

**Sun Hydraulics Limited**

Report and Financial Statements

Year Ended

2 January 2010

Company Number 1914045

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# **Sun Hydraulics Limited**

**Report and financial statements  
for the year ended 2 January 2010**

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## **Directors**

A J Carlson  
P Robson  
R Glasspole

## **Secretary and registered office**

Taylor Wessing Secretaries Limited, 5 New Street Square, London, EC47 3TW

## **Company number**

1914045

## **Auditors**

BDO LLP, 125 Colmore Row, Birmingham, B3 3SD

# **Sun Hydraulics Limited**

## **Report of the directors for the year ended 2 January 2010**

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The directors present their report together with the audited financial statements for the year ended 2 January 2010

### **Results and dividends**

The profit and loss account is set out on page 6 and shows the profit for the year

### **Principal activities**

The company's principal activities are the supply of hydraulic screw-in cartridges and manifolds for use on all types of mobile and industrial machinery. We operate as the distributor in the UK and supply through independent companies operating as distributors in other countries around Europe. Our main manufacturing activity is the production of manifolds in SG iron.

### **Review of business**

The ability to remain profitable and cash positive in 2009 has been due to our continued ability to supply products on short delivery in a difficult market while retaining our workforce to be prepared for the upturn in the economy.

As we are starting to see the beginning of an upturn in economies around the world, the retention of our workforce will enable us to promptly respond to increased customer demand.

The business has performed slightly better than we anticipated at the end of 2009 with a fall in turnover of 28% rather than the 30% predicted and the profit margin before other operating income/expense has dropped from 14.7% to 5.5%. This continued profitable position and constraining capital expenditure has resulted in an £867k increase in our cash balance.

### **Significant events in the year**

Late in 2009 due to the decrease in business, the workforce agreed to a change to a 4 day week, whilst critical areas that needed to continue a 5 day week took a pay cut. This still enabled us to meet customer demand and remain profitable.

### **Future Developments**

We plan to consolidate our manufacturing capability and continue to supply high quality products on time to customer requirements. The continuing development of our web-site and new product training and product selection programs, will make it as easy as possible for customers to find the right information about our products and capabilities.

The company is in a financially strong position with a highly skilled and motivated workforce and will be in a good position to take advantage of any upturn that may occur in 2010.

### **Principal risks and uncertainties**

#### **Financial risk management**

Funding and Liquidity risk are managed by the company. The objectives are to protect the assets of the company and to identify and manage the financial risks. These risks are described further below.

#### **Currency risk**

Currency transaction risk is primarily automatically controlled by the fact that a majority of the sales in currencies (USD) are matched by purchases in currency (USD). Revaluation of currency balances. Cash, Debtors and Creditors are absorbed on a monthly basis.

# Sun Hydraulics Limited

## Report of the directors for the year ended 2 January 2010 (*continued*)

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### Liquidity risk

Funding is monitored by the preparation of updated budgets on a frequent cycle. Actual results are compared to historical position on a cyclical basis. At 2 January 2010 the company's cash balance was £4.35 million.

### Credit risk

The company is exposed to credit-related losses in the event of the non-performance by counterparties to financial instruments. Credit risk is mitigated by the company's policy of only selecting counterparties with a strong long term credit rating and assigning financial limits to individual counterparties.

### Research and development activities

Research and development expenditure is written off as incurred.

### Employment policy

The company is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. We also try and encourage our employees to attend outside courses to improve their skills and improve their general education. Full training is provided to all new employees.

### Directors

The directors of the company during the year were

A J Carlson  
P Robson  
R Glasspole

### Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006 and for being satisfied that the financial statements give a true and fair view. The directors are also responsible for preparing the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the directors to prepare financial statements for each financial year which 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 year. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- 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 show and explain the company's transactions, 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.

# Sun Hydraulics Limited

## Report of the directors for the year ended 2 January 2010 (*continued*)

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### Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

### On behalf of the board

R Glasspole

Director



Date

26 May 2010

# **Sun Hydraulics Limited**

## **Independent auditor's report**

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### **TO THE MEMBERS OF SUN HYDRAULICS LIMITED**

We have audited the financial statements of Sun Hydraulics Limited for the year ended 2 January 2010 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 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.

