EAO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

Registered number: 00745121

Annual Report and Financial Statements for the Year Ended 31 December 2020

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Directors and Advisers for the Year Ended 31 December 2020

Directors
K Loosli
A Grout
C Starr (Appointed 30 April 2019)
R Humphreys (Appointed 30 April 2019)

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Strategic Report for the Year Ended 31 December 2020

The Directors present their strategic report for the year ended 31 December 2020.

Results
The results for the financial year are set out on page 12.

Business review and principal activities
EAO Limited is the United Kingdom subsidiary of EAO Holding AG, a Swiss based manufacturing company, and is responsible for the marketing and sales of a range of electrical and electro-mechanical components in the United Kingdom, Ireland and Nordic regions.

The results for the business show a profit before taxation of £640,183 (2019: £1,158,507), and turnover of £11,736,082 (2019: £15,571,301). As at 31 December 2020 the company had net assets of £3,987,712 (2019: £4,971,696). Stocks decreased at 31 December 2020 to £1,898,807 (2019: £1,972,613). The cash position at the end of 2020 was £1,989,714 compared to £2,142,585 at year end 2019.

After a 52 year business relationship, Grayhill Inc. terminated its agreement for the company to sell its products in the UK & Ireland with effect from 31 December 2019.

Sales for 2020, were 24.6% less than the 2019 figure. This was mainly due to a reduction of revenue following the termination of the business relationship with Grayhill Inc. and the impact of Covid-19 and Brexit uncertainties for original equipment manufacturing (OEM) customers across industry sectors.

The gross profit percentage in 2020 was 24.8% against 22.5% in 2019. The change was influenced primarily by the mix of sales across the various product types and markets in the business. Distribution and administration costs in 2020 decreased by 2.9% compared to 2019, mainly as a result of savings in discretionary spend due to the covid-19 pandemic.

Future developments
Projections for the business, taking into account, economic and social conditions, future order books, anticipated growth in key business sectors and the introduction of new innovative products, indicate that the company will continue to return positive results in the future.

The Directors strive to improve the level of quality in both products supplied and customer service, and the business processes followed. These are the subject of constant review, and the improvements made enable the business to react positively to the changing demands of our customers.

Brexit
A UK-EU trade agreement was made in December 2020 and came into effect on 1 January 2021. In the period to the signing of these financial statements, Brexit has had no significant impact on the ability of the company to buy and sell within Europe.

Covid-19
The company continued to trade throughout the crisis in all its territories and markets. The business was able to adapt to changing working practices and with strong management and a committed workforce was able to support and deliver to customer requirements in these unprecedented times. The company made claims for Job Retention Scheme grants totalling £12,538 during the year.

The economic and social uncertainty caused by the global pandemic on the business and its staff and that of its customers and suppliers will continue for the foreseeable future.

Strategic Report for the Year Ended 31 December 2020 *(continued)*

Principal risks and uncertainties
The management of the business and the execution of the company's strategy are subject to a number of risks.

The main business risks and uncertainties affecting the company are considered to relate to the ongoing impact of Covid-19, the UK economic climate, and the potential for our customers to sell their products in the world market.

Financial risk management
The company's operations expose it to a variety of financial risks that include the effects of credit risk, exchange rate risk, price risk and liquidity risk.

Credit risk
The company limits its exposure to trade credit risk by establishing and maintaining customer credit limits based on information received from a recognised credit rating agency.

Exchange rate risk
The risk of currency losses arising from exchange rate fluctuations has been substantially reduced by increasing the level of purchasing in local currency. Foreign currency purchases are, to a large extent, matched by receipts from sales in our principal trading currencies, creating a natural hedge.

Price risk
The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The Directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

Liquidity risk
The company has previously maintained a mixture of debt finance including overdraft facilities and group loans, designed to ensure that the company has sufficient available funds for operations and planned expansions. To safeguard and develop future business operations, the principal potential source of financing remains as funds advanced from group undertakings. As at 31 December 2020 there are no group loans in place (31 December 2019: £nil).

