fraud risk. These procedures included testing journals, reviewing large and/or unusual transactions and analytical procedures on key estimates. In addition, we completed procedures to conclude on the compliance of the disclosures in the financial statements with all applicable requirements.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Report of the Auditor.

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## Independent auditors' report (continued)

to the members of Hydreco Hydraulics Limited

### 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 a Report of the Auditors 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.

*Hamlyns LLP*

Nicola Keeble (Senior Statutory Auditor)  
For and on behalf of Hamlyns LLP  
Statutory Auditor and Chartered Accountants  
Sundial House  
High Street  
Horsell  
Woking  
Surrey  
GU21 4SU

Date: *14 July 2021*

## Income Statement and other Comprehensive Income

For the year ended 31 December 2020

	Note	2020 £000	2019 £000
<b>Revenue</b>	2	7,412	8,149
Cost of sales		(5,810)	(6,315)
<b>Gross profit</b>		<u>1,602</u>	<u>1,834</u>
Distribution costs		(40)	(53)
Administrative expenses		(1,066)	(1,147)
<b>Operating profit before amortisation</b>		<u>496</u>	<u>634</u>
Amortisation of intangible assets		(12)	(19)
<b>Operating profit before exceptional items</b>	3	<u>484</u>	<u>615</u>
Exceptional items	4	23	(2,110)
<b>Operating profit / (loss) after exceptional items</b>		<u>507</u>	<u>(1,495)</u>
Interest receivable and similar income	6	247	31
Interest payable and similar charges	7	(55)	(356)
Dividends receivable		-	2,580
<b>Profit on ordinary activities before taxation</b>		<u>699</u>	<u>760</u>
Taxation	8	-	-
<b>Profit for the financial year</b>		<u>699</u>	<u>760</u>
Other Comprehensive income			
Associated with defined benefit pension scheme	22	395	245
<b>Total Comprehensive Income</b>		<u>1,094</u>	<u>1,005</u>

All results recorded above relate to continuing business activities.

# Hydreco Hydraulics Limited

Registered No: 06624632

## Statement of Financial Position

As at 31 December 2020

	Note	2020 £000	2019 £000
<b>Non-current assets</b>			
Intangible fixed assets	9	741	741
Tangible fixed assets	10	791	515
Investments	11	7,097	7,097
Other non-current assets	13	17	17
		<u>8,646</u>	<u>8,370</u>
<b>Current assets</b>			
Inventory	12	1,254	933
Trade and other receivables	13	7,606	7,454
Cash and cash equivalents		505	556
		<u>9,365</u>	<u>8,943</u>
<b>Trade and other payables</b>	14	<b>(2,204)</b>	<b>(1,634)</b>
<b>Net current assets</b>		<u><b>7,161</b></u>	<u><b>7,309</b></u>
Total assets less current liabilities		<b>15,807</b>	<b>15,679</b>
<b>Non-current liabilities</b>			
Non-current payables	15	(2,689)	(3,091)
Provisions for liabilities and charges	16	(24)	(18)
Pension obligation	22	(12)	(582)
<b>Net assets</b>		<u><b>13,082</b></u>	<u><b>11,988</b></u>
<b>Capital and reserves</b>			
Called up share capital	20	21,490	21,490
Retained loss		(8,408)	(9,502)
		<u><b>13,082</b></u>	<u><b>11,988</b></u>

Approved by the Board



M H Holland  
Director

Date: 14-7-21

## Hydreco Hydraulics Limited

Registered No: 06624632

### Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital £000	Retained Loss £000	Total Equity £000
At 1 January 2019	21,490	(10,507)	10,983
Profit for the year	-	760	760
Other comprehensive income	-	245	245
<b>As at 31 December 2019</b>	<b>21,490</b>	<b>(9,502)</b>	<b>11,988</b>
Profit for the year	-	699	699
Other comprehensive income	-	395	395
<b>As at 31 December 2020</b>	<b>21,490</b>	<b>(8,408)</b>	<b>13,082</b>

## Notes to the financial statements

at 31 December 2020

### 1. Accounting policies

#### **Statement of Compliance with FRS 101**

Hydreco Hydraulics Limited is a private limited liability company incorporated in England and Wales. The Registered office is 32 Factory Road, Poole, Dorset, BH16 5SL.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

These financial statements have been prepared under the historical cost convention.