### **Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 2 January 2010 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.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Sun Hydraulics Limited

## Independent auditor's report *(continued)*

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

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

*BDO LLP*

Thomas Lawton (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
Birmingham  
United Kingdom

Date *26 May 2010*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)



# Sun Hydraulics Limited

## Profit and loss account for the year ended 2 January 2010

	Note	2009 £	2008 As restated £
<b>Turnover</b>	2	<b>9,374,967</b>	13,090,442
Cost of sales		<u>7,445,527</u>	<u>9,818,748</u>
<b>Gross profit</b>		<b>1,929,440</b>	3,271,694
Administrative expenses		<u>1,416,981</u>	<u>1,352,164</u>
		<b>512,459</b>	1,919,530
Other operating income / (expense)		<u>(217,280)</u>	<u>405,664</u>
<b>Operating profit</b>	3	<b>295,179</b>	2,325,194
Other interest receivable and similar income		<b>37,822</b>	55,886
Interest payable and similar charges	6	-	(963)
<b>Profit on ordinary activities before taxation</b>		<b>333,001</b>	2,380,117
Taxation on profit on ordinary activities	7	<u>39,769</u>	<u>675,869</u>
<b>Profit on ordinary activities after taxation</b>		<u><b>293,232</b></u>	<u>1,704,248</u>

All amounts relate to continuing activities

The notes on pages 9 to 20 form part of these financial statements

# Sun Hydraulics Limited

## Statement of total recognised gains and losses for the year ended 2 January 2010

	Note	2009 £	2008 £
<b>Statement of total recognised gains and losses</b>			
Profit for the financial year		293,232	1,704,248
Prior year adjustment - share based payment (see note 21)		229,730	
Prior year adjustment - deferred tax on SIP (see note 12)		(64,324)	
<b>Total gains and losses recognised since last financial statements</b>		<b>458,638</b>	

The notes on pages 9 to 20 form part of these financial statements

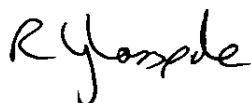
# Sun Hydraulics Limited

## Balance sheet at 2 January 2010

<i>Company number 1914045</i>	Note	2009 £	2009 £	2008 As restated £	2008 As restated £
<b>Fixed assets</b>					
Tangible assets	8		3,973,170		4,457,489
<b>Current assets</b>					
Stocks	9	631,375		818,288	
Debtors	10	1,534,273		1,814,190	
Cash at bank and in hand		4,356,937		3,490,398	
		<u>6,522,585</u>		<u>6,122,876</u>	
<b>Creditors: amounts falling due within one year</b>	11	<u>866,580</u>		<u>1,215,465</u>	
<b>Net current assets</b>			<u>5,656,005</u>		<u>4,907,411</u>
<b>Total assets less current liabilities</b>			<u>9,629,175</u>		<u>9,364,900</u>
<b>Provisions for liabilities</b>	12		<u>243,773</u>		<u>272,730</u>
			<u>9,385,402</u>		<u>9,092,170</u>
<b>Capital and reserves</b>					
Called up share capital	14		1,140,000		1,140,000
Profit and loss account	15		8,245,402		7,952,170
<b>Shareholders' funds</b>	16		<u>9,385,402</u>		<u>9,092,170</u>

The financial statements were approved by the board of directors and authorised for issue on 26 May 2010

R Glasspole  
Director



The notes on pages 9 to 20 form part of these financial statements

# Sun Hydraulics Limited

## Notes forming part of the financial statements for the year ended 2 January 2009

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### 1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards

The following principal accounting policies have been applied

#### *Financial period*

The current accounting period covers the period 1 January 2009 to 2 January 2010 and the comparative period covers the year ended 31 December 2008. The financial year end date for the company is aligned to the financial reporting year end of the its ultimate parent company

#### *Cash flow statement*

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Sun Hydraulics Corporation and the company is included in its consolidated financial statements

#### *Turnover*

Turnover represents sales to external customers at invoiced amounts less value added tax

#### *Depreciation*

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, except for freehold land, evenly over their expected useful lives. It is calculated at the following rates

Buildings	- 10 and 40 years
Plant and machinery	- 4, 5 and 10 years
Office equipment	- 3, 4 and 10 years

#### *Stocks*

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal

#### *Foreign currency*

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account

#### *Financial instruments*

Financial instruments are measured initially and subsequently at cost

#### *Research and development*

Research and development expenditure is written off in the year in which it is incurred

# Sun Hydraulics Limited

## Notes forming part of the financial statements for the year ended 2 January 2009 (*continued*)

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### 1 Accounting policies (*continued*)

#### *Deferred taxation*

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that

- the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences

Deferred tax balances are not discounted

#### *Share-based payment*

When share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

The company also operates a Share Incentive Plan (SIP) on which it recognises a charge calculated in the same manner as other share-based payment schemes.

