

Registered Number: 01082975 (England and Wales)

Strategic Report, Report of the Directors and
Financial Statements
for the Year Ended 31 March 2021
for
Hitachi Construction Machinery (UK)
Limited



Hitachi Construction Machinery (UK)
Limited

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for the Year Ended 31 March 2021

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Hitachi Construction Machinery (UK)
Limited

Company Information
for the Year Ended 31 March 2021

Directors:	D Roberts A Satoh T Ikeda K Aoyama
SECRETARY:	A Shield
REGISTERED OFFICE:	Monkton Business Park North Hebburn Newcastle NE31 2JZ
REGISTERED NUMBER:	01082975 (England and Wales)
AUDITOR:	Ernst & Young LLP Citygate St James' Boulevard Newcastle Upon Tyne NE1 4JD
BANKERS:	The Royal Bank of Scotland 1 Trinity Gardens 2nd Floor Broadchare Quayside Newcastle Upon Tyne NE1 2HF
SOLICITORS:	Addleshaw Goddard Sovereign House PO Box 8 Sovereign Street Leeds LS1 1HQ

Hitachi Construction Machinery (UK)
Limited

Strategic Report
for the Year Ended 31 March 2021

The directors present their strategic report for the Year Ended 31 March 2021.

Despite a significant decline in market demand during the trading period under review, the company realised turnover amounting to £213,660,000 (FY20 £247,047,000). The impact of the global pandemic and UK national and regional lockdowns caused significant disruption to business operations during the first and second quarters of the financial year, with market sentiment increasing in the final 6 months of the trading period.

The Company remained operational throughout the trading period in readiness to support our customers who include key service providers. Signs of a recovering economic position were seen quite early within aftersales, with stabilisation and improved market sentiment from customers renewing and increasing machine fleets realised in the second half of the financial year.

Initial disruption caused by Brexit and delays in goods deliveries were experienced from part of our supply chain although this was counteracted by our forward planning and stockholding. Uncertainty surrounding the UK's vote to leave the European Union and the late arrival of a UK/EU trading agreement continued to weigh on market confidence and caused continued pressure in relation to adverse movement in foreign exchange currencies and commodity pricing which resulted in increased material cost and diluted gross margins. Profit before tax: £1,678,000 (FY20 £6,452,000).

In the short-term the board anticipates that COVID-19 will cause further operational disruption as we continue to focus on the health and welfare of our employees, customers and suppliers as our top priority. Further information can be found in Note 2 of this report.

The Company continues to underpin its success by providing high quality, reliable machines, with excellent lifetime support, as well as developing new income streams through our Hitachi Connected Technologies solutions and innovations. The Company will continue to provide and enhance an open, transparent, and ethically responsible culture, which invests in the skills of our employees to allow them to develop and thrive. These values will allow the business to retain and develop relationships with its existing loyal customers, as well as grow the business through acquisition of new customers.

The company uses a number of financial and non-financial KPI's to measure company performance and these continue to be reported both at board level and to managers during regular meetings. These include a number of health and safety, environmental, and employee related KPI's. In addition, customer service levels, complaints, and sales plan achievement are all monitored. The directors consider that the company has an effective measurement and reporting framework, which is consistent with its size and complexity.

Financial Risk and Management Objectives

The company's financial instruments comprise of forward exchange contracts entered into in respect of purchases denominated in foreign currencies, together with cash, debtors and creditors. Management objectives of continued focus on customer requirements, effective delivery of improved services to customers, continued control of direct and indirect costs and improved product quality continue to be at the forefront of the company's principles.

Cash Flow Risk

The company invests surplus cash in a floating rate interest yielding bank deposit account and has access to a floating rate interest bearing overdraft facility.

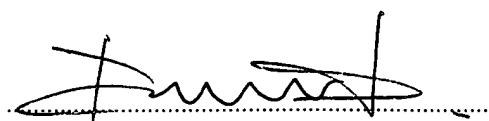
Credit Risk

The company has external debtors, however, the company manages credit risk by undertaking appraisals of customers in order to ensure that credit is extended to customers who are credit worthy, and unlikely to default.