Strategic Report for the Year Ended 31 December 2020 *(continued)*

Key Performance Indicators (KPI's)
The Management Team, comprising of UK based Directors, are working with KPI's in the form of a Balanced Scorecard. This is reviewed regularly to assist in the understanding of the development and performance of the business. The KPI's reviewed are wide ranging and include earnings before interest and tax, book to bill ratios, customer service (including delivery reliability and customer complaints), inventory turns and debtor days.

Two of the main KPI's considered by the management team are:

KPI comparisons;	**2020**	2019
Earnings before interest & tax (% of sales)	**5.4%**	7.5%
Inventory turns (cost of goods sold/average monthly inventory)	4.6	5.3

1) EBIT mainly impacted by reduced turnover
2) Inventory turns impacted by reduced inventory levels.

By order of the Board

Chris Starr
Finance Director
6 August 2021

Directors' Report for the Year Ended 31 December 2020

The Directors present their report and the audited financial statements of the company for the year ended 31 December 2020.

The following areas are discussed in the strategic report on page 3-5:
Business review and principal activities
Future developments
Principal risks, uncertainties and financial risk management

Dividends
During the year, the Directors recommended and paid £1,500,000 dividends (2019: £800k) to EAO Holding AG. There were no proposed or unpaid dividends at the yearend (2019: £nil).

Directors
The Directors who held office during the year and up to the date of approval of the financial statements, unless otherwise stated, were as follows:

K Loosli
A Grout
C Starr (Appointed 30 April 2019)
R Humphreys (Appointed 30 April 2019)

Directors Indemnities
As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Disclosure of Information to Auditor
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Other Information
An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 3-5.

Independent Auditor
A selection process has been completed and BDO LLP have been selected as the new Statutory Auditors in respect of the year ending 31 December 2021. KPMG LLP intend to resign as Statutory Auditors upon conclusion of the 2020 statutory audit.

By order of the Board

Chris Starr
Finance Director
6 August 2021

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under common 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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAO LIMITED

Opinion

We have audited the financial statements of EAO Limited ("the company") for the year ended 31 December 2020 which comprise the Statement of Income and Retained Earnings, Statement of Financial Position, Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAO LIMITED (CONTINUED)

Fraud and breaches of laws and regulations – ability to detect

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and management as to the Company's high-level policies and procedures to prevent and detect, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that revenue is recorded in the wrong period and the risk that management may be in a position to make inappropriate accounting entries.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of the Company-wide fraud risk management controls

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included unexpected postings to revenue and cash accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAO LIMITED (CONTINUED)

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and employment law, recognising the nature of the Company's activities. Auditing

standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAO LIMITED (CONTINUED)

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true

and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

M Sheppard

Mark Sheppard (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Forest Gate
Brighton Road
West Sussex
RH11 9PT

6 August 2021

Statement of Income and Retained Earnings for the Year Ended 31 December 2020

	Note	2020 £	2019 £
Turnover	2	11,736,082	15,571,301
Cost of sales		(8,821,965)	(12,062,393)
Gross profit		2,914,117	3,508,908
Distribution costs		(549,577)	(589,723)
Administrative expenses		(1,798,623)	(1,829,617)
Other operating income		67,106	73,288
Operating profit	3	633,023	1,162,856
Interest receivable and similar income	6	7,160	7,437
Interest payable and similar expenses	7	-	(11,786)
Profit before taxation		640,183	1,158,507
Tax on profit	8	(124,167)	(240,874)
Profit for the financial year		516,016	917,633
Retained reserves brought forward		4,321,696	4,204,063
Profit for the year		516,016	917,633
Dividends paid	20	(1,500,000)	(800,000)
Retained reserves carried forward		3,337,712	4,321,696

All the activities represent continuing operations in both the current and prior year.

