

Marubeni - Komatsu Limited

Report and Financial Statements

31 March 2019

Registered No. 1040079



Corporate Information

Directors

P J Rose (resigned 31 May 2018)
B Graham
M Hammill
S Kishikawa
Y Nemoto
J Nugent (appointed 31 May 2018)
S Wakamori
D J White

Secretary

B Graham

Auditors

Ernst & Young LLP
No 1 Colmore Square
Birmingham B4 6HQ

Registered Office

Padgets Lane
Redditch
Worcester B98 0RT

Registered No. 1040079

Strategic report

The directors present their strategic report for the year ended 31 March 2019.

Business review

Marubeni - Komatsu Limited ('the company') is a wholly owned subsidiary of Marubeni Corporation ('the group') and operates as part of the group's Transportation Machinery division.

Marubeni - Komatsu Limited is the sole distributor of Komatsu construction equipment in the United Kingdom and this is the company's principal activity. There have not been any significant changes in this principal activity in the year under review. The success of the company is based on the close working relationship with Komatsu and the quality and innovation of the Komatsu product.

The key financial and other performance indicators during the year were as follows:

	2019	2018	Change
	£000	£000	%
Turnover	179,314	171,685	4.4%
Gross Profit Percentage	10.4%	9.3%	1.1%
Operating Profit	7,379	5,949	24%
Profit after tax	6,480	5,209	24%
Equity shareholders' funds	17,846	17,212	3.7%
Return on assets employed	7.4%	7.6%	-0.2%
Return on Equity	36.3%	30.1%	+6.2%
Average number of employees	205	203	1%

The year ended 31 March 2019 has been another successful one for the company, continuing the run of profitable operations over the past nine accounting years. Turnover increased by 4.4% over the year reflecting the growth in machines sales and associated aftermarket activities. In the next financial year turnover is expected to remain steady reflecting the position of Komatsu product in the marketplace against a backdrop of uncertainty in the UK economy.

Total operating profit increased by 24% with the gross profit percentage improving by 1.1%.

The profit for the year of £6,480,000 (2018 – £5,209,000) has been added to capital and reserves.

Strategic report (continued)

Business Review (continued)

The Marubeni group manages its operations on a divisional basis. The performance of the Transportation Machinery division of Marubeni Corporation, which includes the company, is discussed in the group's annual report which does not form part of this report.

Principal risks and uncertainties

Competitive risks

Competitive pressure in the United Kingdom is a continuing risk for the company, which could result in it losing sales to its key competitors. The company manages this risk by providing added value services to its customers, through a high level of parts and service support as well as a quality product and by maintaining strong relationships with customers.

Exposure to credit, liquidity and foreign exchange rate risk

Credit risk is the risk that one party to a transaction will cause a financial loss for that party by failing to discharge an obligation. Credit policies are aimed at minimising such losses and require that deferred terms are only granted to customers who can 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 through the application of working capital targets. The company also manages liquidity risk via revolving credit facilities.

Foreign exchange rate 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 such as future payments denominated in a foreign currency. The company manages this risk, where significant, by use of forward contracts.

By order of the Board



B Graham

Secretary

Registered No. 1040079

Directors' report

The directors present their report and financial statements for the year ended 31 March 2019.

Directors of the company

The current directors are shown on page 1.

Results and dividends

The company's profit for the year ended 31 March 2019 after taxation, amounted to £6,480,000 (2018 - £5,209,000). A dividend of £4,750,000 was paid during the year (2018 - £5,445,000).

Future developments

The balance sheet on pages 13 and 14 of these financial statements shows the company's financial position at the year end. The directors believe that the company retains the potential to respond positively to the continuing challenges posed by the current economic climate and look forward to being able to maintain the company's profitability during the current year.

Financial instruments

Details of financial instruments are provided in the strategic report on pages 2 and 3.

Going concern

The directors have considered the cash flow forecasts of the company and have concluded that the company can operate within its cash and banking facilities for a period of at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors' liabilities

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third-party indemnity provision remains in force as at the date of approving the directors' report.

Political and charitable contributions

During the year the company made charitable donations amounting to £2,960 (2018 - £3,003). There were no political donations made during the year (2018 - none).

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Employee involvement

The company provides regular communication to employees through newsletters and staff briefings designed to allow a free flow of information and ideas. Priority is given to ensuring that all employees are aware of all significant matters affecting the company's trading position and of any significant organisational changes.

Directors' report (continued)

Environment

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the company's activities. Initiatives designed to minimise the company's impact on the environment include the safe storage of hazardous substances and disposal of waste.