Liquidity Risk

The company aims to mitigate liquidity risk by managing cash generated by its operations.

ON BEHALF OF THE BOARD:



D Roberts - Director
28 June 2021

Hitachi Construction Machinery (UK)
Limited

Report of the Directors
for the Year Ended 31 March 2021

The directors present their report with the financial statements of the company for the Year Ended 31 March 2021.

DIVIDENDS

The profit for the year, after taxation, was £1,309,000 (2020 - £5,070,000). A final dividend payment of £4,061,994 was made in respect of the previous trading year. The directors propose a final dividend of £941,886 in respect of this financial trading year.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 April 2020 to the date of this report.

D Roberts

M Yamazawa - resigned 01 April 2021

K Aoyama

A Satoh - appointed 23 April 2020

T Ikeda - appointed 01 April 2021

GOING CONCERN

The directors have adopted the going concern basis in preparing these financial statements after assessing the principal risks and having considered the continued impact of COVID-19 and Brexit for the next accounting period and beyond.

Based on this assessment, which included a cash flow forecast to 30 June 2022, including appropriate sensitivity and stress testing, the directors have a reasonable expectation that the Company's capital will enable it to continue to meet its requirements for at least 12 months from the date of approval of these financial statements. The directors are satisfied that the Company will be able to continue to meet all its obligations as, and when, they fall due.

Further details regarding the adoption of the going concern basis can be found in Note 2 to the Financial Statements.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The group made no political contributions during the year (2020 - £nil).

Donations to UK charities amounted to £30,354 (2020 - £3,106).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements (incorporating the Strategic Report and the Report of the Report of the Directors) 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Section 172(1) Statement

The following Section 172 statement which is required by the Companies Act 2006 describes how the Directors have had regard to the matters set out in section 172 (1a to 1f) and forms the director's views of the Company's stakeholders in their decision making. The Board will continue to provide increased focus on stakeholder interests in the current Financial Year and beyond.

Report of the Directors (Continued)
for the Year Ended 31 March 2021

Employees

The company considers the health, wellbeing and engagement of its employees to be a critical factor in its success and is committed to consulting employees or their representatives on a regular basis so that the views of employees can be taken into account when making decisions which are likely to affect their interests.

It is the company's policy to give full and fair consideration to all applications giving regard to their particular aptitudes and abilities, and to continue wherever possible the employment of staff who become disabled and to provide opportunities for training and career development of disabled employees. The Company continues to monitor the diversity of applicants and our entire workforce with our aim to promote a diverse, engaging and enjoyable workplace for all employees.

We operate an employee survey every two years, as well as an annual appraisal and feedback program for all employees. The Company continues to operate an employee forum made up of representatives from across the business, to enhance employee engagement, generate new ideas and allow the ability for all employees to communicate with senior executives.

The company continues to invest in the skills, development, and diversity of our employees as a first-class employer. With regular tool-box talks, operational and departmental meetings, the health, safety and the wellbeing of our employees, stakeholders and the environment in which we operate remain at the forefront of our business operations. During the financial year under review the Company invested in resources to make available a permanent hybrid office and working from home solution, in an aim to improve employees work-life balance.

Customers and Suppliers

Customers and suppliers form a fundamental part of our business success. Our customer base is formed of both group and third-party customers from construction related industries. Our suppliers include those involved in providing engineered goods and services, and those involved in providing operational and establishment support services. The company only trades with the highest quality supply partners and continues to reinforce its due diligence of its supply chain, with the aim of delivering improved quality and performance of our products and services to our customers.

We engage with customers and suppliers through cross divisional working group initiatives that are achieved through strategic and regional management with improved communications through digital solutions, as well as planned participation in a number of trade events.

We endeavour to exceed customer's expectations in providing safe, high quality, durable and reliable products competitively, on time, anywhere in the UK & Ireland. The provision of excellent lifetime value and consistent service during their term of ownership. To achieve this requirement, we continue to expand our aftersales support for routine maintenance and repairs, as well as to challenge ourselves through continuous improvement.

