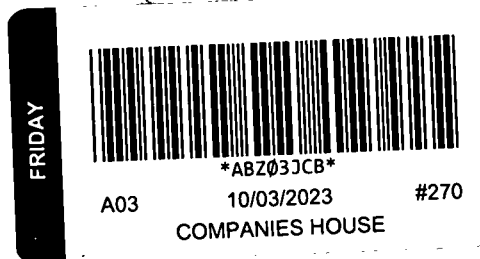


REGISTERED NUMBER: 07068266 (England and Wales)

**Strategic Report, Report of the Directors and  
Financial Statements  
for the Year Ended 31 December 2021  
for  
LiuGong Machinery (UK) Limited**



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for the year ended 31 December 2021**

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**LiuGong Machinery (UK) Limited**

**Company Information  
for the year ended 31 December 2021**

**DIRECTORS:**

B L Prescott  
S J Ford  
G I McGregor  
H C Dale  
L Guobing  
K S Skalna-Kadziela  
S Yuan

**REGISTERED OFFICE:**

3 Bolde Close  
Portsmouth  
Hampshire  
PO3 5RD

**REGISTERED NUMBER:**

07068266 (England and Wales)

**AUDITORS:**

Bennett Brooks & Co Limited  
Chartered Accountants  
& Statutory Auditors  
St George's Court  
Winnington Avenue  
Northwich  
Cheshire  
CW8 4EE

**Strategic Report  
for the year ended 31 December 2021**

The directors present the strategic report for the year ended 31 December 2021.

**REVIEW OF BUSINESS**

The principal activity of the Company is the selling of the LiuGong product range and the support needed therein with servicing and parts.

With the UK directors having over 50 years in the business of selling construction plant and machinery, it stood the company in good stead with their knowledge of the product and the customers.

**PRINCIPAL RISKS AND UNCERTAINTIES**

LiuGong Machinery (UK) Ltd. as a 100% owned subsidiary can take advantage of being supported by the wider LiuGong corporation. The identification of strategic, operational, compliance and financial risks is a key part of the work of the directors and senior staff.

As the UK construction sectors continues its Covid 19 recovery, there are everyday risks such as changes in key personnel, competitor threats, exchange rate fluctuations, interest rates, high energy prices, components shortages and arrivals by sea freight taken longer than expected.

LiuGong Machinery (UK) Ltd is principally supplied by LiuGong companies and any price increases are agreed for a year ahead which allows the UK operation to structure its price book for its customers over the same timescale.

The company's cash flow is always considered a principal risk to the business and this is closely monitored by the directors and reported regularly to head office with cash flow forecasts prepared on a weekly basis.

With the outbreak of Covid-19 in March 2020, demand for construction machinery across the UK dropped by 45%. This also affected new machine sales for Liugong Machinery (UK) Ltd. End users also cut back on repairs to their existing fleet which resulted in a reduction of spare parts sales. With the vaccine scheme rolling out across the UK, the construction market recovered very quickly with demand in 2021 back to 2019 levels. Liugong Machinery (UK) Ltd started 2021 with a good order book which has strengthened throughout the year and into 2022, where Liugong has attracted some of the UK's biggest plant hire companies to its order books.

**KEY PERFORMANCE INDICATORS**

The key performance indicators are turnover and profit and these are reflected in the results below:

The turnover for the 12 months was £25,064,636 (2020: £17,958,535).

The loss for the 12 months before tax was £454,308 (2020: £2,413,359).

**OTHER INFORMATION AND EXPLANATIONS**

The current main site in Portsmouth is close to its operating limit and the management have made changes to increase capacity taking on extra space at the Uxbridge site and redeploying the used machine refurbishment to that location. This frees up the main site at Portsmouth to focus on new machine preparation and provides a short term capacity boost in readiness of increased new machine sales in 2022. Looking to 2023, with a new head office location within the Portsmouth area doubling LiuGong's capacity and output for new equipment.

The company has no direct competitors selling LiuGong products as they are the sole UK subsidiary.

**ON BEHALF OF THE BOARD:**



S J Ford - Director

8 March 2023

**Report of the Directors  
for the year ended 31 December 2021**

The directors present their report with the financial statements of the company for the year ended 31 December 2021. The comparative information is for the 12 month period from 1 January 2020 to 31 December 2020.

**DIVIDENDS**

No dividends will be distributed for the year ended 31 December 2021.