#### *Leased assets*

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account over the shorter of estimated useful economic life and the period of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

#### *Pension costs*

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

# Sun Hydraulics Limited

Notes forming part of the financial statements  
for the year ended 2 January 2009 (*continued*)

## 2 Turnover

	2009 £	2008 £
Analysis by geographical market		
United Kingdom	3,275,537	5,092,085
Europe	4,294,002	5,794,276
Rest of the world	1,500,046	1,736,216
North America & Canada	305,382	467,865
	<u>9,374,967</u>	<u>13,090,442</u>

Turnover is wholly attributable to the principal activity of the company

## 3 Operating profit

	2009 £	2008 £
This is arrived at after charging/(crediting)		
Depreciation of tangible fixed assets	656,323	669,546
Hire of other assets - operating leases	3,302	2,201
Auditors' remuneration - fees payable to the company's auditor for the audit of the company's annual accounts	17,750	17,750
Exchange differences	<u>217,280</u>	<u>(405,664)</u>

# Sun Hydraulics Limited

Notes forming part of the financial statements  
for the year ended 2 January 2009 (continued)

## 4 Employees

Staff costs (including directors) consist of

	2009 £	2008 As restated £
Wages and salaries	1,848,931	2,124,844
Social security costs	187,242	216,920
Other pension costs	141,435	137,488
SIP Free shares (see note 21)	58,532	-
	<u>2,236,140</u>	<u>2,479,252</u>

The average number of employees (including directors) during the year was as follows

	2009 Number	2008 Number
Production staff	48	51
Management staff	25	26
	<u>73</u>	<u>77</u>

## 5 Directors' remuneration

	2009 £	2008 As restated £
Directors' emoluments	184,390	196,718
Gains on restricted shares vesting	22,188	4,458
Company contributions to money purchase pension schemes	20,178	20,178
SIP Free shares	3,734	-
	<u>220,480</u>	<u>221,454</u>

There were 2 directors in the company's defined contribution pension scheme during the year (2008 - 2)

The number of directors who received share-based payments during the year was 2 (2008 - 2)

The total amount payable to the highest paid director in respect of emoluments was £104,758 (2008 - £112,327) Company pension contributions of £11,358 (2008 - £11,358) were made to a money purchase scheme on their behalf

The highest paid director received share-based payments during the year

# Sun Hydraulics Limited

Notes forming part of the financial statements  
for the year ended 2 January 2009 (*continued*)

## 6 Interest payable and similar charges

	2009 £	2008 £
Other interest	-	963
	<u>          </u>	<u>          </u>

## 7 Taxation on profit on ordinary activities

	2009 £	2008 As restated £
<i>UK Corporation tax</i>		
Current tax on profits of the year	77,661	678,292
Adjustment in respect of previous periods	(8,935)	4,491
	<u>          </u>	<u>          </u>
Total current tax	68,726	682,783
	<u>          </u>	<u>          </u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	(38,020)	(6,914)
Adjustment in respect of previous periods	9,063	-
	<u>          </u>	<u>          </u>
Movement in deferred tax provision	(28,957)	(6,914)
	<u>          </u>	<u>          </u>
Taxation on profit on ordinary activities	39,769	675,869
	<u>          </u>	<u>          </u>

The tax assessed for the year is lower than/higher than the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below

	2009 £	2008 As restated £
Profit on ordinary activities before tax	333,001	2,380,117
	<u>          </u>	<u>          </u>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 28% (2008 - 28%)	93,240	678,333
Effect of		
Depreciation for period in excess of capital allowances	42,230	37,159
Adjustment to tax charge in respect of previous periods	(8,935)	4,491
Non taxable Income	(53,600)	(6,707)
Other Timing Differences	(4,209)	(30,493)
	<u>          </u>	<u>          </u>
Current tax charge for the year	68,726	682,783
	<u>          </u>	<u>          </u>



# Sun Hydraulics Limited

Notes forming part of the financial statements  
for the year ended 2 January 2009 (continued)

## 8 Tangible fixed assets

	Freehold land and buildings £	Plant and machinery £	Computer equipment £	Total £
<i>Cost or valuation</i>				
At 1 January 2009	3,219,120	6,361,162	1,025,232	10,605,514
Additions	6,180	61,431	104,393	172,004
	<u>3,225,300</u>	<u>6,422,593</u>	<u>1,129,625</u>	<u>10,777,518</u>
<i>Depreciation</i>				
At 1 January 2009	1,198,056	4,196,498	753,471	6,148,025
Provided for the	102,374	435,706	118,243	656,323
	<u>1,300,430</u>	<u>4,632,204</u>	<u>871,714</u>	<u>6,804,348</u>
<i>Net book value</i>				
At 2 January 2010	<u>1,924,870</u>	<u>1,790,389</u>	<u>257,911</u>	<u>3,973,170</u>
At 31 December 2008	<u>2,021,064</u>	<u>2,164,664</u>	<u>271,761</u>	<u>4,457,489</u>