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 they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board



B Graham

Secretary

Directors' responsibilities statement

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARUBENI – KOMATSU LIMITED

Opinion

We have audited the financial statements of Marubeni – Komatsu Limited for the year ended 31 March 2019 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 “Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company’s affairs as at 31 March 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 below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARUBENI – KOMATSU LIMITED (continued)

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 the 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MARUBENI – KOMATSU LIMITED (continued)

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://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

Ernst & Young LLP

Stephen Kirk

(Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Birmingham

Date 17th September 2019

Income Statement

For the year ended 31 March 2019

	<i>Notes</i>	<i>2019</i> £000	<i>2018</i> £000
Turnover	2	179,314	171,685
Cost of sales		(160,658)	(155,668)
Gross Profit		18,656	16,017
Distribution costs		(4,338)	(4,214)
Administrative expenses		(6,939)	(5,854)
Operating Profit	3	7,379	5,949
Interest receivable and similar income	7	54	16
Interest payable and similar charges	8	(27)	(4)
Other finance income/(cost)	19	22	(28)
Loss on disposal on property, plant and equipment		(3)	(4)
Profit on ordinary activities before taxation		7,425	5,929
Taxation	9	(945)	(720)
Profit for the financial year		<u>6,480</u>	<u>5,209</u>

Revenue and operating profit are derived entirely from continuing operations.

Statement of Other Comprehensive Income

For the year ended 31 March 2019

	<i>Notes</i>	<i>2019</i> £000	<i>2018</i> £000
Profit for the year		6,480	5,209
Other comprehensive income:			
Items that cannot be reclassified to profit or loss:			
Remeasurement (loss)/gain recognised on defined benefit pension scheme	19	(683)	1,895
Movement on deferred tax relating to remeasurement gains/(losses) on defined benefit pension scheme		116	(322)
Items that can be reclassified to profit or loss:			
Net movement in cash flow hedges		(653)	14
Tax on net movement on cash flow hedges		124	(3)
Other comprehensive (loss)/income for the year		(1,096)	1,584
Total comprehensive income for the year		5,384	6,793

Total comprehensive income for the year is attributable to the owners of the company, as there is no non-controlling interest.

Statement of Changes in Equity

For the year ended 31 March 2019

	<i>Share capital</i> £000	<i>Share Premium</i> £000	<i>Cash flow hedge reserve</i> £000	<i>Other reserve</i> £000	<i>Retained earnings</i> £000	<i>Total</i> £000
At 1 April 2017	5,518	702	(69)	812	8,901	15,864
Profit for the financial year	–	–	–	–	5,209	5,209
Other comprehensive income	–	–	11	–	1,573	1,584
Dividends paid	–	–	–	–	(5,445)	(5,445)
At 31 March 2018	5,518	702	(58)	812	10,238	17,212
At 1 April 2018	5,518	702	(58)	812	10,238	17,212
Profit for the financial year	–	–	–	–	6,480	6,480
Other comprehensive loss	–	–	(529)	–	(567)	(1,096)
Dividends paid	–	–	–	–	(4,750)	(4,750)
At 31 March 2019	5,518	702	(587)	812	11,401	17,846

In the opinion of the Directors, the other reserve is non-distributable.

Balance Sheet

at 31 March 2019

Registered No. 1040079

		<i>31 March</i>	<i>31 March</i>
		<i>2019</i>	<i>2018</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
Fixed assets			
Tangible fixed assets	10	19,119	20,119
Defined benefit pension scheme surplus	19	40	800
Deferred tax assets	15	171	143
		<u>19,330</u>	<u>21,062</u>
Current assets			
Stocks	11	28,665	22,012
Trade debtors	12	27,574	13,800
Amounts owed by group undertakings		-	7,502
Corporation tax		-	758
Other debtors		24	3
Prepayments and accrued income		738	587
Deferred tax assets	15	138	14
Cash at bank and in hand		11,500	2,374
		<u>68,639</u>	<u>47,050</u>
Creditors: amounts falling due within one year			
Trade creditors	14	40,558	23,883
Amounts owed to group undertakings		11	32
Corporation tax		800	-
Other creditors		-	-
Other taxes and social security costs		2,660	855
Accruals and deferred income		9,907	11,610
Financial instruments	13	1,251	159
		<u>55,187</u>	<u>36,539</u>
Net current assets		13,452	10,511
Total assets less current liabilities		32,782	31,573
Creditors: amounts falling due after more than one year			
Deferred income		12,637	12,377
Deferred tax liabilities	15	23	136
Other provisions	15	2,276	1,848
		<u>14,936</u>	<u>14,361</u>
Net assets		<u>17,846</u>	<u>17,212</u>

Balance Sheet (continued)

At 31 March 2019

		<i>31 March</i>	<i>31 March</i>
		<i>2019</i>	<i>2018</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
Capital and reserves			
Issued capital	16	5,518	5,518
Share premium		702	702
Cash flow hedge reserve	18	(587)	(58)
Other capital reserve	18	812	812
Retained earnings		11,401	10,238
Total equity shareholders' funds		<u>17,846</u>	<u>17,212</u>

These financial statements were approved by the board on 17/9/19 and were signed on its behalf by


Y Nemoto – Director

Notes to the financial statements

For the year ended 31 March 2019

1. Accounting policies

Corporate information

The financial statements of the company for the year ended 31 March 2019 were authorised for issue in accordance with a resolution of the directors on

Marubeni – Komatsu Limited is a limited liability company incorporated in England. The registered office is Padgets Lane, Redditch, Worcestershire, B98 0RT.