#### **Basis of preparation**

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

- a) the requirements of paragraphs 10(d) and 10(f) of IAS 1 Presentation of Financial Statements;
- b) the requirements of IAS 7 Statement of Cash Flows;
- c) the requirements of paragraphs 30 and 31 of IAS 8 Accounting policies, Changes in Accounting estimates and errors; and
- d) the requirements of paragraph 17 and 18A of 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.
- e) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from contracts with Customers.
- f) the requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16.

The financial statements have been prepared on the going concern basis. The directors believe that given the performance in the year and a positive future outlook, supported by a strong order book for future years that this basis is appropriate. The directors have considered the future outlook of the business by reviewing, and updating, the budget and cash flow forecasts, including downside scenarios, and have also considered the current banking arrangements and requirements. The directors believe the company has adequate working capital resources to enable it to continue operations for the foreseeable future.

The company has availed itself of the exemption conferred by Section 400 of the Companies Act 2006, whereby group financial statements need not be prepared as the company is a wholly owned subsidiary undertaking of Duplomatic MS SpA which prepares group financial statements. The group accounts can be obtained from Duplomatic MS SpA, via Maria Re Depaolini, 24, 20015 Parabiago (MI), Italy

#### **Leased assets**

Hydreco Hydraulics Limited is party to lease contracts. The lease liability is initially recognised at the present value of the lease payments which have not yet been made and subsequently measured under the amortised cost method.

The initial cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability, lease payments made prior to the lease commencement date, initial direct costs and the estimated costs of removing or dismantling the underlying asset per the conditions of the contract.

The right-of-use assets are depreciated on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. They are also assessed for impairment when such indicators exist.

## Notes to the financial statements

at 31 December 2020

### 1. Accounting policies (continued)

#### *Leased assets (continued)*

Subsequent to initial measurement, the liability is reduced for payments made and increased for interest. It is remeasured to reflect any modifications, or if there are changes in fixed payments. If the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to NIL.

Where ownership of the right-of-use asset transfers to the lessee at the end of the lease term, the right-of-use asset is depreciated over the asset's remaining useful life. If ownership of the right-of-use asset does not transfer to the lessee at the end of the lease term, depreciation is charged over the shorter of the useful life of the right-of-use asset and the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

#### **Revenue**

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration invoiced for the service provided. For the majority of sales, revenue is recognised on shipment of the product. Revenue is recognised net of sales taxes and discounts.

Revenue from contracts with customers is recognised as performance obligations are met. Performance obligations are identified on inception of the contract and valued accordingly.

#### **Research and development**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the company can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised on a straight-line basis over the first 3 to 5 years of sale of the product. The asset is tested for impairment annually.

## Notes to the financial statements

at 31 December 2020

### 1. Accounting policies (continued)

#### *Intangible assets*

##### *Goodwill*

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Goodwill is subject to an annual impairment review by Management and impaired recognised as seen as appropriate following this review.

##### *Software*

The company's software is included in the statement of financial position at cost less amortisation. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

##### *Amortisation*

Amortisation is provided on all software assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Software - 20% to 33.3% per annum

The carrying values of intangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Tangible assets*

The company's tangible fixed assets are included in the statement of financial position at cost less depreciation. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

##### *Depreciation*

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Plant and machinery - 10% to 33.3% per annum

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Investments*

Investments in subsidiaries, associates and joint ventures are held at historical cost less any applicable provision for impairment.

#### *Inventory*

Inventory is stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale - Purchase cost on a first-in, first out basis

Work in progress and finished goods - cost of direct material and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

## Notes to the financial statements

at 31 December 2020

### 1. Accounting policies (continued)

#### ***Borrowing Costs***

Borrowing costs are recognised as an expense when incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### ***Deferred taxation***

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

#### ***Financial Assets***

Financial assets are recognised when the Company becomes party to the contracts that give rise to them and are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, evaluates this designation at each financial year-end. When financial assets are recognised initially they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

#### ***Financial Assets at Fair Value through Profit or Loss***

Financial assets classified as held for trading and other assets designated as such on inception are included in this category. Financial assets are classified as held for trading if they are acquired for sale in the short term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or as financial guarantee contracts. Financial assets at fair value are carried in the statement of financial position at fair value with gains or losses recognised in the income statement.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management strategy. As at 31 December 2020, no financial assets have been designated as at fair value through profit and loss.