**DIRECTORS**

The directors shown below have held office during the whole of the period from 1 January 2021 to the date of this report.

B L Prescott  
S J Ford  
G I McGregor  
H C Dale  
L Guobing  
K S Skalna-Kadziela  
S Yuan

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Strategic Report, the Report of the Directors 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 judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**AUDITORS**

The auditors, Bennett Brooks & Co Limited, will be proposed for re-appointment at the forthcoming Annual General Meeting.

**ON BEHALF OF THE BOARD:**



S J Ford - Director

8 March 2023

**Report of the Independent Auditors to the Members of  
LiuGong Machinery (UK) Limited**

**Opinion**

We have audited the financial statements of LiuGong Machinery (UK) Limited (the 'company') for the year ended 31 December 2021 which comprise the Income Statement, Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and Notes to the Cash Flow Statement, 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 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss 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 Auditors' 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.

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Strategic Report and the Report of the Directors, but does not include the financial statements and our Report of the Auditors 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 Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

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

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

**Report of the Independent Auditors to the Members of  
LiuGong Machinery (UK) Limited**

**Responsibilities of directors**

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

**Auditors' 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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation and regulations which govern the preparation of financial statements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, through management bias in manipulation of accounting estimates or accounting for significant transactions outside the normal course of business. Audit procedures performed included:

- Enquiry of management around actual and potential litigation and claims and instances of non-compliance with laws and regulations;
- Auditing the risk of management override of controls, through testing journal entries and other adjustments for appropriateness, testing accounting estimates (because of the risk of management bias), and evaluating the business rationale of significant transactions outside the normal course of business;
- Reviewing financial statement disclosures and agreeing to supporting documentation to assess compliance with applicable laws and regulations; and
- Review of board meeting minutes.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 Auditors.

**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.



Jason Leach (Senior Statutory Auditor)  
for and on behalf of Bennett Brooks & Co Limited  
Chartered Accountants  
& Statutory Auditors  
St George's Court  
Winnington Avenue  
Northwich  
Cheshire  
CW8 4EE

8 March 2023

**LiuGong Machinery (UK) Limited (Registered number: 07068266)**

**Income Statement  
for the year ended 31 December 2021**

	Notes	2021 £	2020 £
<b>TURNOVER</b>	4	25,064,636	17,958,535
Cost of sales		21,367,384	16,181,062
<b>GROSS PROFIT</b>		3,697,252	1,777,473
Administrative expenses		4,128,138	4,263,331
		(430,886)	(2,485,858)
Other operating income		17,627	90,120
<b>OPERATING LOSS</b>	6	(413,259)	(2,395,738)
Interest receivable and similar income		-	2,754
		(413,259)	(2,392,984)
Interest payable and similar expenses	7	41,049	20,375
<b>LOSS BEFORE TAXATION</b>		(454,308)	(2,413,359)
Tax on loss	8	(287,638)	(356,358)
<b>LOSS FOR THE FINANCIAL YEAR</b>		(166,670)	(2,057,001)

The notes form part of these financial statements



**LiuGong Machinery (UK) Limited (Registered number: 07068266)**

**Other Comprehensive Income  
for the year ended 31 December 2021**

	Notes	2021 £	2020 £
<b>LOSS FOR THE YEAR</b>		<b>(166,670)</b>	<b>(2,057,001)</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(166,670)</b>	<b>(2,057,001)</b>

The notes form part of these financial statements

LiuGong Machinery (UK) Limited (Registered number: 07068266)

Balance Sheet  
31 December 2021

		2021	2020
	Notes	£	£
<b>FIXED ASSETS</b>			
Tangible assets	9	3,045,259	2,658,149
<b>CURRENT ASSETS</b>			
Stocks	10	11,367,711	12,323,576
Debtors	11	4,858,603	3,343,280
Cash at bank		5	54,342
		<u>16,226,319</u>	<u>15,721,198</u>
<b>CREDITORS</b>			
Amounts falling due within one year	12	<u>14,843,123</u>	<u>14,021,493</u>
<b>NET CURRENT ASSETS</b>		<u>1,383,196</u>	<u>1,699,705</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>4,428,455</u>	<u>4,357,854</u>
<b>PROVISIONS FOR LIABILITIES</b>	16	<u>477,083</u>	<u>239,812</u>
<b>NET ASSETS</b>		<u><u>3,951,372</u></u>	<u><u>4,118,042</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	597	597
Share premium		5,932,370	5,932,370
Retained earnings		<u>(1,981,595)</u>	<u>(1,814,925)</u>
<b>SHAREHOLDERS' FUNDS</b>		<u><u>3,951,372</u></u>	<u><u>4,118,042</u></u>