During the financial year the Company continued to increase resources in both sales and product support to achieve our group strategy of Customer Interest First, including the continued expansion of Product support capacities and coverage with the addition of a new depot in Wakefield. We continue to develop and offer class leading solutions including our Hitachi Connected Technology products and services, and during the financial year we increased capacity further to meet customer expectations.

Investors

The Company is privately owned with all shares being held internally within the Hitachi Construction Machinery Group. Strategic decisions and operational matters related to the company are made by the board which includes representatives of the Hitachi Construction Machinery Group.

Energy and Carbon Reporting

The company is committed to reducing its GHG emissions, and as part of the Hitachi Group we are working towards achieving the environmental targets set by Hitachi, Ltd.

Our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard. In line with the guidance on SECR we have included the energy and emissions for the buildings we own and operate (those within our financial control boundary) and also those where we lease facilities and are responsible for the energy consumption (but which are outside our financial control).

**Hitachi Construction Machinery (UK)
Limited**

**Report of the Directors (Continued)
for the Year Ended 31 March 2021**

We have used the latest Defra emissions factors, and our gross emissions total in the table applies the 'location based' accounting methodology for grid emissions. We have also shown the net benefit of our renewable energy procurement via our suppliers, applying the 'market-based' accounting methodology, which is included in our net emissions total.

We have chosen the intensity measure gross scope 1 and 2 emissions in tCO₂e per square meter as our activity is predominantly office based.

Energy Consumption	FY 2021	FY 20	Units
Total Electricity	688,790	733,833	kWh
Total Gas	1,294,487	1,116,022	kWh
Total Fuel	2,653,134	2,673,473	kWh

Emissions			
Scope 1			
Emissions from combustion of gas	238,017	205,181	kgCO ₂ e
Emissions from combustion of fuel for transport purposes - company owned	658,634	691,687	kgCO ₂ e
Scope 2/3			
Emissions from purchased electricity (location based)	161,758	189,859	kgCO ₂ e
Scope 3			
Total gross CO₂e based on above	1,058,409	1,086,727	kgCO ₂ e
			tCO ₂ e
intensity ratio tCO ₂ e gross/m ²	0.4	0.4	gross/m ²

The company continues to implement a number of energy efficiency measures including the installation of LED lighting throughout a number of business locations, limiting the number of vehicle journeys by making use of technologies and the promotion of electric non-commercial vehicles across our non-commercial vehicle fleet.

The company will continue to identify means to improve energy efficiency with the appointment of energy champions from across the business and monitor our impact on the environment and the areas in which we work. The company will continue to effectively manage our energy usage through our Energy Management Committee, adherence to ESOS reporting criteria ISO 14001 and ISO 50001 accreditations, and transition from FORS Bronze to FORS Silver accreditation.

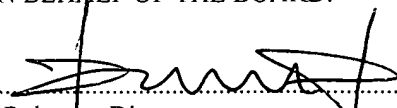
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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 auditor is 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 auditor is aware of that information.

AUDITOR

The auditor, Ernst & Young LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:


.....
D Roberts - Director

Date: 28 June 2021

Report of the Independent Auditors to the Members of Hitachi Construction Machinery (UK) Limited

Opinion

We have audited the financial statements of Hitachi Construction Machinery (UK) for the year ended 31 March 2021 which comprise the Income Statement, the Statement of other comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 20, 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 FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

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 up to 30 June 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of 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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Report of the Independent Auditors to the Members of Hitachi Construction Machinery (UK) Limited
(continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, 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.