The notes on pages 15 to 29 are an integral part of these financial statements.

Statement of Financial Position as at 31 December 2020

	Note	2020	2019
		£	£
Fixed assets			
Tangible assets	9	197,993	212,130
Intangible assets	10	115,890	86,537
		313,883	298,667
Current assets			
Stocks	11	1,898,807	1,972,613
Debtors	12	2,247,639	2,704,465
Cash at bank and in hand		1,989,714	2,142,585
		6,136,160	6,819,663
Creditors: amounts falling due within one year	13	(2,459,770)	(2,146,086)
Net current assets		3,676,390	4,673,577
Total assets less current liabilities		3,990,273	4,972,244
Provisions for liabilities			
Deferred tax liability	14	(2,561)	(548)
		(2,561)	(548)
Net assets		3,987,712	4,971,696
Capital and reserves			
Called up share capital	15	650,000	650,000
Retained earnings		3,337,712	4,321,696
Total shareholders' funds		3,987,712	4,971,696

The notes on pages 15 to 29 are an integral part of these financial statements.

These financial statements on pages 12 to 29 which comprise the statement of income and retained earnings, statement of financial position, cash flow statement and related notes were approved by the Board on 6 August 2021 and were signed on its behalf by

Chris Starr
Finance Director
Registration number: 00745121

Cash Flow Statement for the Year Ended 31 December 2020

	Note	2020 £	2019 £
Cash flows from operating activities			
Profit for the year		516,016	917,633
Adjustments for:			
Depreciation, amortisation and impairment	9,10	64,288	111,883
Foreign exchange gains		(28,993)	2,571
Interest receivable and similar income	6	(7,160)	(7,437)
Interest payable and similar charges	7	-	11,786
Taxation	8	124,167	240,874
Movement in trade and other debtors	12	456,826	166,726
Movement in stocks	11	73,806	589,903
Movement in trade and other creditors		261,530	240,697
Tax paid		(70,000)	(548,579)
Net cash from operating activities		1,390,480	1,726,057
Cash flows from investing activities			
Interest received	6	7,160	7,437
Acquisition of tangible fixed assets	9	(28,893)	(43,362)
Acquisition of other intangible assets	10	(7,830)	(10,235)
Capitalisation of development expenditure	10	(42,781)	(76,302)
Net cash from investing activities		(72,344)	(122,462)
Cash flows from financing activities			
Interest paid	7	-	(11,786)
Dividends paid	20	(1,600,000)	(800,000)
Net cash from financing activities		(1,600,000)	(811,786)
Net (Decrease)/Increase In Cash & Cash equivalents		(181,864)	791,809
Cash and cash equivalents at 1 January		2,142,585	1,353,347
Effect of movement in exchange rates on cash		28,993	(2,571)
Cash and cash equivalents at 31 December		1,989,714	2,142,585

The notes on pages 15 to 29 are an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2020

1. Accounting policies

General information
EAO Limited is a private company limited by shares and is incorporated and domiciled in United Kingdom. The registration number is 00745121 and the registered office is Highland House, Albert Drive, Burgess Hill, West Sussex, RH15 9TN.

The principal activities of the company are the marketing and sales of a range of electrical and electro-mechanical components in the United Kingdom, Ireland and Nordic regions.

Statement of compliance
The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Summary of significant accounting policies
The principal accounting policies applied in the preparation of these company financial statements are set out below. These policies have been applied consistently in the current and prior year, unless otherwise stated.

Basis of preparation
The financial statements are prepared on a going concern basis under the historical cost convention and are in accordance with the applicable accounting standards.

Going concern
The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides and the anticipated impact of COVID-19 on the operations and its financial resources, the Company will have sufficient funds, and in plausible downside cases funding from its immediate parent company, EAO Holding AG, to meet its liabilities as they fall due for that period.