The financial statements were approved by the Board of Directors and authorised for issue on 8 March 2023 and were signed on its behalf by:



S J Ford - Director

The notes form part of these financial statements

**Statement of Changes in Equity  
for the year ended 31 December 2021**

	Called up share capital £	Retained earnings £	Share premium £	Other reserves £	Total equity £
<b>Balance at 1 January 2020</b>	102	242,076	-	1,932,865	2,175,043
<b>Changes in equity</b>					
Deficit for the year	-	(2,057,001)	-	-	(2,057,001)
Total comprehensive income	-	(2,057,001)	-	-	(2,057,001)
Increase in share capital	495	-	-	-	495
Share issue - capitalisation of loan	-	-	3,999,505	-	3,999,505
Transfer between reserves	-	-	1,932,865	(1,932,865)	-
<b>Balance at 31 December 2020</b>	<u>597</u>	<u>(1,814,925)</u>	<u>5,932,370</u>	<u>-</u>	<u>4,118,042</u>
<b>Changes in equity</b>					
Deficit for the year	-	(166,670)	-	-	(166,670)
Total comprehensive income	-	(166,670)	-	-	(166,670)
<b>Balance at 31 December 2021</b>	<u><u>597</u></u>	<u><u>(1,981,595)</u></u>	<u><u>5,932,370</u></u>	<u><u>-</u></u>	<u><u>3,951,372</u></u>

The notes form part of these financial statements

**Cash Flow Statement  
for the year ended 31 December 2021**

		2021 £	2020 £
<b>Cash flows from operating activities</b>			
Cash generated from operations	1	(376,464)	(2,933,840)
Interest paid		(41,049)	(20,375)
<b>Net cash from operating activities</b>		<u>(417,513)</u>	<u>(2,954,215)</u>
 <b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets		(1,175,364)	(944,731)
Sale of tangible fixed assets		476,161	39,852
Interest received		-	2,754
<b>Net cash from investing activities</b>		<u>(699,203)</u>	<u>(902,125)</u>
 <b>Decrease in cash and cash equivalents</b>		<u>(1,116,716)</u>	<u>(3,856,340)</u>
<b>Cash and cash equivalents at beginning of year</b>	2	(2,519,965)	1,336,375
 <b>Cash and cash equivalents at end of year</b>	2	<u><u>(3,636,681)</u></u>	<u><u>(2,519,965)</u></u>

The notes form part of these financial statements

Notes to the Cash Flow Statement  
for the year ended 31 December 2021

1. RECONCILIATION OF LOSS BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2021	2020
	£	£
Loss before taxation	(454,308)	(2,413,359)
Depreciation charges	379,393	301,325
Profit on disposal of fixed assets	(67,302)	(3,479)
Increase/(decrease) in provisions	150,197	-
Finance costs	41,049	20,375
Finance income	-	(2,754)
	<u>49,029</u>	<u>(2,097,892)</u>
Decrease/(increase) in stocks	955,865	(1,146,266)
(Increase)/decrease in trade and other debtors	(1,140,611)	973,094
Decrease in trade and other creditors	(240,747)	(662,776)
<b>Cash generated from operations</b>	<u>(376,464)</u>	<u>(2,933,840)</u>

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 31 December 2021

	31.12.21	1.1.21
	£	£
Cash and cash equivalents	5	54,342
Bank overdrafts	(3,636,686)	(2,574,307)
	<u>(3,636,681)</u>	<u>(2,519,965)</u>

Year ended 31 December 2020

	31.12.20	1.1.20
	£	£
Cash and cash equivalents	54,342	1,336,375
Bank overdrafts	(2,574,307)	-
	<u>(2,519,965)</u>	<u>1,336,375</u>

3. ANALYSIS OF CHANGES IN NET DEBT

	At 1.1.21	Cash flow	At 31.12.21
	£	£	£
<b>Net cash</b>			
Cash at bank	54,342	(54,337)	5
Bank overdrafts	(2,574,307)	(1,062,379)	(3,636,686)
	<u>(2,519,965)</u>	<u>(1,116,716)</u>	<u>(3,636,681)</u>
<b>Total</b>	<u>(2,519,965)</u>	<u>(1,116,716)</u>	<u>(3,636,681)</u>

4. MAJOR NON-CASH TRANSACTIONS

The share issue during the previous year (note 17), was satisfied by the capitalisation of an intercompany loan of £4,000,000 and is a non-cash transaction.