## 9 Stocks

	2009 £	2008 £
Raw materials and consumables	105,539	205,545
Work in progress	33,214	49,789
Finished goods and goods for resale	492,622	562,954
	<u>631,375</u>	<u>818,288</u>

There is no material difference between the replacement cost of stocks and the amounts stated above

# Sun Hydraulics Limited

## Notes forming part of the financial statements for the year ended 2 January 2009 (continued)

### 10 Debtors

	2009 £	2008 £
Trade debtors	1,042,634	1,399,313
Amounts owed by group undertakings	48,751	39,940
Amounts owed by fellow subsidiary undertakings	99	29,128
Prepayments and accrued income	364,030	168,430
Other debtors	78,759	177,379
	<u>1,534,273</u>	<u>1,814,190</u>

All amounts shown under debtors fall due for payment within one year

### 11 Creditors: amounts falling due within one year

	2009 £	2008 As restated £
Trade creditors	217,637	237,037
Amounts owed to group undertakings	422,846	369,088
Corporation tax	59,661	428,292
Other taxation and social security	63,286	83,869
Other creditors	37,820	41,271
Accruals and deferred income	65,330	55,908
	<u>866,580</u>	<u>1,215,465</u>

Other creditors include £7,078 (2008 - £23,645) in respect of share-based payments (see note 21)

# Sun Hydraulics Limited

Notes forming part of the financial statements  
for the year ended 2 January 2009 (*continued*)

## 12 Provisions for liabilities

	Deferred taxation £
At 1 January 2009 as previously stated	208,406
Share Incentive plan prior year adjustment (see note 21)	64,324
	<hr/>
At 1 January 2009 as restated	272,730
Credited to profit and loss account	(38,020)
Adjustment in respect of prior periods	9,063
	<hr/>
At 2 January 2010	<b>243,773</b>
	<hr/> <hr/>

### *Deferred taxation*

	2009 £	2008 As restated £
Accelerated capital allowances	228,860	262,784
Sundry timing differences	14,913	9,946
	<hr/>	<hr/>
	<b>243,773</b>	272,730
	<hr/> <hr/>	<hr/> <hr/>

## 13 Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge amounted to £141,435 (2008 - £137,487). There were no outstanding contributions at the balance sheet date (2008 £Nil).

## 14 Share capital

	2009 £	2008 £
<i>Allotted, called up and fully paid</i>		
1,140,00 Ordinary shares of £1 each	<b>1,140,000</b>	1,140,000
	<hr/> <hr/>	<hr/> <hr/>

# Sun Hydraulics Limited

Notes forming part of the financial statements  
for the year ended 2 January 2009 (*continued*)

## 15 Reserves

	Profit and loss account £
At 1 January 2009 as previously stated	7,786,764
Prior year adjustment (see note 21)	165,406
	<hr/>
At 1 January 2009 as restated	7,952,170
Profit for the	293,232
	<hr/>
At 2 January 2010	<b>8,245,402</b>
	<hr/>

## 16 Reconciliation of movements in shareholders' funds

	2009 £	2008 As restated £
Profit for the year	293,232	1,704,248
Opening shareholders' funds as previously stated	8,926,764	7,387,922
Prior year adjustment		
Prior year adjustment - Share Incentive Plan (see note 21)	229,730	-
Prior year adjustment - Deferred tax on SIP (see note 12)	(64,324)	-
	<hr/>	<hr/>
Opening shareholders' funds as restated	9,092,170	7,387,922
	<hr/>	<hr/>
Closing shareholders' funds	<b>9,385,402</b>	9,092,170
	<hr/>	<hr/>

## 17 Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below

	Other 2009 £	Other 2008 £
Operating leases which expire		
In two to five years	3,302	3,302
	<hr/>	<hr/>

# Sun Hydraulics Limited

Notes forming part of the financial statements  
for the year ended 2 January 2009 (*continued*)

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## 18 Related party disclosures