## Notes to the financial statements

at 31 December 2020

### 1. Accounting policies (continued)

#### *Financial Assets (continued)*

##### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade receivables, which generally have 30 to 60 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost.

Provisions against receivables are recognised using the expected credit loss model set out in IFRS 9 Financial Instruments. There has been no material change in the amount provided as a result of the application of this standard.

#### *Impairment of Financial Assets*

The Company assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

##### Assets Carried at Amortised Cost

For amounts due from loans and advances to customers carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced, through the use of an allowance account. The amount of the loss shall be recognised in administration costs. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

## Notes to the financial statements

at 31 December 2020

### 1. Accounting policies (continued)

#### *Impairment of Financial Assets (continued)*

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as irrecoverable.

#### **Financial Liabilities**

##### Initial recognition

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, less directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts and derivative financial instruments.

##### Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

##### *Financial Liabilities at Fair Value through Profit or Loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

At the year end, the Company had no financial liabilities designated as at fair value through profit or loss.

##### *Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

#### **Derecognition of Financial Assets and Liabilities**

##### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## Notes to the financial statements

at 31 December 2020

### 1. Accounting policies (continued)

#### ***Derecognition of Financial Assets and Liabilities (continued)***

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Company's continuing involvement in the asset.

#### ***Financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognising of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

#### ***Offsetting of Financial Assets and Liabilities***

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### ***Warranty Provisions***

Provision for warranty costs is made on the basis of known claims and past experience of claims arising during the course of the warranty year. The estimated liabilities are expected to arise over a one to three year period.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date.

All differences are taken to the statement of comprehensive income

#### ***Pension costs***

The company operates a number of pension schemes, the major scheme being of the defined benefit type, which requires contributions to be made to separately administered funds. The scheme is accounted for in accordance with IAS 19R, 'Employee Benefits'. The service cost of providing benefits to employees during the year is charged to operating profit on a straight-line basis over the period in which the increases in benefits vest. The expected return on the assets of the scheme based on the market value of the scheme assets at the start of the financial year is included in other comprehensive income/(expense). This also includes a charge representing the expected increase in liabilities of the scheme during the year, arising from the liabilities of the scheme being one year closer to payment. This together with differences from changes in assumptions, and movements on the related deferred tax asset, are recognised in other comprehensive income/(expense) in the year in which they arise. The net deficit on the pension scheme is recognised on the statement of financial position within the pension liability.

## Notes to the financial statements

at 31 December 2020

### 1. Accounting policies (continued)

#### **Leases**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of any identified asset for a period of time in exchange for consideration.

#### **Company as a lessee**

##### Policy applicable from 1 January 2019

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### **Right-of-use assets**

The Company recognises the right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less and lease incentive received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, the same as useful economic lives of property, plant and equipment in note 18.

If ownership of the lease asset transfer to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in note 1.

#### **Lease liabilities**

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in borrowings (note 18)

#### **Short-term leases and leases of low-value assets**

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that meet the low-value exemption criteria. Lease payments on short-term leases and leases of low value are recognised as expense on a straight-line basis over the lease term.

## Notes to the financial statements

at 31 December 2020

### 1. Accounting policies (continued)

#### ***Critical estimates and judgements in applying the entity's accounting policies***

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### **Critical accounting judgements**

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognized in the financial statements.

#### **Investment**

The directors have considered the carrying value of the investment in each of the company's subsidiaries to determine whether any impairment is required. This has been done by separately reviewing the future profit and cash generation forecasts of each subsidiary under different scenarios ranging from budget to zero growth. The result of these reviews was that no further impairment of investments was considered necessary.

#### **Goodwill**

The directors have considered the carrying value of the company's goodwill to determine whether any impairment is required. This has been done by reviewing the future profit and cash generation forecasts of the company under different scenarios ranging from budget to zero growth. The result of this review was that no impairment of goodwill was considered necessary.

#### **Critical accounting estimates and key sources of estimation uncertainty**

The company makes estimates and assumptions concerning the future. The resulting accounting estimates can differ from the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### **Inventory Provision**

Management have estimated the level of provision required to reduce the book value of inventory in respect of obsolete and slow-moving items. A formula approach is used based on movements at part number level in the prior 12 months. The outcome from the provisioning formula is then subject to management review. The estimated provision level was £179,000, being an increase of £59,000 over the prior year-end level.