Notes to the Financial Statements  
for the year ended 31 December 2021

1. STATUTORY INFORMATION

LiuGong Machinery (UK) Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

The presentation currency of the financial statements is the Pound Sterling (£).

2. ACCOUNTING POLICIES

**Basis of preparing the financial statements**

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

**Going Concern**

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources, through reliance on the company bank and support of the group companies, to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

**Turnover**

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

When cash inflows are deferred and represent a financing arrangement, the fair value of the consideration is the present value of the future receipts. The difference between the fair value of the consideration and the nominal amount received is recognised as interest income.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), 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 or to be incurred in respect of the transaction can be measured reliably.

Revenue from the hiring out of machines is recognised when a performance obligation of the contract is satisfied. Performance obligations are contracted to be the availability of the machine for specific period of time, typically per calendar month.

Revenue for the service and repairs of machines is recognised when the contract is complete, meets the quality standards regulating the profession have been met and the significant risk and rewards associated have been duly transferred to the customer.

**Tangible fixed assets**

Tangible fixed assets are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses. Cost includes the original purchase price of the asset and the cost attributable to bringing the asset to its working condition for its intended use.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold land and buildings	Straight line over 5 years
Improvements to property	Straight line over 10 years
Plant and machinery	Straight line over 12 years
Plant and machinery - Equipment for hire	Straight line over 5 years
Fixtures and fittings	Straight line over 5 years
Computer equipment	Straight line over 5 years
Motor vehicles	Straight line over 8 years

Assets in the course of construction are not depreciated.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

**Notes to the Financial Statements - continued  
for the year ended 31 December 2021**

**2. ACCOUNTING POLICIES - continued**

**Stocks**

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the stocks to their present location and condition.

Stocks held for distribution at no or nominal consideration are measured at the lower of replacement cost and cost, adjusted where applicable for any loss of service potential.

Used machines which are part-exchanged upon the sale of new machines are written down to their stock-in value (SIV) before being recognised as stock. The difference between part-exchange value and the SIV is treated as an additional selling cost of the new machine sold and is recognised in accordance with the revenue recognition policy. The SIV is based on the directors' experience of the market and is therefore a critical judgement.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

**Foreign exchange**

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

**Leases**

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

**Retirement benefits**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

**Impairment of fixed assets**

At each reporting period end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Notes to the Financial Statements - continued  
for the year ended 31 December 2021

2. ACCOUNTING POLICIES - continued

**Cash and cash equivalents**

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

**Financial Instruments**

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Basic financial assets**

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

**Other financial assets**

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

**Impairment of financial assets**

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

**Derecognition of financial assets**

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

**Classification of financial liabilities**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

**Basic financial liabilities**

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.



Notes to the Financial Statements - continued  
for the year ended 31 December 2021

2. **ACCOUNTING POLICIES - continued**

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

**Other financial liabilities**

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

**Derecognition of financial liabilities**

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

**Equity Instruments**

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

**Deferred tax**

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

**Employee Benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Notes to the Financial Statements - continued  
for the year ended 31 December 2021

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

**Critical judgements**

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

**Depreciation rates**

The depreciation rates for tangible fixed assets have been aligned with the group policy for depreciation. However, the group policy has been disregarded for the depreciation of freehold and leasehold properties, as the depreciation rates were substantially different to the expected useful lives of the assets. For the freehold property, there is a rent payable to the council, so the depreciation rate has been based on the term of this. For the leasehold property, the depreciation rate has been based on the term of the lease.

**Key sources of estimation uncertainty**

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

**Warranty provision**

Where machines are sold with a warranty, a provision for the estimated claim that could arise on that warranty is calculated. All reclaimable costs incurred up to the period end were recharged to group in the current period. The estimation is based upon available future claims information and experience, the level of costs reclaimed from group companies and as it is an estimate, the assumptions used may prove over time to be inaccurate. The total warranty provision at 31 December 2021 was £60,000.