The principal activity of the company is described in the Strategic Report on pages 2 and 3. Information on its ultimate parent is presented in Note 23.

Basis of preparation and change in accounting policy

The financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The financial statements have also been prepared in accordance with the Companies Act 2006.

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value in accordance with applicable accounting standards.

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

- a) the requirements of IFRS 7 Financial Instruments: Disclosures;
- b) the requirements of paragraphs 91-99 of IFRS 13 in relation to the disclosure of fair value measurement;
- c) 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, outstanding shares at the beginning of the period and (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment, carrying amount of property plant and equipment at the beginning and end of the period;
- d) the requirements of paragraphs 16 of IAS 1 Presentation of Financial Statements, to make an explicit and unreserved statement of compliance with IFRS;
- e) the requirements of paragraphs 134 -136 of IAS 1 Presentation of Financial Statements, to disclose information about capital and how it is managed;
- f) the requirements of paragraphs 38A to 38D of IAS 1 Presentation of Financial Statements in relation to comparative information;
- g) the requirements of paragraphs 10(d) and 111 of IAS 1 and IAS 7 Statement of Cash Flows;
- h) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, to provide information about the impact of IFRS's that have been issued but are not yet effective;
- i) the requirements of IAS 24 Related Party Disclosures, to disclose related party transactions entered into between two parties wholly owned within the same group.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 March 2019. The financial statements have been prepared on a going concern basis as set out in the directors' report on pages 4 and 5.

Notes to the financial statements

at 31 March 2019

1. Accounting policies (continued)

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16, 'Leases', became effective on 1 April 2019, replacing IAS 17, 'Leases', and the Company has adopted the new standard from 1 April 2019. The modified retrospective transition approach has been adopted so prior year financial information will not be restated. The new standard requires almost all leases to be recognised on the balance sheet with a right-of-use asset capitalised and depreciated over the estimated lease term with a corresponding liability that will reduce over the same period. The operating lease charge that was previously recognised in the income statement under IAS 17 will be replaced by depreciation and interest expenses. Details of the estimated impact of IFRS 16 on the financial statements are disclosed in note 20.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Company adopted IFRS 15 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Company did not apply any of the other available optional practical expedients

There was no impact on the income statement, statement of other comprehensive income and balance sheet in the year to 31 March 2019.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company adopted IFRS 9 from 1 April 2018. In accordance with the transition provisions in the Standard, comparatives have not been restated.

Notes to the financial statements

at 31 March 2019

1. Accounting policies (continued)

Classification of financial assets

IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets - amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI). The adoption of IFRS 9 has not impacted the measurement of the Company's financial assets: derivative financial assets continue to be held at FVTPL (except those subject to hedge accounting) and the Company's other financial assets continue to be held at amortised cost.

Impairment of financial assets

IFRS 9 introduces an expected credit loss approach to impairment. The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.

No material adjustments to the Company's impairment provisions were made on transition to IFRS 9. Credit risk is considered small, and where an appropriate approach was already applied to establish impairment provisions and the inclusion of specific expected credit loss considerations did not have a material impact.

Hedge accounting

Updated IFRS 9 hedge accounting requirements have not had a material impact on the Company.

There was no impact on the income statement, statement of other comprehensive income and balance sheet in the year to 31 March 2019.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

a) Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 9.

b) Pensions and post-employment benefits

The cost of defined benefit pension plans and other post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate for accounting purposes, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rates are based on publicly available mortality tables for the United Kingdom. Pension increases are based on expected future inflation rates for the United Kingdom. Further details are given in note 19.

Notes to the financial statements

at 31 March 2019

1. Accounting policies (continued)

c) Warranty

Management judgement is required to determine the amount of warranty reserve to be set aside to cover contracted warranty commitments that have arisen on the sale of machines. Further details are given in note 15.

d) Buyback commitments

Management judgement is required to determine the amount of residual values in respect of property, plant and equipment, notably in respect of plant and machinery with a residual value commitment.

e) Sale of goods

On transactions where the company guarantees a future residual value, management judgement is required to determine the likelihood of the asset being repurchased by the company.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes costs directly attributable to making the asset capable of operating as intended. On transition to FRS 101 the revalued amount of land and buildings was treated as deemed cost.

Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Classification / class	Depreciation rate (%) or period	Method
Freehold land and buildings	Nil – 2%	Straight line, zero residual
Long-term leasehold buildings	2% per annum	Straight line, zero residual
Machinery equipment and motor vehicles	25 – 33%	Straight line, zero residual
Plant and machinery with a residual value commitment	25%	Straight line, zero residual
All other assets	25% per annum	Reducing balance

The carrying value of tangible fixed assets are reviewed when events or changes in circumstances indicate the carrying value may not be recoverable.

