

Company Registration No. 07068266 (England and Wales)

**LIUGONG MACHINERY (UK) LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2019**

# LIUGONG MACHINERY (UK) LIMITED

## COMPANY INFORMATION

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<b>Directors</b>	Mr B Prescott	
	Mr G I McGregor	
	Mr H C Dale	(Appointed 20 May 2019)
	G Luo	(Appointed 20 May 2019)
	K S Skalna-Kadziela	(Appointed 5 March 2020)
	S Yuan	(Appointed 20 May 2019)
	Mr S Ford	(Appointed 20 May 2019)

<b>Secretary</b>	L Wang
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<b>Company number</b>	07068266
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<b>Registered office</b>	3 Bolde Close Portsmouth Hampshire England PO3 5RD
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<b>Auditor</b>	Azets Audit Services Carnac Place Cams Hall Estate Fareham Portsmouth Hampshire PO16 8UY
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# LIUGONG MACHINERY (UK) LIMITED

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# **LIUGONG MACHINERY (UK) LIMITED**

## **STRATEGIC REPORT**

***FOR THE PERIOD ENDED 31 DECEMBER 2019***

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The directors present the strategic report for the period ended 31 December 2019.

### **Fair review of the business**

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

In May 2019 the company was bought out and became a 100% subsidiary of LiuGong Machinery HongKong Co Limited.

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.

There are everyday risks such as changes in key personnel, competitor threats and exchange rate fluctuations.

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 COVID19 there has been a temporary reduction of demand for construction machinery across the UK. This has also affected new machine sales for Liugong Machinery (UK) Ltd. for a brief period. As the Construction industry continued working through the national crisis demand for service and parts continued although at a reduced level. As the UK returns to work Liugong has seen significant demand return for new machinery from the end of May onwards.

The UK government has committed to significantly increase infrastructure spending within the UK and confirmed the HS2 project will go ahead. This offers Liugong the opportunity to take advantage of market conditions to further penetrate the UK construction business and increase sales as the Liugong brand becomes more established in the UK.

### **Key performance indicators**

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

The turnover for the 13 months was £16,761,535 (2018: £19,899,641).

The loss for the 13 months before tax was £241,008 (2018: Profit £260,894).

# **LIUGONG MACHINERY (UK) LIMITED**

## **STRATEGIC REPORT (CONTINUED)**

***FOR THE PERIOD ENDED 31 DECEMBER 2019***

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### **Other information and explanations**

The current main site in Portsmouth is close to its operating limit and the Chinese head office has agreed to make a further investment in the business to assist with expansion plans with the purchase of an additional site in the Portsmouth area. This will allow for more new machines to be prepared for sale. In addition to and to help fully utilise the new site additional sales staff are to be recruited and will increase the coverage across the UK.

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

On behalf of the board

Mr S Ford

**Director**

7 January 2021

# LIUGONG MACHINERY (UK) LIMITED

## DIRECTORS' REPORT

### FOR THE PERIOD ENDED 31 DECEMBER 2019

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The directors present their annual report and financial statements for the period ended 31 December 2019.

#### Principal activities

The principal activity of the company continued to be that of the sale, maintenance and repair of plant and equipment.

#### Directors

The directors who held office during the period and up to the date of signature of the financial statements were as follows:

Mr B Prescott

Mr G I McGregor

Mr H C Dale

(Appointed 20 May 2019)

G Luo

(Appointed 20 May 2019)

K S Skalna-Kadziela

(Appointed 5 March 2020)

S Yuan

(Appointed 20 May 2019)

D T Kurdas

(Appointed 20 May 2019 and resigned 1 November 2019)

Mr S Ford

(Appointed 20 May 2019)

#### Results and dividends

The results for the period are set out on page 8.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

#### Auditor

In accordance with the company's articles, a resolution proposing that Azets Audit Services be reappointed as auditor of the company will be put at a General Meeting.