**Stock in value**

Used machines which are part-exchanged upon the sale of new machines are written down to their stock in value (SIV) before being recognised as stock. The difference between part-exchange value and the SIV is treated as an additional selling cost of the new machine sold and is recognised in accordance with the revenue recognition policy. The SIV requires the use of judgement and is based on the directors' experience of the market.

**Net Realisable Value of stock**

The net realisable values (NRV) of used machines are assessed by the directors and based on the directors' experience of the market. Any write down in value is charged to the Income Statement. The valuations require the use of judgement and are based upon the directors' knowledge of market conditions at the time.

4. TURNOVER

The turnover and loss before taxation are attributable to the one principal activity of the company.

An analysis of turnover by class of business is given below:

	2021	2020
	£	£
Sales of machines	23,490,322	16,428,252
Sales of part	573,101	604,755
Servicing and repairs	677,957	801,305
Hire of machines	305,618	97,944
Carriage	17,638	26,279
	<u>25,064,636</u>	<u>17,958,535</u>

Notes to the Financial Statements - continued  
for the year ended 31 December 20214. **TURNOVER - continued**

An analysis of turnover by geographical market is given below:

	2021 £	2020 £
United Kingdom	23,310,984	16,204,883
Europe	857,605	857,605
Rest of the World	896,047	896,047
	<u>25,064,636</u>	<u>17,958,535</u>

5. **EMPLOYEES AND DIRECTORS**

	2021 £	2020 £
Wages and salaries	2,120,277	2,010,421
Social security costs	249,437	230,415
Other pension costs	65,873	70,554
	<u>2,435,587</u>	<u>2,311,390</u>

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

	2021	2020
Directors	3	3
Direct staff	28	24
Administration staff	22	19
	<u>53</u>	<u>46</u>

	2021 £	2020 £
Directors' remuneration	<u>234,400</u>	<u>208,000</u>

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>2</u>	<u>2</u>
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Information regarding the highest paid director is as follows:

	2021 £	2020 £
Emoluments etc	<u>82,200</u>	<u>71,000</u>

6. **OPERATING LOSS**

The operating loss is stated after charging/(crediting):

	2021 £	2020 £
Hire of plant & machinery	15,878	14,939
Depreciation - owned assets	379,395	301,325
Profit on disposal of fixed assets	(67,302)	(3,479)
Audit fees	21,018	13,047
Auditors' remuneration for non audit work	3,825	8,465
Foreign exchange differences	(154,643)	284,516
Cost of stocks recognised as an expense	19,390,128	12,101,785
Impairment of stocks	3,247,805	3,126,266
Operating lease charges	<u>548,301</u>	<u>533,720</u>

Notes to the Financial Statements - continued  
for the year ended 31 December 2021

7. INTEREST PAYABLE AND SIMILAR EXPENSES

	2021 £	2020 £
Bank interest on loans and overdrafts	41,049	20,375
	<u>41,049</u>	<u>20,375</u>

8. TAXATION

Analysis of the tax credit

The tax credit on the loss for the year was as follows:

	2021 £	2020 £
Deferred tax:		
Deferred tax	(82,355)	(395,644)
Prior year deferred tax	(47,553)	39,286
Effect of changes in tax rate	(157,730)	-
Total deferred tax	<u>(287,638)</u>	<u>(356,358)</u>
Tax on loss	<u>(287,638)</u>	<u>(356,358)</u>

UK corporation tax has been charged at 19% (2020 - 19%).

Reconciliation of total tax credit included in profit and loss

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2021 £	2020 £
Loss before tax	<u>(454,308)</u>	<u>(2,413,359)</u>
Loss multiplied by the standard rate of corporation tax in the UK of 19% (2020 - 19%)	(86,319)	(458,538)
Effects of:		
Expenses not deductible for tax purposes	10,907	5,170
Income not taxable for tax purposes	(6,943)	-
Unrecognised deferred tax asset	-	57,724
Prior year deferred tax	(47,553)	39,286
Tax rate changes	(157,730)	-
Total tax credit	<u>(287,638)</u>	<u>(356,358)</u>

FACTORS THAT MAY EFFECT FUTURE CHARGES

In the Spring Budget 2020, the Government announced that the previously enacted decrease in the corporate tax rate from 19% to 17% from 1 April 2020 would no longer happen and that rates would remain at 19% for the foreseeable future. The new law was substantively enacted by a resolution under the Provisional Collection of Taxes Act 1968 on 17 March 2020. As the new law was substantively enacted pre year end, the impact of the change to 19% has been reflected in the financial statements for the year ended 31 December 2020 and the deferred tax balances disclosed at 19%.