## Notes to the financial statements

at 31 December 2020

### 2. Revenue

Revenue represents the amounts derived from the provision of goods supplied and provided, which fall within the company's ordinary activities, less returns and allowances, excluding value added tax.

*An analysis of turnover by geographical market is given below:*

	2020 £000	2019 £000
United Kingdom	4,737	4,878
Continental Europe	1,754	1,805
North America	394	776
Rest of the world	527	690
	<u>7,412</u>	<u>8,149</u>

### 3. Operating profit

*This is stated after charging/(crediting):*

	2020 £000	2019 £000
Costs of inventory recognised as an expense	4,558	5,271
Auditors' remuneration - audit services	24	32
Depreciation of owned fixed assets	64	20
Depreciation of right of use assets	112	112
Net (profit) / loss on foreign currency translation	(13)	19
Amortisation of intangible fixed assets	12	19
	<u>12</u>	<u>19</u>

### 4. Exceptional items

Recognised in arriving at operating profit from continuing operations:

	2020 £000	2019 £000
Costs relating to the sale of the business	-	(1,210)
Investment disposal / write-down	23	(900)
	<u>23</u>	<u>(2,110)</u>

On 31 December 2020 the company sold its US subsidiary Hydreco Inc to Continental Hydraulics Inc, a fellow subsidiary of Duplomatic MS SpA. This resulted in a net gain of £23,000 after having fully written down this investment in 2019 with an exceptional charge of £900,000.

Costs incurred in 2019 leading to and resulting from the sale of the company and its subsidiaries to Duplomatic MS SpA on 28 February 2019 amounted to £1,210,000.

## Notes to the financial statements

at 31 December 2020

### 5. Staff costs and directors' remuneration

#### (a) Staff costs

	2020 £000	2019 £000
Wages and salaries	1,357	1,290
Social security costs	164	155
Other pension costs	135	131
	<u>1,656</u>	<u>1,576</u>

The monthly average number of employees during the year was as follows:

	2020 £000	2019 £000
Manufacturing (Service & Repair)	8	7
Engineering, selling and distribution	16	14
Administrative	8	8
	<u>32</u>	<u>29</u>

#### (b) Directors' remuneration

	2020 £000	2019 £000
Emoluments	307	552
Exceptional – Sale of business	-	351
	<u>307</u>	<u>903</u>

	2020 No.	2019 No.
Members of defined benefit scheme	<u>-</u>	<u>-</u>

The amounts in respect of the highest paid director are as follows:

	2020 £000	2019 £000
Emoluments	<u>152</u>	<u>421</u>

## Notes to the financial statements

at 31 December 2020

### 6. Interest receivable and similar income

	2020 £000	2019 £000
Interest income from group companies	21	31
Foreign exchange gains on group loans	226	-
	<u>247</u>	<u>31</u>

### 7. Interest payable and similar charges

	2020 £000	2019 £000
Interest payable on loans	45	77
Foreign exchange losses on group loans	-	93
Finance charge on pension liability (note 22)	10	186
	<u>55</u>	<u>356</u>

### 8. Tax

(a) Tax charged in the income statement

	2020 £000	2019 £000
<b>Current income tax:</b>		
Corporation tax	-	-
Adjustments in respect of previous periods	-	-
Total current income tax	<u>-</u>	<u>-</u>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	-	-
Adjustments in respect of previous periods	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Total tax expense in the income statement	<u>-</u>	<u>-</u>

## Notes to the financial statements

at 31 December 2020

### 8. Tax (continued)

#### (b) Reconciliation of the total tax charge

The tax expense in the income statement for the year is lower than the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The differences are reconciled below:

	2020 £000	2019 £000
Profit from continuing activities before taxation	699	760
Gain /(loss) from discontinued operations before taxation	-	-
Accounting profit before income tax	<u>699</u>	<u>760</u>
Tax calculated at the UK standard rate of corporation tax at 19.00% (2019: 19.00%).	133	144
Expenses not deductible for tax purposes	(1)	3
Income not taxable	-	(490)
Depreciation in excess of capital allowances	(87)	(23)
Tax losses not recognised for deferred tax	(12)	235
Pension cost relief	(33)	(40)
Write-down of investments	-	171
Total tax expense	<u>-</u>	<u>-</u>

#### (c) Unrecognised tax losses

The company has unrecognised tax losses of £3,401,000 (2019: £3,465,000) that are available indefinitely to offset against future taxable profits.