#### Statement of directors' responsibilities

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

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

# **LIUGONG MACHINERY (UK) LIMITED**

## **DIRECTORS' REPORT (CONTINUED)**

***FOR THE PERIOD ENDED 31 DECEMBER 2019***

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### **Statement of disclosure to auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

On behalf of the board

Mr S Ford  
**Director**

7 January 2021

# LIUGONG MACHINERY (UK) LIMITED

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBER OF LIUGONG MACHINERY (UK) LIMITED

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#### Opinion

We have audited the financial statements of Liugong Machinery (UK) Limited (the 'company') for the period ended 31 December 2019 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 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 2019 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

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

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

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

We have nothing to report in this regard.

#### Opinions on other matters prescribed by the Companies Act 2006

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

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



# **LIUGONG MACHINERY (UK) LIMITED**

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **TO THE MEMBER OF LIUGONG MACHINERY (UK) LIMITED**

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#### **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 and the directors' report.

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.

#### **Responsibilities of directors**

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

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

#### **Auditor's responsibilities for the audit of the financial statements**

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

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

## **LIUGONG MACHINERY (UK) LIMITED**

### **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

#### **TO THE MEMBER OF LIUGONG MACHINERY (UK) LIMITED**

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##### **Use of our report**

This report is made solely to the company's member 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 member 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 member for our audit work, for this report, or for the opinions we have formed.

**James Reilly ACCA (Senior Statutory Auditor)**  
**for and on behalf of Azets Audit Services**

7 January 2021

**Statutory Auditor**

Carnac Place  
Cams Hall Estate  
Fareham  
Portsmouth  
Hampshire  
PO16 8UY

# LIUGONG MACHINERY (UK) LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2019

		Period ended 31 December 2019 £	Year ended 30 November 2018 £
	Notes		
<b>Turnover</b>	<b>4</b>	16,761,535	19,899,641
Cost of sales		(14,075,697)	(17,253,788)
<b>Gross profit</b>		2,685,838	2,645,853
Administrative expenses		(2,877,478)	(2,388,008)
Other operating income		4,982	16,123
<b>Operating (loss)/profit</b>	<b>5</b>	(186,658)	273,968
Interest payable and similar expenses	<b>8</b>	(54,350)	(13,074)
<b>(Loss)/profit before taxation</b>		(241,008)	260,894
Tax on (loss)/profit	<b>9</b>	37,057	(50,800)
<b>(Loss)/profit for the financial period</b>		(203,951)	210,094

The profit and loss account has been prepared on the basis that all operations are continuing operations.

# LIUGONG MACHINERY (UK) LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 £	£	2018 £	£
<b>Fixed assets</b>					
Tangible assets	11		2,051,116		145,328
<b>Current assets</b>					
Stocks	13	11,177,310		3,891,299	
Debtors	14	3,850,241		2,073,955	
Cash at bank and in hand		1,336,375		14,818	
		<u>16,363,926</u>		<u>5,980,072</u>	
<b>Creditors: amounts falling due within one year</b>	15	<u>(16,109,962)</u>		<u>(5,655,421)</u>	
<b>Net current assets</b>			253,964		324,651
<b>Total assets less current liabilities</b>			<u>2,305,080</u>		<u>469,979</u>
<b>Provisions for liabilities</b>	17		<u>(130,037)</u>		<u>(23,850)</u>
<b>Net assets</b>			<u>2,175,043</u>		<u>446,129</u>
<b>Capital and reserves</b>					
Called up share capital	20		102		102
Other reserves			1,932,865		-
Profit and loss reserves			<u>242,076</u>		<u>446,027</u>
<b>Total equity</b>			<u>2,175,043</u>		<u>446,129</u>

The financial statements were approved by the board of directors and authorised for issue on 7 January 2021 and are signed on its behalf by:

Mr S Ford  
**Director**

**Company Registration No. 07068266**

# LIUGONG MACHINERY (UK) LIMITED

## STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2019

		Share capital	Other reserves	Profit and loss reserves	Total
	Notes	£	£	£	£
<b>Balance at 1 December 2017</b>		102	-	245,933	246,035
<b>Period ended 30 November 2018:</b>					
Profit and total comprehensive income for the period		-	-	210,094	210,094
Dividends	<b>10</b>	-	-	(10,000)	(10,000)
<b>Balance at 30 November 2018</b>		102	-	446,027	446,129
<b>Period ended 31 December 2019:</b>					
Loss and total comprehensive income for the period		-	-	(203,951)	(203,951)
Capital contribution		-	1,932,865	-	1,932,865
<b>Balance at 31 December 2019</b>		102	1,932,865	242,076	2,175,043

# LIUGONG MACHINERY (UK) LIMITED

## STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2019

	Notes	2019 £	£	2018 £	£
<b>Cash flows from operating activities</b>					
Cash generated from/(absorbed by) operations	26				
		4,144,463		(954,751)	
Interest paid		(54,350)		(13,074)	
Income taxes paid		(39,286)		(26,992)	
<b>Net cash inflow/(outflow) from operating activities</b>		4,050,827		(994,817)	
<b>Investing activities</b>					
Purchase of tangible fixed assets		(1,982,644)		(122,289)	
<b>Net cash used in investing activities</b>		(1,982,644)		(122,289)	
<b>Financing activities</b>					
Capital contribution		1,932,865		-	
Proceeds of new bank loans		-		7,456,725	
Repayment of bank loans		(2,577,848)		(6,385,977)	
Dividends paid		-		(10,000)	
<b>Net cash (used in)/generated from financing activities</b>		(644,983)		1,060,748	
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,423,200		(56,358)	
Cash and cash equivalents at beginning of period		(86,825)		(30,467)	
<b>Cash and cash equivalents at end of period</b>		1,336,375		(86,825)	
<b>Relating to:</b>					
Cash at bank and in hand		1,336,375		14,818	
Bank overdrafts included in creditors payable within one year		-		(101,643)	

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE PERIOD ENDED 31 DECEMBER 2019**

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### **1 Accounting policies**

#### **Company information**

Liugong Machinery (UK) Limited is a private company limited by shares incorporated in England and Wales. The registered office is 3 Bolde Close, Portsmouth, Hampshire, England, PO3 5RD.

#### **1.1 Accounting convention**

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

#### **1.2 Going concern**

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources 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.

#### **1.3 Reporting period**

The financial statements have been prepared for a period longer than one year to align the period end with the rest of the group, therefore, the comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

#### **1.4 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.

#### **1.5 Tangible fixed assets**

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

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
Leasehold improvements	Straight line over 10 years
Plant and equipment	Straight line over 12 years
Fixtures and fittings	Straight line over 5 years
Computers	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.

#### 1.6 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.

#### 1.7 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.

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.



# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

#### 1.8 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.

#### 1.9 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.

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

### 1 Accounting policies

(Continued)

#### **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.

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.

### 1.10 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.

### 1.11 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.

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

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### 1 Accounting policies

(Continued)

#### **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.

#### **1.12 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.

#### **1.13 Retirement benefits**

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

#### **1.14 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 leases asset are consumed.

#### **1.15 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.

### 2 Change in accounting policy

During the year the company changed its accounting policy on revenue recognition to bring it in line with the rest of the group after acquisition. The company has changed to recognising revenue when the machine has been dispatched rather than when the finance agreement has been signed and invoice raised.

The result of this change is that profit has been reduced in the region of £220,000 in the December 2019 accounts as the profit element of the deferred income has not been recognised.

Due to the acquisition during the year and the access to historical records it is considered impracticable to apply the policy to the prior year accounts and recalculate profits.

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

### 3 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.

#### Part-exchanged machines

Used machines which are part-exchanged upon the sale of new machines are written down to their stand-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.

#### 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. From the experience of the directors based on historical events, this is immaterial to the financial statements due to the majority of costs being recharged to group. All reclaimable costs incurred up to the period end were recharged to group in the current period.