Where the residual value of plant and machinery with a residual value commitment is assessed as being below the contractually committed value, an additional provision is recorded to the extent of the shortfall.

Notes to the financial statements

at 31 March 2019

1. Accounting policies (continued)

Revenue recognition

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of the Company's activities.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Revenue from sale of equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the equipment. The normal credit term is 30 to 120 days upon despatch.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of equipment, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

(i) Variable consideration

Some contracts for the sale of equipment provide customers with an option of selling the equipment back to the Company at a pre-agreed price.

Buyback guarantee

Revenue received on transactions where the Company guarantees a future residual value, and the likelihood of the asset being repurchased by the Company is high, is treated as deferred income and the difference between the sales revenue and the residual value commitment is recognised as turnover, on a straight-line basis, over the period that the commitment exists. The cost of the equipment is recorded as a tangible fixed asset and the difference between the cost and the estimated residual value is depreciated, on a straight-line basis, over the same period with the charge recorded within cost of sales. Where the likelihood of the asset being repurchased is assessed to be low, revenue is recognised on despatch of the goods.

(ii) Non-cash consideration

Warranty obligations

The Company typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Refer to the accounting policy on provisions in "provisions for liabilities" and "warranty".

The Company provides a one-year warranty beyond fixing defects that existed at the time of sale. These service-type warranties are sold either separately or bundled together with the sale of equipment. Contracts for bundled sales of equipment and a service-type warranty comprise two performance obligations because the promises to transfer the equipment and to provide the service-type warranty are capable of being distinct. Using the relative stand-alone selling price method, a portion of the transaction price is allocated to the service-type warranty and recognised as a contract liability. Revenue is recognised over the period in which the service-type warranty is provided based on the time elapsed.

Notes to the financial statements

at 31 March 2019

1. Accounting policies (continued)

Rental income

Rental income arising from operating leases on machines is accounted for on a straight-line basis over the lease term.

Rendering of services and repairs

Revenue from the provision of services and repairs is recognised by reference to the value of service work performed, where the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred in respect of the transaction can be measured reliably.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Leases:

Company as a lessee

Assets held under finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term. Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight-line basis over the lease term.

Company as a lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight-line basis over the lease term. Where the company transfers substantially all the risks and benefits of ownership of the asset, the arrangement is classified as a finance lease and a receivable is recognised for the initial direct costs of the lease and the present value of the minimum lease payments. As payments fall due, finance income is recognised in the income statement so as to achieve a constant rate of return on the remaining net investment in the lease.

Provisions for liabilities

A provision is recognised when the entity has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Notes to the financial statements

at 31 March 2019

1. Accounting policies (continued)

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in "Revenue from contracts with customers".

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments).

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include cash and cash equivalents, trade receivables, amounts due from related parties and other debtors.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's balance sheet) when:

Notes to the financial statements

at 31 March 2019

1. Accounting policies (continued)

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the note on Trade Receivables

For trade receivables, the Company applies a specific approach in calculating ECLs. The Company tracks changes in credit risk and applies a provision where appropriate.

The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other creditors, accruals, loans and borrowings including bank overdrafts and derivative financial instruments.

Notes to the financial statements

at 31 March 2019

1. Accounting policies (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Notes to the financial statements

at 31 March 2019

1. Accounting policies (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Company uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised as other expense and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Stocks

Stocks are 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.

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

Cash at bank and in hand

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand.

Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

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

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised, or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

Notes to the financial statements

at 31 March 2019

1. Accounting policies (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated balance sheet 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.

Pensions

Retirement benefits to employees are provided by two pension schemes, a defined benefit scheme and a defined contribution scheme, which are funded by contributions from the company and employees. Payments to the defined contribution scheme are charged to the profit and loss account on an accruals basis. For the defined benefit scheme, operating profit is charged with the cost of providing pension benefits earned by employees in the period. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost. Remeasurements, comprising actuarial gains and losses, and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

Pension scheme assets are measured using market values and liabilities are measured on an actuarial basis using the projected unit method. Actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented within fixed assets or creditors: amounts falling due after more than one year on the face of the balance sheet. In addition, the company operates a defined contribution plan where the company pays contributions to a privately administered pension insurance plan on a mandatory and contractual basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Pension assets are recognised where the company has a right to a refund assuming the gradual settlement of plan liabilities over time until all members have left.

2. Turnover

Turnover represents the invoiced amounts of goods sold and accruals for services provided which fall within the company's ordinary activities, all of which are continuing. Revenue received on transactions where the company guarantees a future residual value, and the likelihood of the asset being repurchased by the company is high, is treated as deferred income and the difference between the sales revenue and the residual value commitment is recognised as turnover, on a straight-line basis, over the period that the commitment exists. The cost of the equipment is recorded as a tangible fixed asset and the difference between the cost and the estimated residual value is depreciated, on a straight-line basis, over the same period with the charge recorded within cost of sales. Where the likelihood of the asset being repurchased is assessed to be low, revenue is recognised on despatch of the goods.