	2020 £000	2019 £000
<b>Unrecognised deferred tax</b>		
Deductible temporary differences	(108)	(42)
Pension	(2)	(99)
Unused tax losses	<u>(646)</u>	<u>(589)</u>
	<u>(756)</u>	<u>(730)</u>

#### (d) Change in corporation tax rate

The Finance Act 2016, substantively enacted on 6 September 2016, included legislation that would reduce the main rate of corporation tax to 17%, effective from 1 April 2020. However, the Finance Act 2020, substantively enacted on 22 July 2020 cancelled this reduction and retained the main rate of corporation tax at 19%. The Chancellor, in his budget speech on 5 March 2021 announced an increase in the main UK Corporation Tax Rate to 25% with effect from 1 April 2023.

	2020 £000	2019 £000
<b>Balance Sheet</b>		
Corporation tax creditor	-	-

## Notes to the financial statements

at 31 December 2020

### 9. Intangible fixed assets

	<i>Goodwill</i> £000	<i>Software</i> £000	<i>Total</i> £000
<i>Cost:</i>			
At 1 January 2020	966	502	1,786
Additions	-	12	12
Disposals	-	(73)	(73)
<b>At 31 December 2020</b>	<b>966</b>	<b>441</b>	<b>1,725</b>
<i>Amortisation:</i>			
At 1 January 2020	252	475	1,045
Provided in the year	-	12	12
Disposals	-	(73)	(73)
<b>At 31 December 2020</b>	<b>252</b>	<b>414</b>	<b>984</b>
<i>Net book value:</i>			
<b>As at 31 December 2020</b>	<b>714</b>	<b>27</b>	<b>741</b>
As at 31 December 2019	714	27	741

Management have reviewed the carrying value of the intangible assets as above, in particular Goodwill, and have determined that given the current performance of the business that there are no indicators of impairment for these assets.

### 10. Tangible fixed assets

	<i>Plant and Machinery</i> £000	<i>Right of Use Assets</i> £000	<i>Total</i> £000
<i>Cost:</i>			
At 1 January 2020	910	531	1,441
Additions	439	13	452
Disposals	(163)	(2)	(165)
<b>At 31 December 2020</b>	<b>1,186</b>	<b>542</b>	<b>1,728</b>
<i>Depreciation:</i>			
At 1 January 2020	814	112	926
Provided in the year	64	112	176
Disposals	(163)	(2)	(165)
<b>At 31 December 2020</b>	<b>715</b>	<b>222</b>	<b>937</b>
<i>Net book value:</i>			
<b>As at 31 December 2020</b>	<b>471</b>	<b>320</b>	<b>791</b>
As at 31 December 2019	96	419	515

## Notes to the financial statements

at 31 December 2020

### 11. Investments

	£000
<i>Shares in subsidiary undertakings</i>	
As at 1 January 2020	7,097
Additions	-
Provision made during the year	-
<b>At 31 December 2020</b>	<b><u>7,097</u></b>

Principal subsidiary undertakings	Status	Holding	Country of registration or incorporation
Hydreco Hydraulics India Private Ltd	Trading	100%	India
Hydreco Hydraulics Norway A/S	Trading	100%	Norway
Hydreco Hydraulics GmbH	Trading	100%	Germany
Hydreco Hydraulics Italia Srl	Trading	100%	Italy
Hydreco Hydraulics (Holdings) Pty Ltd	Holding company	100%	Australia

The USA subsidiary, Hydreco Inc, was sold on 31 December 2020. The investment in this company had been fully written-down in 2019. In the opinion of the directors the investments in and amounts due from the company's subsidiary undertakings are worth at least the amounts at which they are stated in the statement of financial position. All the shares are wholly owned and the share capital comprises ordinary shares.