### 4 Turnover and other revenue

	2019 £	2018 £
<b>Turnover analysed by class of business</b>		
Sales of machines	15,322,167	18,552,654
Sales of parts	363,631	295,253
Servicing and repairs	1,063,503	417,135
Hire of machines	5,655	614,707
Commissions receivable	6,579	19,892
	<u>16,761,535</u>	<u>19,899,641</u>

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

### 4 Turnover and other revenue (Continued)

	2019 £	2018 £
<b>Turnover analysed by geographical market</b>		
United Kingdom	15,664,558	19,651,632
Europe	614,073	248,009
Rest of the world	482,904	-
	<u>16,761,535</u>	<u>19,899,641</u>

### 5 Operating (loss)/profit

	2019 £	2018 £
Operating (loss)/profit for the period is stated after charging/(crediting):		
Exchange differences apart from those arising on financial instruments measured at fair value through profit or loss	(322,021)	89,787
Fees payable to the company's auditor for the audit of the company's financial statements	8,000	6,500
Depreciation of owned tangible fixed assets	76,428	48,443
Loss on disposal of tangible fixed assets	428	-
Cost of stocks recognised as an expense	11,494,356	14,841,972
Impairment of stocks recognised or reversed	2,026,675	1,542,115
Operating lease charges	325,328	193,221
	<u></u>	<u></u>

### 6 Employees

The average monthly number of persons (including directors) employed by the company during the period was:

	2019 Number	2018 Number
Directors	5	3
Direct staff	21	18
Administration staff	17	14
	<u></u>	<u></u>
Total	<u>43</u>	<u>35</u>

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

<b>6 Employees</b>		<b>(Continued)</b>	
Their aggregate remuneration comprised:			
		<b>2019</b>	<b>2018</b>
		<b>£</b>	<b>£</b>
Wages and salaries		1,713,585	1,180,412
Social security costs		184,460	121,665
Pension costs		32,535	10,387
		<u>1,930,580</u>	<u>1,312,464</u>
		<u><u>1,930,580</u></u>	<u><u>1,312,464</u></u>
<b>7 Directors' remuneration</b>			
		<b>2019</b>	<b>2018</b>
		<b>£</b>	<b>£</b>
Remuneration for qualifying services		110,509	-
Company pension contributions to defined contribution schemes		877	-
		<u>111,386</u>	<u>-</u>
		<u><u>111,386</u></u>	<u><u>-</u></u>
<b>8 Interest payable and similar expenses</b>			
		<b>2019</b>	<b>2018</b>
		<b>£</b>	<b>£</b>
<b>Interest on financial liabilities measured at amortised cost:</b>			
Interest on bank overdrafts and loans		1,675	-
<b>Other finance costs:</b>			
Other interest		52,675	13,074
		<u>54,350</u>	<u>13,074</u>
		<u><u>54,350</u></u>	<u><u>13,074</u></u>
<b>9 Taxation</b>			
		<b>2019</b>	<b>2018</b>
		<b>£</b>	<b>£</b>
<b>Current tax</b>			
UK corporation tax on profits for the current period		-	39,286
		<u>-</u>	<u>39,286</u>
<b>Deferred tax</b>			
Origination and reversal of timing differences		106,187	11,514
Tax losses carried forward		(143,244)	-
		<u>(37,057)</u>	<u>11,514</u>
Total deferred tax		<u><u>(37,057)</u></u>	<u><u>11,514</u></u>
Total tax (credit)/charge		<u><u>(37,057)</u></u>	<u><u>50,800</u></u>

## LIUGONG MACHINERY (UK) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

#### 9 Taxation

(Continued)

The actual (credit)/charge for the period can be reconciled to the expected (credit)/charge for the period based on the profit or loss and the standard rate of tax as follows:

	2019 £	2018 £
(Loss)/profit before taxation	(241,008)	260,894
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(45,792)	49,570
Tax effect of expenses that are not deductible in determining taxable profit	5,880	4,388
Adjustments in respect of prior years	-	(2,999)
Effect of change in corporation tax rate	-	(159)
Depreciation on assets not qualifying for tax allowances	2,855	-
Taxation (credit)/charge for the period	(37,057)	50,800