Report of the Independent Auditors to the Members of Hitachi Construction Machinery (UK) Limited

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

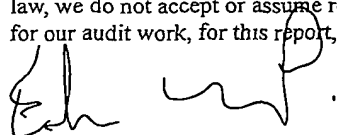
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the statutory reporting framework (FRS 101 and the Companies Act 2006) and the relevant direct and indirect tax compliance regulation in the United Kingdom. The Company also has to comply with laws and regulations relating to its operations, general data protection regulations ('GDPR'), the UK Bribery Act, anti-money laundering legislation, Health and Safety Act and employment regulations.
- We understood how Hitachi Construction Machinery (UK) is complying with those frameworks by making enquiries of management to understand how the Company maintains and communicates its policies and procedures in these areas. These enquiries confirmed that the Company has a process for monitoring legal requirements; has training policies designed to determine that all employees are properly trained and understand the code of conduct relating to compliance with laws and regulations, and has a process for reporting matters of non-compliance and taking appropriate action.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assuming revenue to be a fraud risk.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved incorporating data analytics into our testing of journals and revenue recognition. Applying our data analysis techniques, we identified the manual journal population deemed most susceptible to fraud (based upon our fraud risk criteria) and substantiated these transactions back to supporting documentation. In addition, we tested a sample of revenue transactions back to source documentation including cash receipts. In addition, we completed procedures to conclude on the compliance of the disclosures in the accounts with all applicable reporting requirements.

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

Use of our report

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



Darren Rutherford (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle Upon Tyne
28 June 2021

Hitachi Construction Machinery (UK)
Limited

Income Statement
for the Year Ended 31 March 2021

	Notes	2021 £000	2020 £000
TURNOVER	3	213,660	247,047
Cost of Sales		203,310	231,567
Other operating income	5	(129)	-
GROSS PROFIT		10,479	15,480
Distribution Costs		2,193	2,491
Administrative Expenses		6,819	6,554
Other operating income	5	(249)	-
OPERATING PROFIT		8,763	9,045
Interest receivable from group undertakings		4	43
Interest paid - leases	12	(42)	(26)
PROFIT BEFORE TAXATION	5	1,678	6,452
Tax on profit	6	369	1,382
PROFIT FOR THE FINANCIAL YEAR		1,309	5,070

All of the above activities are continuing.

The notes form part of these financial statements

Hitachi Construction Machinery (UK)
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Statement of Other Comprehensive Income
for the Year Ended 31 March 2021

	2021 £000	2020 £000
PROFIT FOR THE YEAR	1,309	5,070
OTHER COMPREHENSIVE INCOME	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>1,309</u>	<u>5,070</u>


The notes form part of these financial statements

Hitachi Construction Machinery (UK)
Limited

Balance Sheet
31 March 2021

	Notes	2021 £000	2020 £000
FIXED ASSETS			
Tangible assets		5,615	5,361
Right of use assets	12	2,205	2,454
	8	<u>7,820</u>	<u>7,815</u>
CURRENT ASSETS			
Stocks	9	46,274	44,283
Debtors: amounts falling due within one year	10	45,327	30,327
Cash at bank and in hand		4,978	8,492
		<u>96,579</u>	<u>83,102</u>
CREDITORS			
Amounts falling due within one year	11	87,757	71,142
NET CURRENT ASSETS		<u>8,822</u>	<u>11,960</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		16,642	19,775
Amounts falling due after more than one year	12	1,626	2,002
PROVISIONS FOR LIABILITIES	13	328	332
NET ASSETS		<u>14,688</u>	<u>17,441</u>
CAPITAL AND RESERVES			
Called up share capital	14	1,350	1,350
Retained earnings	15	13,338	16,091
SHAREHOLDERS' FUNDS		<u>14,688</u>	<u>17,441</u>

The financial statements were approved by the Board of Directors on 28 June 2021 and were signed on its behalf by:


D Roberts - Director

The notes form part of these financial statements

Hitachi Construction Machinery (UK)
Limited

Statement of Changes in Equity
for the Year Ended 31 March 2021

	Called up Share capital £000	Total earnings £000	Retained equity £000
Balance at 1 April 2019	1,350	15,652	17,002
Changes in equity			
Dividends	-	(4,540)	(4,540)
Total comprehensive income	-	5,070	5,070
Balance at 31 March 2020	1,350	16,091	17,441
Changes in equity			
Dividends	-	(4,062)	(4,062)
Total comprehensive income	-	1,309	1,309
Balance at 31 March 2021	1,350	13,338	14,688