### 12. Inventory

	2020 £000	2019 £000
Raw materials	695	214
Work in progress	39	24
Finished goods	<u>520</u>	<u>695</u>
	<b><u>1,254</u></b>	<b><u>933</u></b>

### 13. Trade and other receivables

	2020 £000	2019 £000
Trade receivables	1,877	1,166
Amounts owed by group undertakings	860	524
Other receivables	120	205
Prepayments and accrued income	128	132
Receivables due after one year	<u>4,621</u>	<u>5,427</u>
	<b><u>7,606</u></b>	<b><u>7,454</u></b>
Amounts falling due after more than one year included above are:	2020 £000	2019 £000
Amounts owed by group undertakings	<u>4,621</u>	<u>5,427</u>

## Notes to the financial statements

at 31 December 2020

### 13. Trade and other receivables (continued)

<u>Other non-current assets</u>	<i>2020</i> <i>£000</i>	<i>2019</i> <i>£000</i>
Cash collateralised guarantees	<u>17</u>	<u>17</u>

### 14. Trade and other payables

	<i>2020</i> <i>£000</i>	<i>2019</i> <i>£000</i>
Trade payables	1,692	1,308
Payments received on account	107	-
Amounts owed to group undertakings	26	13
Lease liability	116	109
Other taxation and social security	49	44
Accruals and deferred income	214	160
	<u>2,204</u>	<u>1,634</u>

### 15. Non-Current payables

	<i>2020</i> <i>£000</i>	<i>2019</i> <i>£000</i>
Amounts owed to group undertakings	2,474	2,772
Lease liability	215	319
	<u>2,689</u>	<u>3,091</u>

### 16. Provisions for liabilities and charges

	<i>Warranty</i> <i>£000</i>
At 1 January 2020	18
Arising during the year	20
Utilised in the year	(14)
<b>At 31 December 2020</b>	<u><b>24</b></u>

Provision for warranty costs is made on the basis of known claims and past experience of claims arising during the course of the warranty period. The estimated liabilities are expected to arise over a one to three year period.

### 17. Financial Instruments

An explanation of the Company's risk management objective and strategy is given within the Strategic report included within these accounts.

As the company does not hold any debt items, there are no items subject to interest rate fluctuations. The primary risks faced by Hydreco Hydraulics Limited relates to foreign currency and liquidity risk.

## Notes to the financial statements

at 31 December 2020

### 17. Financial Instruments (continued)

#### Liquidity risk

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2020 based on contractual undiscounted payments.

	<i>On demand</i> £000	<i>Less than 3 months</i> £000	<i>3 - 12 months</i> £000	<i>1 - 5 years</i> £000	<i>&gt; 5 years</i> £000	<i>Total</i> £000
Interest bearing amounts owed to related parties	-	-	-	2,474	-	2,474
Trade and other payables	162	1,833	67	-	-	2,062
Lease payment profile	-	29	87	-	-	116
Amounts owed to Group undertakings	-	26	-	-	-	26
	<u>162</u>	<u>1,888</u>	<u>154</u>	<u>2,474</u>	<u>-</u>	<u>4,678</u>

#### Foreign currency risk

As the company is subject to movements within foreign currency rates through suppliers, it is at risk of suffering losses through significant movements in the rate. The primary risk is related to the movement of the Euro. This risk is managed as far as possible by invoicing certain customers in Euro. In 2020 Euro denominated receipts were 95% of Euro denominated payments. On this basis the estimated impact of change in exchange rate has been tabulated below:

	<b>Change in rate</b>	<b>Effect on profit before tax</b> £000
EURO	+5%	7

#### Credit risk

The company has a credit risk from its operating activities, primarily from its trade receivables. However this risk is limited by the nature of trading which typically is of regular monthly sales to all of the main customers, enabling the regular monitoring of ability to pay. The company does not currently see there being a risk in the valuation of the receivables as recorded within these financial statements

## Notes to the financial statements

at 31 December 2020

### 18. Right-of-use assets

	<i>Property</i>	<i>Furniture, fittings and equipment</i>	<i>Total</i>
<b>Cost or valuation</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
1 January 2020	503	28	531
Additions	-	13	13
Disposals	-	(2)	(2)
Balance at 31 December 2020	<u>503</u>	<u>39</u>	<u>542</u>
 <b>Amortisation / Depreciation</b>			
1 January 2020	101	11	112
Charge for the year	101	11	112
Disposals	-	(2)	(2)
Balance at 31 December 2020	<u>202</u>	<u>20</u>	<u>222</u>
Net book value as at 31 December 2020	<u>301</u>	<u>19</u>	<u>320</u>
Net book value as at 31 December 2019	<u>402</u>	<u>17</u>	<u>419</u>