#### 10 Dividends

	2019 £	2018 £
Interim paid	-	10,000

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 31 DECEMBER 2019

11	Tangible fixed assets	Leasehold land and buildings	Leasehold improvements	Assets under construction	Plant and equipment	Fixtures and fittings	Computers	Motor vehicles	Total
	<b>Cost</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
	At 1 December 2018	-	38,195	-	92,231	108,079	-	-	238,505
	Additions	1,268,461	20,692	48,514	324,144	78,933	80,957	160,943	1,982,644
	Disposals	-	-	-	-	-	(476)	-	(476)
	At 31 December 2019	1,268,461	58,887	48,514	416,375	187,012	80,481	160,943	2,220,673
	<b>Depreciation and impairment</b>								
	At 1 December 2018	-	23,767	-	33,662	35,748	-	-	93,177
	Depreciation charged in the period	5,919	9,109	-	22,771	20,080	8,706	9,843	76,428
	Eliminated in respect of disposals	-	-	-	-	-	(48)	-	(48)
	At 31 December 2019	5,919	32,876	-	56,433	55,828	8,658	9,843	169,557
	<b>Carrying amount</b>								
	At 31 December 2019	1,262,542	26,011	48,514	359,942	131,184	71,823	151,100	2,051,116
	At 30 November 2018	-	14,428	-	58,569	72,331	-	-	145,328



# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

<b>12</b>	<b>Financial instruments</b>		<b>2019</b>	<b>2018</b>
			<b>£</b>	<b>£</b>
	<b>Carrying amount of financial assets</b>			
	Debt instruments measured at amortised cost		2,769,041	2,003,955
			<u>          </u>	<u>          </u>
	<b>Carrying amount of financial liabilities</b>			
	Measured at amortised cost		15,812,175	5,188,638
			<u>          </u>	<u>          </u>
<b>13</b>	<b>Stocks</b>		<b>2019</b>	<b>2018</b>
			<b>£</b>	<b>£</b>
	Finished goods and goods for resale		11,177,310	3,891,299
			<u>          </u>	<u>          </u>
<b>14</b>	<b>Debtors</b>		<b>2019</b>	<b>2018</b>
			<b>£</b>	<b>£</b>
	<b>Amounts falling due within one year:</b>			
	Trade debtors		2,127,114	1,726,424
	Amounts owed by group undertakings		593,450	-
	Other debtors		48,477	277,531
	Prepayments and accrued income		937,956	70,000
			<u>          </u>	<u>          </u>
			3,706,997	2,073,955
	Deferred tax asset (note 18)		143,244	-
			<u>          </u>	<u>          </u>
			3,850,241	2,073,955
			<u>          </u>	<u>          </u>
<b>15</b>	<b>Creditors: amounts falling due within one year</b>		<b>2019</b>	<b>2018</b>
		<b>Notes</b>	<b>£</b>	<b>£</b>
	Bank loans and overdrafts	<b>16</b>	-	2,679,491
	Trade creditors		415,392	927,782
	Amounts owed to group undertakings		13,523,333	-
	Corporation tax		-	39,286
	Other taxation and social security		297,787	427,497
	Other creditors		6,705	15,941
	Accruals and deferred income		1,866,745	1,565,424
			<u>          </u>	<u>          </u>
			16,109,962	5,655,421
			<u>          </u>	<u>          </u>

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

### 16 Loans and overdrafts

	2019 £	2018 £
Bank loans	-	2,577,848
Bank overdrafts	-	101,643
	<u>-</u>	<u>2,679,491</u>
Payable within one year	<u>-</u>	<u>2,679,491</u>

### 17 Provisions for liabilities

	Notes	2019 £	2018 £
Deferred tax liabilities	18	130,037	23,850
		<u>130,037</u>	<u>23,850</u>