Notes to the Financial Statements
for the Year Ended 31 March 2021

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101

The financial statements of Hitachi Construction Machinery (UK) Limited for the Year Ended 31 March 2021 were authorised for issue by the board of directors on 28 June 2021 and the balance sheet was signed on the board's behalf by D.Roberts. The company is a private company and is incorporated and domiciled in the UK. The address of its registered office is Monkton Business Park North, Hebburn, Tyne and Wear, NE31 2JZ. The financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The company's financial statements are presented in British sterling and all values are rounded to the nearest pounds (£000) except where otherwise indicated. The results of Hitachi Construction Machinery (UK) Limited are included in the consolidated financial statements of Hitachi Construction Machinery Japan, which are available from <https://www.hitachicm.com/global/investor-relations>. The principal accounting policies adopted by the company are set out in note 2.

2. ACCOUNTING POLICIES

Going concern

The directors have adopted the going concern basis in preparing these financial statements after assessing the principal risks and having considered the continued impact of COVID-19 and Brexit for the next accounting period and beyond.

During the current financial year, the downturn in UK market activity which was directly linked to the COVID-19 global pandemic had a significant impact on the company and across all of its stakeholders. Whilst business activity experienced a significant initial drop, the Company was able to react quickly to minimise the impact of the fall in activity, including recognising a number of operational cost reductions. Whilst a number of customers chose to delay delivery of orders, rather than cancel orders, the Company was well positioned to reactivate operations as activity began to return to normalised levels.

As the situation continues to improve, the board continue to update cashflow and financial scenarios and have considered a number of impacts on financial performance including sales, profits and cash-flows for the period up to 30 June 2022, including the consideration of reasonably plausible downside scenarios.

The Company continues to manage pressures on liquidity through existing cash balances and facilities available to it from its parent company or the Hitachi Group, as well as flexibility over the settlement of intercompany trading balances, for which written parental support has been obtained. The directors are satisfied that its parent companies are able to extend this support.

The directors believe that the company is well placed to manage business risks adequately and have a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. The board therefore consider that in the absence of any material uncertainties, it is appropriate to adopt the going concern basis in the preparation of these financial statements.

Notes to the Financial Statements - continued
for the Year Ended 31 March 2021

2. ACCOUNTING POLICIES - continued

Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below.

The company has prepared its financial statements in accordance with FRS 101 for all periods presented.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1; and
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 118(e) of IAS 38 Intangible Assets
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Freehold property	-	1.5% per annum
Short leasehold	-	over the lease term
Plant and machinery	-	10% to 20% per annum
Fixtures and fittings	-	10% to 20% per annum
Motor vehicles	-	25% on cost per annum
Computer equipment	-	20% per annum

The carrying value of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Useful economic lives and residual values are reviewed annually and where adjustments are required, these are made prospectively.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

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, or where the customer has paid for the goods but requested that the company hold the goods on their behalf for a short period of time.

Notes to the Financial Statements - continued
for the Year Ended 31 March 2021

2. ACCOUNTING POLICIES - continued

IFRS 15

In 2020, all income streams were reviewed against the requirements of IFRS 15 Revenue from Contracts with Customers and the review concluded that the current accounting policies were compliant with IFRS 15.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is arrived at as follows:

Raw materials	- purchase cost on a first in first out basis
Work in progress and finished goods	- cost of direct materials and labour plus attributable overheads based on a normal level of activity less foreseeable losses.

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

IFRS 9 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The company's financial assets include trade receivables and cash and cash equivalents. The company does not have any derivatives, guarantees or external debt / loans.

Cash at bank and in hand

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

Trade and other debtors

Trade debtors, which generally have 30-90 day terms, are recognised and carried at their original invoiced amount less expected credit losses. Where the time value of money is material, receivables are carried at amortised cost. Provision for impairment is made through profit or loss based on historic average of impairments multiplied by the balance of trade debtors. Balances are written off when the probability of recovery is assessed as being remote.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment. Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result. The company sometimes uses forward currency contracts as hedges of its exposure to foreign currency risk. The fair value of these contracts is included on the balance sheet as a Financial asset or a Financial liability.