### *Lease liabilities included in the statement of financial position at 31 December 2020*

	<i>2020</i>	<i>2019</i>
	<i>£000</i>	<i>£000</i>
Current	116	109
Non-Current	215	319
<b>Total</b>	<u>331</u>	<u>428</u>

### *Amounts recognised in profit and loss*

	<i>2020</i>	<i>2019</i>
	<i>£000</i>	<i>£000</i>
Interest on lease liabilities	27	33
Depreciation expense of right-to-use asset	112	112
<b>Total</b>	<u>139</u>	<u>145</u>

## Notes to the financial statements

at 31 December 2020

### 19. Obligations under operating leases

Under IFRS16

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2020		2019	
	<i>Property</i>	<i>Furniture, fittings and equipment</i>	<i>Property</i>	<i>Furniture, fittings and equipment</i>
	£000	£000	£000	£000
Amounts payable under lease contracts:				
Less than one year	106	10	100	9
One to five years	205	10	311	8
Present value of minimum lease payments	<u>311</u>	<u>20</u>	<u>411</u>	<u>17</u>

### 20. Share capital

	2020		2019	
	<i>No</i>	£000	<i>No</i>	£000
<i>Authorised, allotted, called up and fully paid</i>				
Ordinary shares of £1 each	21,490,327	<u>21,490</u>	21,490,327	<u>21,490</u>

### 21. Capital commitments

Capital commitments as at the end of the financial year for which no provision has been made in these financial statements were as follows:

	2020	2019
	£000	£000
Contracted for:	<u>69</u>	<u>153</u>

## Notes to the financial statements

at 31 December 2020

### 22. Pension commitments

The company operates a defined benefit pension scheme under which contributions are paid by the company and its participating employees. At the start of the year the scheme was the Hydreco Hydraulics Pension Plan (HHPP). In March 2020 the Hydreco Hydraulics Section of the Deloitte Pension Master Plan was created and the transfer of the assets and liabilities of the HHPP into this new Section was completed on 20 July 2020. This change was made to benefit from the cost-efficiencies available from a larger Plan whilst being able to maintain the same scheme rules. The HHPP will be wound up during 2021.

The rate at which the company contributes to the defined benefit scheme is assessed in accordance with the advice of independent qualified actuaries. Following the valuation of the HHPP as at 1 November 2016 and the agreement of a deficit funding schedule, the company has been contributing £193,000 pa including future service contributions at 33.5% of pensionable salaries. In addition, a further £200,000 was contributed on change of ownership of the business on 28 February 2019. The annual deficit contributions have been increased to £207,000 from March 2021 to November 2026 based on the valuation of the Hydreco Hydraulics Section of the Deloitte Pension Master Plan as at 31 March 2020.

The scheme is closed to new entrants and as from the end of 2020 there were no longer any active members.

The pension obligation for the Pension Plan is as follows:

	<i>2020</i>	<i>2019</i>
	<i>£000</i>	<i>£000</i>
Total market value of assets	7,338	6,728
Present value of the scheme liabilities	<u>(7,350)</u>	<u>(7,310)</u>
Net pension obligation	<u>(12)</u>	<u>(582)</u>

The valuation used for IAS 19R has been based on the most recent actuarial valuation at 31 December 2020 by a qualified independent actuary.

Scheme assets are stated at their market values at the respective balance sheet dates. In order to value the liabilities at 31 December 2020, adjustments have been made for inflation and pension escalation over the intervening period. Pensionable salaries are frozen, leading to a zero assumption for future pensionable salary increases.

The value of the scheme's liabilities has been determined by a qualified independent actuary based on calculations carried out as at 31 December 2020 and using the following assumptions:

	<i>2020</i>	<i>2019</i>
	%	%
Rate of increase in salaries	0.00	0.00
Rate of increase in inflation (RPI / CPI)	3.2 / 2.2	3.2 / 2.2
Rate of increase for pensions in payment and deferred pensions	3.1	3.1
Discount rate	1.4	1.9

Pensions in deferment now increase in line with the consumer price index (CPI) rather than the retail price index (RPI).