### 18 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Liabilities 2019 £	Liabilities 2018 £	Assets 2019 £	Assets 2018 £
<b>Balances:</b>				
Accelerated capital allowances	130,037	23,850	-	-
Tax losses	-	-	143,244	-
	<u>130,037</u>	<u>23,850</u>	<u>143,244</u>	<u>-</u>
<b>Movements in the period:</b>				2019 £
Liability at 1 December 2018				23,850
Credit to profit or loss				(37,057)
Asset at 31 December 2019				<u>(13,207)</u>

The deferred tax asset set out above is expected to reverse within 12 months and relates to the utilisation of tax losses against future expected profits of the same period. The deferred tax liability set out above is expected to reverse within 12 months and relates to accelerated capital allowances that are expected to mature within the same period.

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

### 19 Retirement benefit schemes

	2019	2018
	£	£
<b>Defined contribution schemes</b>		
Charge to profit or loss in respect of defined contribution schemes	32,535	10,387

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.

### 20 Share capital

	2019	2018
	£	£
<b>Ordinary share capital</b>		
<b>Issued and fully paid</b>		
100 Ordinary A shares of £1 each	100	100
2 Ordinary B shares of £1 each	2	2
	<u>102</u>	<u>102</u>

The company has two class of shares being Ordinary A shares and Ordinary B shares. Both share classes are entitled to dividends at the discretion of the directors and are entitled to capital distribution upon winding up of the company.

### 21 Reserves

Retained earnings include all current and prior periods profits and losses.

The Other Reserves consists of the capital investment from the parent company to purchase the building and certain fixed assets.

### 22 Operating lease commitments

#### Lessee

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:

	2019	2018
	£	£
Within one year	232,259	100,000
Between two and five years	469,407	291,667
In over five years	145,833	200,000
	<u>847,499</u>	<u>591,667</u>

# LIUGONG MACHINERY (UK) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

### 23 Related party transactions

#### Remuneration of key management personnel

The remuneration of key management personnel is as follows.

	2019 £	2018 £
Aggregate compensation	133,524	-

#### Transactions with related parties

During the period the company entered into the following transactions with related parties:

	Sales		Purchases	
	2019 £	2018 £	2019 £	2018 £
Other related parties	45,000	-	978,897	2,185,429

	Credit notes	
	2019 £	2018 £
Other related parties	-	1,909,067

The above transactions and below amounts owed to and from other related parties relate to European Plant and Machinery Sales, in which the some of the Directors had a controlling interest up until 20 May 2019 when trading in European Plant and Machinery Sales ceased. All transactions were carried out under normal commercial terms.

The following amounts were outstanding at the reporting end date:

	2019 £	2018 £
<b>Amounts due to related parties</b>		
Key management personnel	-	15,941
Other related parties	8,993	26,312

Amounts owed to key management personnel relate to Directors' loan account balances. The balances did not go overdrawn, were interest-free and were repaid to the Directors during the year.

	2019 £	2018 £
<b>Amounts due from related parties</b>		
Other related parties	-	868,207

## LIUGONG MACHINERY (UK) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2019

#### 24 Directors' transactions

Dividends totalling £0 (2018 - £10,000) were paid in the period in respect of shares held by the company's directors.

#### 25 Ultimate controlling party

The company's parent company is Liugong Machinery HongKong Co., Ltd. who's 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 Who's 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.

#### 26 Cash generated from/(absorbed by) operations

	2019 £	2018 £
(Loss)/profit for the period after tax	(203,951)	210,094
<b>Adjustments for:</b>		
Taxation (credited)/charged	(37,057)	50,800
Finance costs	54,350	13,074
Loss on disposal of tangible fixed assets	428	-
Depreciation and impairment of tangible fixed assets	76,428	48,443
<b>Movements in working capital:</b>		
Increase in stocks	(7,286,011)	(315,645)
Increase in debtors	(1,633,042)	(808,608)
Increase/(decrease) in creditors	13,173,318	(152,909)
<b>Cash generated from/(absorbed by) operations</b>	<b>4,144,463</b>	<b>(954,751)</b>

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.