Notes to the Financial Statements - continued
for the Year Ended 31 March 2021

2. ACCOUNTING POLICIES - continued

IFRS 16

The company adopted IFRS16 "Lease Contracts" from April 1, 2020. As part of the company's national coverage in sales, parts and services the company rents a number of locations around the UK. The rental agreements within the scope of application of IFRS16 also concern vehicles and tooling. Previously each lease contract was qualified as either finance lease, or as operating lease, with accounting treatment appropriate for each category.

In application of IFRS16, all lease contracts are recognised in right-of-use assets and in lease liabilities by a debt corresponding to the discounted value of future payments. Lease term is defined on a contract-by contract basis and corresponds to the firm period of the commitment, taking into consideration any option periods that are reasonably certain to be exercised.

Discount rates applied to future lease payment are assessed on the length of the remaining lease term. The Company's weighted average incremental borrowing rate applied to lease liabilities was 1.83%.

The transition method used consists in recognising the cumulative effect of the initial application as an adjustment on opening equity, by considering that the right-of-use of the underlying asset is equal to the amount of lease liability, adjusted by the amount of rents paid in advance, as well as any incentives from the landlord. The contractual rents in relation to low unit value assets or to short a short-term lease (less than 12 months) are recognised directly as an expense. In addition, the following practical expedients have been applied to the transition:

- contracts with a residual term of less than 12 months starting from April 1, 2020, are not accounted for as an asset and debt, and are charged to the income statement on a straight-line basis over the period of the lease;
- the discount rates applied as of the transition date are based on average yield of bonds issued and outstanding in the same industry and with the same rating as the company's ultimate controlling party. These discount rates are determined with respect to the remaining terms of leases from the date of time-time application.

The following table shows the reconciliation of operating lease commitments under IAS17 to lease liabilities under IFRS 16 on 01 April 2020.

	2020 £000
Operating lease commitments disclosed as at 31 March 2020	1,240
Less: Contracts reassessed as lease agreements	(67)
Lease liabilities recognised as at 01 April 2020	<u>1,173</u>

Pensions

The company operates a defined contribution pension scheme. The company contributes to a private pension scheme for directors. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

Government grants

Grants, including those in respect of the UK CJRS scheme, are recognised only where there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received. Grants that are received as compensation for expenses already incurred are recognised in profit or loss in the period in which they become receivable and are presented separately within other operating income.

Critical accounting estimates and judgements

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Notes to the Financial Statements - continued
for the Year Ended 31 March 2021

2. ACCOUNTING POLICIES - continued

(a) Useful economic lives of tangible fixed assets.

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 8 for the carrying amount of the property, plant and equipment.

(b) Stock provisioning

The company distributes construction equipment, which is subject to changing demands. As a result, it is necessary to consider the recoverability of the cost of stock and the associated provisioning required.

When calculating the stock provision, management considers the nature and condition of the stock, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 9 for the net carrying amount of the stock and associated provision.

3. TURNOVER

The turnover and profit before taxation are attributable to the one principal activity of the company. An analysis of turnover by geographical market is given below:

	2021 £000	2020 £000
United Kingdom	213,107	244,273
Europe	553	2,774
Other	-	-
	<u>213,660</u>	<u>247,047</u>

4. EMPLOYEES AND DIRECTORS

	2021 £000	2020 £000
Wages and salaries	8,622	8,040
Social security costs	894	894
Other pension costs	649	575
	<u>10,165</u>	<u>9,509</u>

The average number of employees during the period, including directors, was as follows:

	2021 No.	2020 No.
Office and management	125	114
Assembly	70	64
	<u>195</u>	<u>178</u>

Directors emoluments of £388,000 (2020: £403,000) are for their services to Hitachi Construction Machinery (UK) Limited. In addition, payments of £27,000 (2020: £27,000) were made into a company pension scheme. The emoluments of the highest paid director (including pension payments) were £388,000 (2020: £351,000).

All other directors are remunerated by Hitachi Construction Machinery Europe (NV) and the directors believe that any emoluments received for services to this company are negligible.