	2019	2018
	£000	£000
<i>Turnover comprises</i>		
Sale of goods	168,380	160,897
Machine rental	146	340
Service and repairs	10,788	10,448
	<u>179,314</u>	<u>171,685</u>

Notes to the financial statements

at 31 March 2019

3. Operating Profit

	2019	2018
	£000	£000
<i>This is stated after charging/(crediting):</i>		
Depreciation	2,925	8,286
Inventory recognised as an expense	156,314	149,349
Operating lease rentals		
- Land and buildings	272	274
- Plant and machinery	811	708
Net foreign currency exchange differences	(314)	(262)

4. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the company.

The remuneration of the auditors is further analysed as follows

	2019	2018
	£000	£000
Audit of the financial statements	53	48
Taxation compliance services	5	5
Total Auditors' remuneration	<u>58</u>	<u>53</u>

5. Directors' remuneration

	2019	2018
	£000	£000
Aggregate remuneration in respect of qualifying services (excluding pension contributions)	<u>872</u>	<u>834</u>
Remuneration of the highest paid director	<u>296</u>	<u>198</u>
	<i>No.</i>	<i>No.</i>
Members of defined benefit pension schemes	<u>-</u>	<u>-</u>

The highest paid director is not a member of a pension scheme funded by the company.

A management charge in respect of administration costs has been made by other group companies of £279,000 (2018 – £332,000), which includes the directors' remuneration in respect of one director which it is not possible to identify separately.

Notes to the financial statements

at 31 March 2019

6. Staff costs

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Wages and salaries	8,469	7,793
Social security costs	1,018	983
Other pension costs	493	279
	<u>9,980</u>	<u>9,055</u>

Included in other pension costs are £299,000 (2018 - £279,000) in respect of defined contribution schemes.

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

	<i>No.</i>	<i>No.</i>
Sales	35	35
Customer support	144	142
Others	26	26
	<u>205</u>	<u>203</u>

7. Interest receivable and similar income

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Bank deposit interest	40	3
Amounts receivable from group undertakings	14	13
	<u>54</u>	<u>16</u>

8. Interest payable and similar charges

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Group interest payable and similar charges	27	4
	<u>27</u>	<u>4</u>

Notes to the financial statements

at 31 March 2019

9. Taxation

(a) Tax on Profit on ordinary activities

The taxation charge is made up as follows:

	2019	2018
	£000	£000
Current tax:		
UK corporation tax on the profit for the year	1,491	1,189
Adjustment in respect of previous year	(521)	(431)
Total current tax	970	758
Deferred tax:		
Origination of timing differences	(25)	(38)
Total deferred tax	(25)	(38)
Tax on Profit on ordinary activities	945	720

(b) Tax relating to items charged or credited to other comprehensive income

	2019	2018
	£000	£000
Deferred tax		
Tax on net movement on cash flow hedges	124	(3)
Tax on defined benefit pension plans	116	(322)
	240	(325)

(c) Affecting the total tax charge

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

	2019	2018
	£000	£000
Profit on ordinary activities before tax	7,425	5,929
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 – 19%)	1,411	1,126
<i>Effects of:</i>		
Non-taxable income, disallowed expenditure, and other differences	58	12
Adjustment in respect of previous years	(521)	(431)
Pension timing differences	(3)	13
Total tax for the year (note 9(a))	945	720

Notes to the financial statements

at 31 March 2019

9. Taxation (continued)

(d) Factors that may affect future tax charges

The UK Government reduced the rate of corporation tax by 2% from 19% to 17% effective from 1 April 2020.

The company considers that the timing differences included in the deferred tax calculation will, for the most part, reverse after 1 April 2020 and therefore the deferred tax liability has been calculated using the 17% rate (2018 -17%).

10. Tangible fixed assets

	<i>Freehold land and buildings</i>	<i>Long-term leasehold property</i>	<i>Machinery, equipment and motor vehicles</i>	<i>Plant and machinery with a residual value commitment</i>	<i>Total</i>
	£000	£000	£000	£000	£000
Cost					
At 1 April 2018	1,761	1,397	4,253	24,618	32,029
Additions	-	-	551	5,434	5,985
Disposals	-	-	(1,057)	(5,890)	(6,947)
At 31 March 2019	1,761	1,397	3,747	24,162	31,067
Depreciation and impairment:					
At 1 April 2018	85	96	3,346	8,383	11,910
Charge for the year	22	34	287	2,582	2,925
Disposals	-	-	(694)	(2,193)	(2,887)
At 31 March 2019	107	130	2,939	8,772	11,948
Net book value:					
At 31 March 2019	1,654	1,267	808	15,390	19,119
At 1 April 2018	1,676	1,301	907	16,235	20,119

Included in the above is land at cost of £655,000 (2018 – £655,000) which is not depreciated.