The company has losses available to carry forward of £3,536,356 (2020: £3,451,220) which will be utilised against future profits. A net asset of £984,089 has been made for deferred tax in these financial statements, tax effected at 25% (2020:19%).

In the Spring Budget 2021, the Government announced an increase in the corporation tax rate from 19% to 25% from 1 April 2023. This rate change was substantively enacted on 24 May 2021. In the Autumn Statement in November 2022, the government confirmed the increase in corporation tax rate to 25% from April 2023 and the deferred tax balances have been recognised at 25%.

**Notes to the Financial Statements - continued  
for the year ended 31 December 2021**

**9. TANGIBLE FIXED ASSETS**

	Leasehold land and building £	Improvements to property £	Plant and machinery £
<b>COST</b>			
At 1 January 2021	1,268,461	154,539	1,169,095
Additions	-	-	996,140
Disposals	-	-	(437,500)
At 31 December 2021	<u>1,268,461</u>	<u>154,539</u>	<u>1,727,735</u>
<b>DEPRECIATION</b>			
At 1 January 2021	18,007	36,471	210,485
Charge for year	14,327	23,134	274,380
Eliminated on disposal	-	-	(73,267)
At 31 December 2021	<u>32,334</u>	<u>59,605</u>	<u>411,598</u>
<b>NET BOOK VALUE</b>			
At 31 December 2021	<u>1,236,127</u>	<u>94,934</u>	<u>1,316,137</u>
At 31 December 2020	<u>1,250,454</u>	<u>118,068</u>	<u>958,610</u>

	Fixtures and fittings £	Motor vehicles £	Computer equipment £	Totals £
<b>COST</b>				
At 1 January 2021	267,500	170,246	92,153	3,121,994
Additions	46,817	54,781	77,626	1,175,364
Disposals	-	(90,190)	-	(527,690)
At 31 December 2021	<u>314,317</u>	<u>134,837</u>	<u>169,779</u>	<u>3,769,668</u>
<b>DEPRECIATION</b>				
At 1 January 2021	95,657	63,437	39,788	463,845
Charge for year	30,801	20,236	16,517	379,395
Eliminated on disposal	-	(45,564)	-	(118,831)
At 31 December 2021	<u>126,458</u>	<u>38,109</u>	<u>56,305</u>	<u>724,409</u>
<b>NET BOOK VALUE</b>				
At 31 December 2021	<u>187,859</u>	<u>96,728</u>	<u>113,474</u>	<u>3,045,259</u>
At 31 December 2020	<u>171,843</u>	<u>106,809</u>	<u>52,365</u>	<u>2,658,149</u>

Included within Plant & Machinery is equipment available for hire with a cost of £1,301,090 and a net book value of £1,035,898.

Notes to the Financial Statements - continued  
for the year ended 31 December 2021

10. STOCKS

	2021 £	2020 £
Stocks	<u>11,367,711</u>	<u>12,323,576</u>
	2021 £	2020 £
New machines	5,488,901	6,225,118
Used machines	3,687,927	4,290,473
Parts and work in progress	<u>2,190,882</u>	<u>1,807,985</u>
	<u>11,367,711</u>	<u>12,323,576</u>

There is no significant difference between the replacement cost of the inventory and its carrying amount.

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £	2020 £
Trade debtors	3,216,333	1,986,553
Other debtors	207,436	40,045
Due from group undertakings	261,053	111,262
Deferred Tax	984,089	609,377
VAT	-	62,978
Prepayments & accrued income	<u>189,692</u>	<u>533,065</u>
	<u>4,858,603</u>	<u>3,343,280</u>

Amounts due from group undertakings are interest free, unsecured and repayable on demand. Of the above deferred tax balance, £750,000 is expected to reverse in more than one year (2020: £609,377).

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £	2020 £
Bank loans and overdrafts (see note 13)	3,636,686	2,574,307
Trade creditors	774,797	185,526
Social security & other taxes	91,032	91,176
VAT	9,588	-
Other creditors	37,283	-
Due to group undertakings	9,401,330	10,694,078
Accruals & deferred income	<u>892,407</u>	<u>476,406</u>
	<u>14,843,123</u>	<u>14,021,493</u>

Amounts due to group undertakings are interest free, unsecured and repayable on demand.