Notes to the Financial Statements - continued
for the Year Ended 31 March 2021

5. PROFIT BEFORE TAXATION

The profit before taxation is stated after charging/(crediting):

	2021 £000	2020 £000
Cost of inventories recognised as expense	199,042	226,863
Hire of plant and machinery	3	5
Depreciation - owned assets	820	853
Depreciation - ROU	506	284
Profit on disposal of fixed assets	(63)	(51)
Auditors remuneration	73	61
Operating lease charges - land and buildings	19	49
Exchange losses	64	161
Government grants – furlough support	(378)	-

6. TAXATION

Analysis of tax expense

	2021 £000	2020 £000
Current Tax:		
Tax	373	1,312
Deferred Tax	(4)	70
Total tax expense in income statement	369	1,382

Factors affecting the tax expense

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

	2021 £000	2020 £000
Profit before income tax	1,678	6,452
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2020 - 19%)	319	1,226
Effects of:		
Expenses not deductible for tax purposes	55	145
Adjustments to tax charge in respect of previous periods	-	(18)
Deferred tax previously unrecognised	(5)	-
Tax rate changes	-	29
Tax expense	369	1,382

7. DIVIDENDS

	2021 £000	2020 £000
Ordinary Shares of £1 each		
Interim paid in respect of previous trading year	4,062	4,540
Dividend per share	3.01	£3.36

**Notes to the Financial Statements - continued
for the Year Ended 31 March 2021**

8. TANGIBLE FIXED ASSETS

	Right-of- use assets	Freehold property £000	Short leasehold £000	Plant and Machinery £000
COST				
At 1 April 2020	3,487	3,675	592	764
Additions	257	59	21	599
Disposals	-	-	-	-
At 31 March 2021	3,744	3,734	613	1,363
DEPRECIATION				
At 1 April 2020	1,033	723	131	524
Charge for year	506	48	63	87
Eliminated on disposal	-	-	-	-
At 31 March 2021	1,539	771	194	611
NET BOOK VALUE				
At 31 March 2021	2,205	2,963	419	752
At 31 March 2020	2,454	2,952	461	240
	Fixtures and fittings £000	Motor vehicles £000	Computer equipment £000	Totals £000
COST				
At 1 April 2020	270	2,346	1,150	12,284
Additions	19	335	107	1,397
Disposals	-	(390)	-	(390)
At 31 March 2021	289	2,291	1,257	13,291
DEPRECIATION				
At 1 April 2020	202	1,017	839	4,469
Charge for year	10	529	112	1,355
Eliminated on disposal	-	(353)	-	(353)
At 31 March 2021	212	1,193	951	5,471
NET BOOK VALUE				
At 31 March 2021	77	1,098	306	7,820
At 31 March 2020	68	1,329	311	7,815

Included in the above are assets which were held for rental to customers with a net book value of £511,000 with depreciation charged of £28,781. In addition, rentals amounting to £64,424 were credited to the income statement.

9. STOCKS

	2021 £000	2020 £000
Work-in-progress	1,732	1,215
Finished goods	44,542	43,068
	46,274	44,283

Stocks are stated after provisions for impairment of £734,307 (2020 - £518,051).

Hitachi Construction Machinery (UK)
Limited

Notes to the Financial Statements - continued
for the Year Ended 31 March 2021

10. DEBTORS

	2021 £000	2020 £000
Trade Debtors	17,698	13,901
Amounts owed by group undertakings	26,869	15,721
Corporation tax recoverable	116	153
Fair value of forward contracts (note 18)	-	66
Other debtors	22	9
Prepayments and accruals	622	477
	<u>45,327</u>	<u>30,327</u>

Trade debtors is stated after a provision for doubtful debts of £48k.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £000	2020 £000
Trade creditors	6,223	5,281
Amounts owed to group undertakings	77,502	60,162
Social security and other taxes	1,346	4,304
Other creditors	633	443
Amount due to related undertaking-loan	506	-
Accruals and deferred income	932	449
Lease liabilities: Current (note 12)	615	502
	<u>87,757</u>	<u>71,141</u>

Trade creditors are non-interest bearing and are normally settled on 30 day terms.