The company is a wholly owned subsidiary of Sun Hydraulics Corporation and has taken advantage of the exemption conferred by Financial Reporting Standard 8 'Related party disclosures' not to disclose transactions with Sun Hydraulics Corporation or other wholly owned subsidiaries within the group

## 19 Ultimate parent company and parent undertaking of larger group

The company is a wholly owned subsidiary of Sun Hydraulics Corporation

The largest and smallest group in which the results of the company are consolidated is that headed by Sun Hydraulics Corporation, incorporated in United States of America. The consolidated accounts of this company are available to the public and may be obtained from 1500 West University Parkway, Sarasota, Florida, 34243, USA. No other group accounts include the results of the company

## 20 Capital commitments

	2009 £	2008 £
Contracted but not provided for	-	16,112

# Sun Hydraulics Limited

## Notes forming part of the financial statements for the year ended 2 January 2009 (continued)

### 21 Share-based cash settled payments

During the year the company participated in three share-based payment schemes in respect of certain of its employees, as follows

	Shares to vest at 1 January 2009	Shares vested during the year	Shares granted during the year	Shares to vest at 2 January 2010
Phantom shares	1,422	(1,422)	-	-
Restricted shares	6,593	(2,468)	3,900	8,025

#### *Phantom share scheme*

Assuming the vesting conditions are met, at each vesting date the employees receive an amount equal to the number of phantom shares they have been allocated multiplied by the share price of the ultimate parent company's shares at the vesting date. An amount of £8,095 (2008 £26,534) has been expensed through the profit and loss account in respect of these plans. All remaining shares have vested at the end of the period and no further expense in relation to this scheme will be incurred.

#### *Restricted share scheme*

In 2007 the company's ultimate parent implemented a new restricted share scheme throughout the group to replace the previous phantom schemes shown above. Details of the new scheme are as given below.

The employees receive shares in Sun Hydraulics Corporation ('Sun Corp'), the company's ultimate parent undertaking, at the date of grant. The shares are restricted and should vesting criteria not be met the employees lose the shares granted. One third of the shares granted vest each year over the 3 year vesting period and are able to be sold after this date.

The effect this would have on a knowledgeable, willing market participant's valuation of the shares would be minimal, as the shares are actively traded in a liquid market with virtually all the rights that any other shareholder would have including dividends.

As such, in line with the FRS 20 guidelines the shares deemed value, is equal to the share price at the vesting date, as the impact the transfer restrictions would have is minimal.

A management charge is received from the parent company for the issue of the shares at the date of grant and the charge is split over the vesting period of the shares, with one third split over 12 months, one third over 24 months and one third over 36 months. An amount of £60,350 (2008 £32,498) has been expensed through the profit and loss account in respect of these plans.

#### *Share Incentive Plan*

In 2009, the company activated a Share Incentive Plan (SIP), a scheme approved by HMRC. Under this plan, employees may make regular contributions to a trust which will acquire shares ('Partnership shares') in Sun Corp, on their behalf. The company has committed to match the number of Partnership shares purchased with a contribution to the trust to purchase shares in Sun Corp in a ratio of one for six shares ('Matching shares').

The plan also allows the company to award a number of shares to each employee as an outright award of shares ('Free shares') in Sun Corp. Free shares are awarded to all employees, regardless of their participation in purchasing Partnership shares. All shares awarded by the company are bought at market value at the date of purchase. The Free shares have a 3 year vesting period during which they are held in a trust, with one third vesting over 12 months, one third vesting 24 months and one third vesting over 36 months. Should an employee leave the scheme within the three years, some or all of the Free shares may

# Sun Hydraulics Limited

## Notes forming part of the financial statements for the year ended 2 January 2010 (*continued*)

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### 21 Share-based cash settled payments (*continued*)

be forfeited, depending on the reason for leaving the company

During the year, Free shares were awarded at a purchase price of £232,745. In the prior year, the company accrued £229,730, which the company planned to distribute to employees, given the performance of the company in that year. As the accrual was based on the performance of the company during 2008, the recognition of the accrual was deemed appropriate. Following the activation of the SIP in March 2009, with the vesting conditions noted above, it was concluded that the appropriate accounting treatment was to recognise the charge over the vesting period rather than in the prior year. As a result a prior year adjustment has been recognised to correct the accounting treatment. As a result of this adjustment a deferred tax asset of £64,324 recognised in the prior year was also reversed to ensure the accounting treatment was correct.

An amount of £64,796 has been expensed to the profit and loss account in respect of the Free shares during the year.

In addition, an amount of £5,092 (2008: £Nil) has been expensed through the profit and loss account in respect of Matching shares.