## Notes to the financial statements

at 31 December 2020

### 22. Pension commitments (continued)

The assets of the scheme were:

	<i>Percentage of plan assets</i>		<i>Percentage of plan assets</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>%</i>	<i>£000</i>	<i>%</i>	<i>£000</i>
Equities	15	1,131	42	2,844
Diversified Funds	11	789	-	-
Property	3	246	12	812
Corporate Bonds	47	3,405	22	1,484
Liability Driven Investments	23	1,703	13	852
Cash	1	64	11	736
<b>Total market value of assets</b>	<b>100</b>	<b>7,338</b>	<b>100</b>	<b>6,728</b>

An analysis of the defined benefit cost for the years ended 31 December is as follows:

	<i>2020</i>	<i>2019</i>
	<i>£000</i>	<i>£000</i>
<i>Analysis of the amount charged to operating profit</i>		
Current service cost	(8)	3
Past service cost	-	-
<b>Total operating charge</b>	<b>(8)</b>	<b>3</b>
<i>Analysis of the amount charged to finance charges (pensions)</i>		
Interest on pension scheme liabilities	(10)	(186)
<b>Total finance expense</b>	<b>(10)</b>	<b>(186)</b>
<i>Analysis of amount recognised in other comprehensive income</i>		
Expected return on plan assets	414	575
Experience gains arising on liabilities	250	398
Changes in assumptions underlying the present value of the plan liabilities	(269)	(728)
<b>Actuarial gain recognised in other comprehensive income</b>	<b>395</b>	<b>245</b>
<i>Analysis of movements in deficit during the year</i>		
Deficit in scheme at the start of the year	(582)	(1,037)
Current service cost	(8)	3
Past service cost	-	-
Contributions	193	393
Other finance charges	(10)	(186)
Actuarial gain recognised in other comprehensive expense	395	245
<b>Deficit in scheme at the end of the year</b>	<b>(12)</b>	<b>(582)</b>

## Notes to the financial statements

at 31 December 2020

### 22. Pension commitments (continued)

<i>Reconciliation of fair value of assets</i>	<b>2020</b>	<b>2019</b>
	<b>£000</b>	<b>£000</b>
<b>Fair value of the assets at the start of the year</b>	<b>6,728</b>	<b>5,918</b>
Employer contributions	193	393
Contributions by Plan participants	1	3
Interest income	128	165
Return on Plan assets excluding interest income	414	410
Distributions	(126)	(161)
Administration expenses	-	-
<b>Fair value of assets at end of the year</b>	<b>7,338</b>	<b>6,728</b>
 <i>Reconciliation of value of defined benefit obligations</i>	 <b>2020</b>	 <b>2019</b>
	<b>£000</b>	<b>£000</b>
<b>Present value of obligations at start of the year</b>	<b>7,310</b>	<b>6,955</b>
Current service cost	8	(3)
Past service cost	-	-
Interest cost	138	186
Contributions by Plan participants	1	3
Distributions	(126)	(161)
Experience gains	(250)	(398)
Actuarial losses arising from change in financial assumptions	269	728
<b>Present value of obligations at the end of the year</b>	<b>7,350</b>	<b>7,310</b>

#### *Sensitivity Analysis*

Based on the assumptions set out above, the impact on the present value of the defined benefit obligations of changing the following individual assumptions (with all other assumptions remaining unchanged) is set out below.

<b>Change of value in obligations at the end of the year if:</b>	<b>2020</b>	<b>2019</b>
Discount rate reduced by 0.25% p.a.	305	292
Discount rate increased by 0.25% p.a.	(290)	(292)

#### **Method and assumptions used to prepare sensitivity analysis**

The above analyses assume that assumption changes occur in isolation. In practice this is unlikely to occur and some assumptions may be correlated. The same method (projected unit method) has been applied when calculating these sensitivities.

## Notes to the financial statements

at 31 December 2020

### 23. Post balance sheet event

In the period since year-end, the COVID-19 global pandemic has continued to have an impact on the wider UK and global economy. The company considers the emergence and spread of the COVID-19 virus to be a non-adjusting post balance sheet event. As discussed in the Strategic Review, the trading experience from the initial waves of the pandemic leads the directors to be satisfied that the business will remain a going concern even in the most challenging of possible scenarios.

Brexit is having only a minimal impact on profitability and margins of the company.

### 24. Ultimate parent company

The company's immediate parent undertaking is Hydreco DBH Holdings Limited a company incorporated in the United Kingdom.

Management considers the company's ultimate parent undertaking to be Diplomatic MS SpA which is a limited company incorporated in Italy.