12. LEASES

Leases – Company as lessee

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land and Buildings £000	Plant and Machinery £000	Motor Vehicles £000	Total £000
As at 01 April 2020	2,185	73	196	2,454
Additions	-	-	257	257
Depreciation expense	<u>(375)</u>	<u>(25)</u>	<u>(106)</u>	<u>(506)</u>
As at 31 March 2021	<u>1,810</u>	<u>48</u>	<u>347</u>	<u>2,205</u>

Set out below are the carrying amounts of lease liabilities and the movements during the period:

Hitachi Construction Machinery (UK)
Limited

Notes to the Financial Statements - continued
for the Year Ended 31 March 2021

12. LEASES (continued)

	2021 £000	2020 £000
As at 01 April 2020	2,504	1,173
Additions	270	1,663
Accreditation of interest	42	26
Payments	(575)	(358)
As at 31 March 2021	<u>2,241</u>	<u>2,504</u>
Current	615	502
Non-current	1,626	2,002

The company has lease contracts for various offices, warehouses, equipment and tools used in the operations. The amounts recognised in the financial statements in relation to the leases are as follows:

	2021 £000	2020 £000
Depreciation expense of ROU assets	506	284
Interest expense on lease liabilities	42	26
Expense relating to short term leases	19	49
Variable lease payments (included in cost of sales)	50	45
Year ended 31 March 2021	<u>617</u>	<u>404</u>

The total cash outflow for leases during 2021 was £575,000 (2020: £358,000).

13. DEFERRED TAX ASSETS / LIABILITIES

	2021 £000	2020 £000
Provision at start of period	332	262
Deferred tax charge/(credit) to income statement for the period	(4)	70
Provision at end of period	<u>328</u>	<u>332</u>
Fixed Assets	(16)	(12)
Gains	353	353
Other	(9)	(9)
Provision at end of period - liability	<u>328</u>	<u>332</u>
Unrecognised Deferred Tax – Fixed	<u>-</u>	<u>-</u>

14. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:
Number: Class:

	Nominal value:	2021 £000	2020 £000
1,350,000 Ordinary Shares	£1	<u>1,350</u>	<u>1,350</u>

Notes to the Financial Statements - continued
for the Year Ended 31 March 2021

15. RESERVES

Share capital

This reserve represents the capital investment by the parent undertaking.

Retained earnings

This reserve represents the cumulative comprehensive income recognised in the company, less any dividends paid.

16. PENSION COMMITMENTS

The company does not operate its own independent pension fund but operates a group personal pension scheme open to all employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £648,500 (2020 - £574,559). During the year the company introduced a Salary Sacrifice pension scheme, whereby all pension contributions are made as employer contributions. Contributions totalling £57,254 (2020 - £49,518) were payable to the fund at the year end and are included in creditors.

17. OTHER COMMITMENTS

The Company has a one year rolling borrowing facility of £10,000,000 with Hitachi Limited Treasury Department that is repayable on demand. There are no fixed repayment terms and interest is in consideration of market rate. The balance owing on this facility at 31 March 2021 was £Nil (2020: £Nil).

18. OTHER FINANCIAL COMMITMENTS

The group has no derivative financial instruments, being forward foreign exchange contracts as at 31 March 2021 (2020: £1,400,000). The fair value of the forward foreign exchange contracts is recorded on the balance sheet (note 10).

19. RELATED PARTY DISCLOSURES

The company is a wholly owned subsidiary of Hitachi Construction Machinery (Europe) NV and has taken advantage of the exemption conferred by Financial Reporting Standard 101 with reference to IAS24 'Related party disclosures' not to disclose transactions with other wholly owned subsidiaries within the group.

20. ULTIMATE CONTROLLING PARTY

The immediate parent undertaking and controlling party is Hitachi Construction Machinery (Europe) NV, who are owned by Hitachi Construction Machinery Limited in Japan.

Hitachi Construction Machinery Limited are owned 50+% by Hitachi Limited with a remainder of the shares open to the public through their listing on the stock exchange. Hitachi Limited is therefore the ultimate parent undertaking.