The company is managed autonomously from the rest of the Group, has no external debt and primarily meets its day to day working capital requirements through short term inter-company trading balances. The short-term inter-company trading balance of £902,350 has 50 days credit terms. For the year ending 31 December 2020, the company made a profit for the financial year of £516,016 and as at 31 December 2020 had net current assets of £3,676,390. The Company has continued to trade profitably during the COVID-19 pandemic whilst monitoring the impact of Covid-19 on its operations. A significant element of the company's activities is supporting key industries, and the company is anticipating a return to positive growth over the following year to 31 December 2021.

Given the uncertain trading environment that results from the impact of COVID-19, management has prepared a plausible downside scenario to 31 December 2022. A proportion of the company's supply chain is manufactured by the Group. These forecasts are dependent upon EAO Holding AG not seeking repayment of the amounts currently due to the group, and providing additional financial support during that period.

Notes *(continued)*

1. Accounting policies *(continued)*

EAO Holding AG has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for support, the Directors acknowledge that there can be no certainty that this support will continue, although at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Foreign currencies
The company's functional and presentation currency is the pound sterling.

Foreign currency transactions are translated into the functional currency using the Group monthly exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income and retained earnings.

Turnover
Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

The company bases its estimate of returns on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The company recognises revenue when (a) at the time goods are delivered to customers, which is when the right to consideration has been earned, the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity.

Government grants
Government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in the periods in which related costs are incurred. Amounts recognised in the profit and loss account are presented under the heading "Other operating income".

1. Accounting policies *(continued)*

Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Employee benefits

The company provides a range of benefits to employees including short-term benefits and employees' personal pension schemes.

Short term benefits

Short term benefits and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Defined contribution pension plans

The company contributes to employees' personal pension schemes. The contributions are recognised as an expense to the statement of income and retained earnings when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

Where the plan is in deficit and where the company has agreed, with the plan, to participate in a deficit funding arrangement the company recognises a liability for this obligation. The amount recognised is the net present value of the contributions payable under the agreement that relate to the deficit. This amount is expensed in profit or loss. The unwinding of the discount is recognised as a finance cost.

Finance costs

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Notes *(continued)*

1. Accounting policies *(continued)*

Taxation
Taxation expense for the period comprises current and deferred tax recognised in the reporting period.

Current tax, including United Kingdom corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is provided on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are temporary differences between profits / (losses) as computed for tax purposes and profits / (losses) as stated in the financial statements which arise because certain items of income and expenditure in the financial statements are dealt with in different years for tax purposes.
Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Tangible fixed assets and depreciation
Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost is defined as the original purchase price plus any costs attributable to bring the asset to its working condition for its intended use.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful economic life, as follows:

Long leasehold land and buildings	2-3% per annum
Plant and machinery	10% - 50% per annum
Fixtures, fittings and equipment	10% - 50% per annum

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Subsequent costs, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in statement of income and retained earnings and included in 'Other operating (losses)/income'.

Notes *(continued)*

1. Accounting policies *(continued)*

At each balance sheet date tangible assets are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset. If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the statement of income and retained earnings.

Intangible assets
Intangible assets are initially recognised at cost. Subsequent to recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed 10 years.

Research and development
Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the Company intends, and has the technical ability and sufficient resources, to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.
Amortisation is charged so as to allocate the cost of intangible assets over their estimated useful lives, using the straight line method:

Development expenditure	5 years
Patent and license costs	5 years

Operating leases
Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Rentals payable under operating leases are charged to the statement of income and retained earnings on a straight-line basis over the lease term.

Rentals receivable under operating leases are credited to other operating income on a straight-line basis over the lease term.

Stocks
Stocks are stated at the lower of cost and estimated selling price less cost to complete and sell. Stocks are recognised as an expense in the period in which the related revenue is recognised. Cost is determined on a first-in, first- out basis. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the stock to its present location and condition. The cost of manufactured finished goods and work in progress includes design costs, raw materials, direct labour and other direct costs and related production overheads (based on normal operating capacity).