Included in machinery, equipment and motor vehicles are assets held for use in rental agreements with a cost of £157,766 (2018 – £940,508) and accumulated depreciation of £15,385 (2018 – £472,391).

11. Stocks

	2019	2018
	£000	£000
Work in progress	1,031	1,153
Goods for resale	27,634	20,859
	28,665	22,012

Notes to the financial statements

at 31 March 2019

12. Trade receivables

	2019	2018
	£000	£000
Trade receivables	28,029	13,815
Less: provision for impairment of receivables	(455)	(15)
	<u>27,574</u>	<u>13,800</u>

Trade receivables are stated at amortised cost.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables disclosed above. The Group does not hold collateral as security other than retention of titles clauses issues as part of the ordinary course of business.

13. Financial instruments

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments

Trade receivables

Customer credit risk is managed by the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. At 31 March 2019, the Group had 15 customers (2018: 9) that owed it more than £250,000 each and accounted for approximately 80% (2018: 60%) of all the receivables outstanding. There were 5 customers (2018: 3) with balances greater than £1 million accounting for 65% (2018: 42%) of the total amount of receivables.

Hedging

	2019	2018
	£000	£000
Forward currency hedging contracts liability	(1,251)	(159)
	<u>(1,251)</u>	<u>(159)</u>

All of the above amounts fall due within one year.

Forward foreign exchange commitments

The company had forward foreign exchange commitments to buy Euros over the period from 1 April 2019 to 19 December 2019 with a contracted value of £55.579m (2018 – £18.349m). The fair value of these foreign exchange commitments is estimated as a loss of £1,251,000 as at 31 March 2019 (2018 – loss of £159,000).

Notes to the financial statements

at 31 March 2019

14. Trade creditors

Trade creditors are non-interest bearing and on average normally settled on 45-day terms.

15. Provisions for liabilities

	<i>Sales Warranty</i> £000
At 1 April 2018	1,848
Charge to Income Statement	1,555
Utilised	(187)
Released	(940)
At 31 March 2019	<u>2,276</u>

Sales warranty provisions represent an estimate of the future cost of repairs to be carried out under standard and extended warranties provided on equipment sold. The majority of this expenditure will be incurred within three years of the balance sheet date.

Deferred taxation

The amounts of deferred tax asset/(liability) provided in the financial statements and the amounts not provided are as follows:

	<i>Provided</i>		<i>Unprovided</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	£000	£000	£000	£000
Accelerated depreciation/(allowance)	(1)	1	–	–
Chargeable gains rolled over	(35)	(35)	–	–
Derivative financial instruments	123	14	–	–
Deficit on revaluation of properties	6	6	88	88
Capital losses	29	29	–	–
Other timing differences	171	142	–	–
Pension timing differences	(7)	(136)	–	–
	<u>286</u>	<u>21</u>	<u>88</u>	<u>88</u>

In assessing whether it is appropriate to recognise a valuation allowance in respect of individual components of the overall deferred tax asset, the directors have considered the likelihood of there being appropriate taxable profits which the relevant items can be offset, arising in the period in which the temporary difference is expected to reverse. As a result of this review only certain elements of the overall deferred tax asset (2018 'asset') have been recognised.

Notes to the financial statements

at 31 March 2019

15. Provisions for liabilities (continued)

The provided deferred tax is presented as follows:

	2019	<i>Provided</i>
	£000	2018
		£000
At 1 April asset	21	308
Credited in the year to profit and loss	25	38
Amount credited/(charged) to other comprehensive income	240	(325)
At 31 March asset	<u>286</u>	<u>21</u>
Deferred tax asset	309	157
Deferred tax liability	(23)	(136)
Net asset	<u>286</u>	<u>21</u>
Deferred tax asset – current	138	14
Deferred tax asset – non-current	171	143
Deferred tax liability - current	-	-
Deferred tax liability – non-current	(23)	(136)

16. Issued share capital

		2019		2018
<i>Authorised, allotted, called up and fully paid</i>	<i>No.</i>	£000	<i>No.</i>	£000
Ordinary shares of £1 each	5,518,000	<u>5,518</u>	5,518,000	<u>5,518</u>

17. Dividends

During the year the company declared and paid a dividend of 86.1p (2018 – 98.68p) per share totalling £4,750,000 (2018 - £5,445,000).

18. Reserves

Cash flow hedge reserve

The cash flow hedge reserve is used to record the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Other capital reserve

Non-distributable revaluation reserve. Prior to the transition to Reduced Disclosure Framework (FRS 101) the company had a policy of regular revaluation of freehold land and buildings and long-term leasehold property as permitted by FRS 15. A full revaluation was performed every 5 years and an interim valuation in year 3. This reserve represented the balance on the reserve at transition, being 1 April 2014. Deferred tax has not been recognised as due to indexation it is unlikely that taxable profits will arise if the assets are disposed.