13. LOANS

An analysis of the maturity of loans is given below:

	2021 £	2020 £
Amounts falling due within one year or on demand:		
Bank overdrafts	<u>3,636,686</u>	<u>2,574,307</u>

Notes to the Financial Statements - continued  
for the year ended 31 December 2021

14. LEASING AGREEMENTS

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2021 £	2020 £
Within one year	190,651	247,206
Between two and five years	233,482	335,603
In over five year	45,082	95,833
	<u>469,215</u>	<u>678,642</u>

15. SECURED DEBTS

The following secured debts are included within creditors:

	2021 £	2020 £
Bank overdrafts	<u>3,636,686</u>	<u>2,574,307</u>

On the 22nd October 2020, LiuGong Machinery (UK) Limited entered into an arranged overdraft facility, provided by HSBC UK Bank PLC, with a limit of £6,000,000. The overdraft facility contains a debenture including a fixed and floating charge over all assets. The floating charge covers all the undertaking of the company and all its property, both present and future. The debenture also contains a negative pledge, meaning the company shall not create or allow any mortgage, charge, pledge, lien or other encumbrance over all or any part of its assets or revenues or uncalled capital except the existing and future security of the bank.

16. PROVISIONS FOR LIABILITIES

	2021 £	2020 £
Deferred tax	326,886	239,812
Other provisions	150,197	-
	<u>477,083</u>	<u>239,812</u>
	Deferred tax	Deferred tax asset
	£	£
Balance at 1 January 2021	239,812	(609,377)
Provided during year	-	(1,302)
Accelerated capital allowances	87,074	-
Recognition of tax losses	-	(373,410)
Balance at 31 December 2021	<u>326,886</u>	<u>(984,089)</u>

The provision for deferred tax of £326,886 relates to accelerated capital allowances, and the deferred tax asset of £984,089 relates to losses available to carry forward which will be utilised against future profits.

17. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:			2021 £	2020 £
Number:	Class:	Nominal value:		
595	Ordinary A	£1	595	595
2	Ordinary B	£1	2	2
			<u>597</u>	<u>597</u>

Notes to the Financial Statements - continued  
for the year ended 31 December 2021

18. PENSION COMMITMENTS

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

Details of the annual charge to the profit and loss account is £65,873 (2020: £70,554).

19. RELATED PARTY DISCLOSURES

	Sales		Purchases	
	2021 £	2020 £	2021 £	2020 £
Other related parties	1,211,307	677,491	15,176,416	10,092,268

The above transactions and below amounts owed to and from other related parties relate to other group companies. All transactions were carried out under normal commercial terms.

Amounts due to related parties

The following amounts were outstanding as at the balance sheet:

	2021 £	2020 £
Liugong Dressta Machinery Sp. z o.o.	259,610	1,999,002
LiuGong Machinery Europe B.V.	112,425	4,756,709
LiuGong Machinery Hongkong Co., Ltd	9,029,295	3,938,367
	<u>9,401,330</u>	<u>10,694,078</u>

Amounts due from related parties

The following amounts were outstanding as at the balance sheet:

	2021 £	2020 £
LiuGong Machinery Europe B.V.	132,765	63,546
Changzhou Liugong Machinery Co Ltd	64,420	28,913
Guangxi LiuGong Machinery Co Ltd	38,586	18,803
LiuGong Machinery Hongkong Co., Ltd	12,621	-
Liugong Construction Machinery N.A., L.L.C	-	-
Liugong Dressta Machinery Sp. z o.o.	8,955	-
Liugong North America	3,706	-
Liuzhou Liugong Excavator Co., Ltd.	-	-
	<u>261,053</u>	<u>111,262</u>

Key Management

The directors of the UK company and considered key management of the company. Their remuneration is disclosed in the directors remuneration section of the accounts.

20. ULTIMATE CONTROLLING PARTY

The company's parent company is Liugong Machinery HongKong Co., Ltd. whose registered office is 23/F, Sing Ho Finance Building, 168 Gloucester Road, Wan Chai Hong Kong.

The company's ultimate parent company is Guangxi Liugong Machinery Co., Ltd. A company registered in China whose registered office is No.1 Liutai Road, Liuzhou, Guangxi, 545007, China. Group accounts can be obtained from this address upon request.

The ultimate controlling party is Huang Haibo, President of Guangxi Liugong Machinery Co., Ltd.