At the end of each reporting period stocks are assessed for impairment. If an item of stock is impaired, the identified stock is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

Notes *(continued)*

1. Accounting policies *(continued)*

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, will be shown within borrowings in current liabilities.

Financial instruments
The Company has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets
Basic financial assets, including trade and other debtors and cash and bank balances are initially recognised at transaction price, 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. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. 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 statement of income and retained earnings. 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 statement of income and retained earnings.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities
Basic financial liabilities, including trade creditors and loans from fellow group companies, 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 receipts discounted at a market rate of interest.

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. Accounts 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.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Offsetting
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an 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 to liability simultaneously.

Notes *(continued)*

1. Accounting policies *(continued)*

Distributions to equity holders
Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of income and retained earnings.

Critical accounting estimates, judgements and assumptions
Estimates and judgements are continually evaluated, and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of debtors
The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtors, the ageing profile of debtors and historical experience. See note 12 for the net carrying amount of the debtors.

Stock provision
Stock provision is an estimate calculated in line with the Group Accounting Manual. All items which are created within the last 24 months are valued at 100% of cost. Items which were created before the last 24 months which have a consumption over the last 24 months: The maximum inventory value is defined as being the 3 year consumption (projection of 24 months consumption to 36 months) plus 50% of the 3 year consumption. The remaining quantity is provisioned for. All items which were created before the last 24 months with no consumption over the last 24 months are valued at 0. Specific adjustments can also be made if required.

2. Turnover

All turnover represents the sale of goods. The geographical origin of all sales is the UK. An analysis of turnover by geographical destination is given below:

	2020	2019
	£	£
United Kingdom	8,155,078	10,982,130
Europe	3,443,461	4,127,083
Rest of the World	137,543	462,088
	11,736,082	15,571,301

Notes *(continued)*

3. Expenses and auditor's remuneration

Included in the profit/loss are the following:	2020 £	2019 £
Depreciation of tangible assets	43,030	111,883
Impairment of intangible assets	21,258	-
Operating lease rentals - plant and machinery	42,812	50,545
- land and buildings	14,916	19,134
Commission receivable	(18,978)	(34,523)
Government grants	(12,538)	-
Rents receivable	(35,590)	(38,765)
Exchange (gain)/loss	(28,993)	2,571
Severances	-	7,684

Government grants in the year relate to the Coronavirus Job Retention Scheme. There are no unfulfilled conditions, or any other contingencies attached to the grant.

Auditor's remuneration:

	2020 £	2019 £
Audit of these financial statements	30,000	23,000
Amounts payable by the company's auditor and its associates in respect of:		
Audit related assurance services:		
Taxation compliance services	7,400	7,554
All other services	10,000	-

4. Directors' emoluments

	2020 £	2019 £
Aggregate emoluments	277,984	248,793
Company contributions to pension schemes	15,879	13,081

During the year, three Directors were members of such pension schemes (2019: three). The aggregate of remuneration of the highest paid Director was £149k (2019: £166k) and company pension contributions of £9k (2019: £9k) was made to a money purchase pension scheme on their behalf.

Key management compensation
Key management includes the Directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	2020 £	2019 £
Key management compensation	293,863	292,987

Notes *(continued)*

5. Employees

The average monthly number of employees (including Directors) employed during the year was as follows:

	2020 No.	2019 No.
Administration	3	4
Selling	24	24
	27	28

Employment costs:

	2020 £	2019 £
Wages and salaries	1,021,030	1,014,875
Social security costs	102,130	95,640
Other pension costs	43,369	39,202
	1,166,529	1,149,717

The pension cost represents total pension costs for the year, payable by the company into personal pension plans of its employees, and amounted to £43,369 (2019: £39,202). Contributions of £1,364 were payable at the year-end (2019: £6,087).