Notes to the financial statements

at 31 March 2019

19. Pensions

Defined benefit pension scheme

The company operates a defined benefit scheme, the Marubeni - Komatsu Limited Pension and Death Benefit Scheme ('the DB scheme'). Scheme funds are administered by trustees and are independent of company finances.

The DB scheme was closed to future accrual as at 1 July 2013.

The pension cost of the DB scheme is determined with the advice of a qualified independent actuary on the basis of at least triennial actuarial valuations. The most recent actuarial valuation of the DB scheme was at 5 April 2015, however preliminary work has been carried out on the 5 April 2018 actuarial valuation. The preliminary results of the valuation at 5 April 2018 have been updated by the actuary on an IAS 19 basis as at 31 March 2019.

The funding target is for the fund to hold assets equal in value to the accrued benefits. If there is a shortfall against this target, the company and the trustees will agree on deficit contributions. There is a risk to the company that adverse experience could lead to a requirement for the company to make additional contributions to recover future deficits that arise.

The company's treatment of actuarial gains and losses is to recognise them immediately through other comprehensive income.

Contributions are based upon funding valuations carried out every three years. The company expects to contribute £128,750 to the scheme in the next financial year (2018 – £95,000).

The company estimates the duration of the UK scheme liabilities is on average between 17 and 18 years (2018 – 19 and 20 years).

Movement in Surplus during the year

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Surplus in the scheme at the beginning of the year	800	(1,163)
Net credit/(charge) recognised in the income statement	22	(28)
Employer contributions	95	96
Past service cost	(194)	-
Actuarial (loss)/gain in Other Comprehensive Income	(683)	1,895
Defined benefit scheme surplus	<u>40</u>	<u>800</u>

Notes to the financial statements

at 31 March 2019

19. Pensions (continued)

Movement in the present value of the scheme liabilities during the year

	2019 £000	2018 £000
Present value of scheme liabilities at beginning of the year	29,185	33,810
Past service cost	194	-
Interest on pension scheme liabilities	738	797
Benefits paid	(1,613)	(3,848)
Actuarial loss/(gain)	1,706	(1,574)
Present value of scheme liabilities at end of the year	<u>30,210</u>	<u>29,185</u>

Movement in the fair value of the scheme assets during the year

	2019 £000	2018 £000
Fair value of scheme assets at beginning of the year	29,985	32,647
Interest on assets	760	769
Employer contributions	95	96
Benefits paid	(1,613)	(3,848)
Actuarial gain on assets	1,023	321
Fair value of scheme assets at end of the year	<u>30,250</u>	<u>29,985</u>

Amounts recognised in the balance sheet

	2019 £000	2018 £000
Present value of funded obligations	(30,210)	(29,185)
Fair value of scheme assets	<u>30,250</u>	<u>29,985</u>
Net asset in balance sheet	<u>40</u>	<u>800</u>

Notes to the financial statements

at 31 March 2019

19. Pensions (continued)

Amounts recognised in the income statement

	2019	2018
	£000	£000
Interest on asset	(760)	(769)
Interest on liability	738	797
Net interest (credit)/charge	<u>(22)</u>	<u>28</u>
	2019	2018
	£000	£000
Past service cost	194	-
Net service cost	<u>194</u>	<u>-</u>

Amounts recognised in other comprehensive income (OCI)

	2019	2018
	£000	£000
Actual return less interest on pension scheme assets	1,023	321
Experience gains/(losses) arising on the scheme liabilities	62	(227)
Changes in assumptions underlying the present value of the scheme liabilities	<u>(1,768)</u>	<u>1,801</u>
Actuarial (loss)/gain recognised in the OCI	<u>(683)</u>	<u>1,895</u>

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2019	2018	2019	2018
	£000	£000	%	%
Equities	13,285	11,729	43.9	39.1
Bonds	16,078	15,948	53.2	53.2
Property	783	1,600	2.6	5.3
Cash	104	708	0.3	2.4
Total	<u>30,250</u>	<u>29,985</u>	<u>100.0</u>	<u>100.0</u>

The pension scheme assets include no ordinary shares issued by the company, nor any property or other assets occupied or used by the company.