6. Interest receivable and similar income

	2020 £	2019 £
Bank interest receivable	7,160	7,437
	7,160	7,437

7. Interest payable and similar charges

	2020 £	2019 £
Bank and other interest payable	-	11,786
	-	11,786

Notes *(continued)*

8. Tax on profit

	2020	2019
	£	£
Current tax:		
Corporation tax	**124,456**	242,607
Adjustment in respect of prior years	**(2,302)**	1,726
Total current tax	**122,154**	244,333
Deferred tax:		
Origination and reversal of timing differences	**2,139**	(2,008)
Adjustment in respect of prior years	**(170)**	(1,451)
Effect of tax rate change on opening balance	**44**	-
Total deferred tax (note 14)	**2,013**	(3,459)
Tax on profit	**124,167**	240,874

Tax assessed for the period is higher (2019: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19.00% (2019: 19.00%) The differences are explained below:

	2020	2019
	£	£
Profit before taxation	**640,183**	1,158,507
Profit multiplied by standard rate of UK Corporation Tax in the UK of 19.00% (2019: 19.00%)	**121,635**	220,116
Effects of:		
Expenses not deductible for tax purposes	**356**	4,602
Other differences	**4,604**	15,645
Reduction in tax rate on deferred tax balances	**44**	236
Adjustment in respect of prior years	**(2,472)**	275
Total tax charge for the year	**124,167**	240,874

Factors affecting future tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 16 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. The UK deferred tax liability as at 31 December 2020 was calculated at 19% (2019: 17%). An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

Notes *(continued)*

9. Tangible assets

	Land and buildings (long leasehold)	Plant and machinery	Fixtures, fittings and equipment	Total
	£	£	£	£
Cost				
At 1 January 2020	519,799	151,538	70,317	741,654
Additions	7,792	21,101	-	28,893
At 31 December 2020	527,591	172,639	70,317	770,547
Accumulated depreciation				
At 1 January 2020	334,500	138,471	56,553	529,524
Charge for the year	24,230	11,547	7,253	43,030
At 31 December 2020	358,730	150,018	63,806	572,554
Net book value at 31 December 2020	168,861	22,621	6,511	197,993
Net book value at 31 December 2019	185,299	13,067	13,764	212,130

Following a review, the period over which the company depreciates the long leasehold land and buildings has been adjusted to 35 years to reflect its expected useful economic life.

10. Intangible assets

	Development Expense	Patent & Licence Costs	Total
	£	£	£
Cost			
At 1 January 2020	76,302	10,235	86,537
Additions	42,781	7,830	50,611
At 31 December 2020	119,083	18,065	137,148
Accumulated amortisation			
At 1 January 2020	-	-	-
Charge for the year	18,681	2,577	21,258
At 31 December 2020	18,681	2,577	21,258
Net book value at 31 December 2020	100,402	15,488	115,890
Net book value at 31 December 2019	76,302	10,235	86,537

Notes *(continued)*

10. Intangible assets *(continued)*

During the year, the company has continued to develop new products for use in the rail market. The first sales of the product will be made in 2021.

Development costs comprise staff costs, machine tooling and the design and testing of prototypes of the new products. Costs have also been incurred in respect of patent protection and license costs for the new product.

11. Stocks

	2020 £	2019 £
Finished goods and goods for resale	**1,898,807**	1,972,613

The amount of stocks recognised as an expense for the year ended 2019 is £8,821,965 (2019: £12,062,393). The write-down of stocks to net realisable value amounted to £171,292 (2019: £44,680).

At 31 December 2019, inventory of £71,768 was held in respect of Grayhill Inc. products. All of this stock has been sold or returned in 2020.

In the opinion of the Directors there is no material difference between the replacement cost of stocks and their balance sheet values.