Notes to the financial statements

at 31 March 2019

19. Pensions (continued)

Principal actuarial assumptions at the balance sheet date

	2019	2018
Future salary increases	n/a	n/a
Future pension increases in payment	3.10%	3.00%
Discount rate at 31 March	2.40%	2.60%
Inflation assumption	2.20%	2.05%
Mortality assumption	SAPS''S2'' tables with a +1 year age rating and CMI18 core 1.25% projections	SAPS''S2'' tables with a +1 year age rating and CMI16 1.25% projections
Post-retirement mortality		
Current pensioners at 62 -male	23.3	24.0
Current pensioners at 62 -female	25.3	25.9
Future pensioners at 62 -male	24.5	25.3
Future pensioners at 62 -female	26.6	27.3

The assumptions used by the actuary are best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Sensitivity of funded obligations to key assumptions

	2019	2018
Increase discount rate by 0.1%	Liabilities decrease by £0.5m to £0.6m	Liabilities decrease by £0.6m to £0.7m
Reduce inflation and related assumptions by 0.1%	Liabilities decrease by £0.4m to £0.5m	Liabilities decrease by £0.6m to £0.7m
Members are assumed to live one year longer than assumed	Liabilities increase by £1.1m to £1.3m	Liabilities increase by £0.8m to £1.0m

These sensitivities have been calculated to show the movement in defined benefit obligations in isolation, and assuming no other changes in market conditions at the accounting date. This is unlikely in practice, for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the fund.

Defined contribution scheme

The company provides a defined contribution scheme for its eligible employees. The pension cost for the DC scheme was £299,000 (2018 – £279,000).

Notes to the financial statements

at 31 March 2019

20. Contingent liabilities and commitments

Operating lease agreements where the company is lessee

The company has entered into commercial leases on certain properties and motor vehicles. These leases have an average duration of between 3 and 10 years. Only the property lease agreements contain an option for renewal, with rentals being based on market prices at the time of exercise. There are no restrictions placed upon the lessee by entering into these leases.

At 31 March 2019 the company had future minimum rentals payable under non-cancellable operating leases as follows:

	2019		2018	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£000	£000	£000	£000
Due within one year	283	542	279	650
Due after one year but not more than five years	872	322	990	414
Due after five years	7,658	–	7,819	–
	<u>8,813</u>	<u>864</u>	<u>9,088</u>	<u>1,064</u>

Operating lease agreements where the company is lessor

The company holds machines for rental as disclosed in note 10, which are let to third parties on a 5 year term.

Future minimum rentals receivable

	2019	2018
	£000	£000
Not later than one year	46	166
After one year but not more than five years	-	45
After five years	-	-
	<u>46</u>	<u>211</u>

Adoption of IFRS 16, 'Leases'

IFRS 16 has become effective from 1 January 2019 and replaces IAS 17, 'Leases' as the definitive accounting standard for the recognition, measurement and disclosure of leases. The Company has adopted the standard from 1 April 2019.

Under the new standard, lessees will recognise almost all leases on the balance sheet as the distinction between finance leases and operating leases is removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments can be recognised as expenses on a straight-line basis. The approach for lessors remains largely unchanged.

Notes to the financial statements

at 31 March 2019

20. Contingent liabilities and commitments (continued)

The Company has adopted the modified retrospective transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for the majority of leases. The lease liability is calculated as the present value of the minimum lease payments on the date of transition. For a number of high value property and aircraft leases however, the right-of-use assets have been calculated as if the leases had always existed and their value on the date of transition is measured as the present value of the minimum lease payments at the inception date less accrued depreciation and any impairments. The difference between the right-of-use assets and lease liabilities on the date of transition is taken to retained earnings. Comparative figures will not be restated for the year ended 31 March 2019.

The following practical expedients have been adopted on transition:

- Single discount rates have been applied to portfolios of leases with similar characteristics
- IFRS 16 has only been applied to contracts that were previously classified as leases
- Initial direct costs have been excluded from the measurement of right-of-use assets on the date of transition
- The lease term has been determined with the use of hindsight where the contract contains options to extend the lease

The financial impact of adopting the new standard may change from the current estimates detailed below due to:

- Changes in the Company's lease portfolio, with leases ending and starting frequently throughout the year
- Changes in assumptions relating to lease end dates and future lease payment amounts

Impact on financial statements

On 1 April 2019:

- The Company will recognise a lease liability of £6.4 million and a right-of-use asset of £6.2 million, with a corresponding debit to retained earnings of £0.2 million.
- The vast majority of the lease liability relates to property

For the year ending 31 March 2020:

- Operating profit is expected to increase as the depreciation charge is estimated to be lower than the operating lease charge under IAS 17. However, the increase in finance costs is expected to offset this, causing an immaterial change in profit before tax

Notes to the financial statements

at 31 March 2019

21. Capital commitments

At 31 March 2019, the company had capital commitments of £nil (2018 – £nil).

22. Related party transactions

As the Company was a wholly owned subsidiary of Marubeni Corporation at 31 March 2019, the Company has taken advantage of the exemption contained in FRS 101 to not disclose transactions with fellow wholly owned subsidiaries.

23. Ultimate parent undertaking and controlling party

The largest and smallest group in which the results of the Company are consolidated is that headed by Marubeni Corporation. Consolidated financial statements of Marubeni Corporation are available from the following address: Tokyo Nihombashi Tower, 7-1, Nihonbashi 2-Chome, Chuo-ku, Tokyo, Japan.

The ultimate parent undertaking is Marubeni Corporation.