12. Debtors

	2020 £	2019 £
Trade debtors	**2,032,729**	2,583,032
Amounts owed by group undertakings	**19,369**	39,071
Other debtors	**119,761**	43,919
Prepayments and accrued income	**75,780**	38,443
	2,247,639	2,704,465

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

13. Creditors: amounts falling due within one year

	2020 £	2019 £
Trade creditors	**1,031,379**	661,446
Amounts owed to group undertakings	**921,719**	1,116,672
Corporation tax	**120,807**	68,653
Other taxation and social security	**29,439**	34,650
Accruals and deferred income	**356,426**	264,665
	2,459,770	2,146,086

Notes *(continued)*

13. Creditors: amounts falling due within one year *(continued)*

The amounts owed to parent and fellow subsidiary undertakings are unsecured, interest free and repayable on 50 day credit terms.

14. Deferred tax

Deferred tax liability

	2020 £	2019 £
Accelerated capital allowances	**3,010**	1,583
Other timing differences	**(449)**	(1,035)
Total	**2,561**	548

Movement in the deferred tax in the year	£
Opening deferred tax liability	**548**
Current year movement	**2,013**
Closing deferred tax liability	**2,561**

15. Called up share capital

	Allotted, issued and fully paid			
	2020 **Number**	2019 Number	**2020** **£**	2019 £
Ordinary shares of 10p each	**6,500,000**	6,500,000	**650,000**	650,000

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital. 100% shares are held by parent company EAO Holding AG.

Notes *(continued)*

16. Operating lease commitments

The company, as a lessee, had the following future minimum lease payments under non-cancellable operating leases at 31 December as set out below:

	Land and buildings		Other	
	2020	2019	**2020**	2019
	£	£	**£**	£
Less than one year	**14,916**	14,916	**32,683**	30,573
Between one and five years	**59,664**	59,664	**15,613**	23,775
More than five years	**790,548**	805,464	**4,044**	-
	865,128	880,044	**52,340**	54,348

The company, as a lessor, had the following future minimum lease receivables under non-cancellable operating leases at 31 December as set out below:

	Land and buildings	
	2020	2019
	£	£
Less than one year	**39,900**	33,716
Between one and five years	**12,825**	11,232
	52,725	44,948

17. Contingent liabilities

The company had a bank overdraft facility of £100,000 as at 31 December 2019 secured by a charge over the company's assets. The overdraft facility was removed on 25 February 2020.

18. Ultimate parent undertaking and controlling party

EAO Holding AG, Tannwaldstrasse 88, Postfach, CH-4601 Olten Switzerland, incorporated in Switzerland, is the immediate parent company.

The Directors regard Loosli Holding AG, Tannwaldstrasse 88, Postfach, CH-4601 Olten Switzerland, a company incorporated in Switzerland, as the ultimate parent undertaking.

The parent undertaking of the largest and smallest group of undertakings for which group financial statements are prepared, and of which the company is a member, is EAO Holding AG.

These financial statements are not available to the public.

The ultimate controlling party is the Loosli family.

Notes *(continued)*

19. Related party transactions

As a wholly owned subsidiary, the company is exempt under the terms of Section 33.1A of FRS 102 "Related party disclosures", from disclosing related party transactions with entities that are wholly owned within the EAO Holding AG group. No other related party transactions have occurred in the year (2019: £nil) or remain outstanding at year end (2019: £nil).

Refer to note 4 for disclosures on Directors' remuneration and key management compensation.

20. Dividends

	2020 £	2019 £
Equity - ordinary		
Interim dividend paid: 23.1p (2019: 12.3p) per 10p share	**1,500,000**	800,000

21. Financial Instruments

The carrying amount of the financial instruments include:

	2020 £	2019 £
Assets measured at amortised cost		
Trade debtors	**2,032,729**	2,583,032
Amounts owed by group undertakings	**19,369**	39,071
Other debtors	**119,761**	43,919
Liabilities measured at amortised cost		
Trade Creditors	**1,031,379**	661,446
Amounts owed to group undertakings	**921,719**	1,116,672
Corporation Tax	**120,807**	68,653
Accruals	**356,426**	264,665
Other tax and social security	**29,439**	34,650