

Pirtek (UK) Limited

Annual report and financial statements

Registered number 02301810

For the year ended 31 March 2023

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Contents

Strategic report	1
Directors' report	5
Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements	7
Independent auditor's report to the members of Pirtek (UK) Limited	8
Profit and loss account and other comprehensive income	12
Balance sheet	13
Statement of changes in equity	14
Notes	15

Strategic report

Business overview

The Company supports a franchisee network of 86 centres supported by more than 300 mobile service vehicles.

The principal activity of the network itself is the delivery of time-sensitive, on-site hydraulic hose replacement services, supported by trade counters. The network also offers planned and preventative services to keep customers' hydraulic equipment running, avoiding costly downtime.

Pirtek outperformed expectations during this year with sales of £22.5m (2022: £19.3m). With restrictions reduced since the pandemic, the business has seen a steady increase in the number of daily jobs within the franchisee network.

Performance

The business continued to perform well during the year providing service to customers in various sectors including waste management, construction, food production, logistics and manufacturing from its network of mobile service vehicles and 86 centres.

The directors attribute the resilience to the Company's strong competitive position to the following:

- the strength of one-hour mobile service and product offering;
- excellent geographic coverage;
- long term end-customer relationships;
- industry leading staff training; and
- strong network of franchisees and dedicated employees.

The Company supported its franchisees through the Covid 19 pandemic and used many of the lessons learned through those difficult times to ensure that its franchisees and owned businesses had the levels of stock required to ensure that end customers received the high levels of service, which they expect from Pirtek. Although uncertainties remain due to both Covid 19 and the war in Ukraine, the directors of the Company are optimistic for the prospects of the group given the good performance in the current year.

Business environment

The emergency hydraulic hose replacement market across the United Kingdom and Ireland is diverse due to the wide range of industries demanding the service. The demand for a time-sensitive maintenance solution is of greater importance in sectors with high labour costs, well-evolved customer service standards and where equipment downtime costs greatly outweigh the costs of the Pirtek service.

Therefore, the core offering of the Pirtek solution is:

1. Rapid response – aim within 1 hour;
2. Quality product – hoses and fittings usually required for high value capital items are of the highest quality;
3. Nationwide support – ability to resolve problems across a clear geographical area; and
4. Range – having the appropriate product items available at very short notice.

Strategy and future development

A mature network is in place which results in the need to maximise revenues per franchise location by adding products and services wherever possible.

Strategic report *(continued)*

Key performance indicators

The Company uses a range of performance measures to monitor and manage the business effectively. The most significant of these are the financial key performance indicators (KPIs).

The KPIs are turnover, gross profit and earnings before interest, tax, depreciation and amortisation (EBITDA). These KPIs indicate the volume and the profitability of work the company has undertaken.

The KPIs for the year ended 31 March 2023, with comparatives for the year ended 31 March 2022, are set out below:

	2023 £000	2022 £000
Turnover	22,461	19,306
Gross profit	15,203	13,233
Gross profit (%)	67.7%	68.5%
EBITDA*	861	874
Adjusted EBITDA**	8,863	7,292

* EBITDA equates to operating profit before amortisation and depreciation.

** Adjusted EBITDA equates to *EBITDA before those items management consider to be non-recurring in nature and transfer pricing charge from parent company.

Principal risks and uncertainties

As the company is party to a cross guarantee in respect of borrowings by Hydraulic Authority III Limited described in Note 19, its liquidity is intrinsically linked with the performance of the Hydraulic Authority I Limited group of companies (The Group), of which it is a member.

The Group proved its resilience during the pandemic and has done so once again through the supply chain issues cause by the war in Ukraine. The directors are confident of the Group's ability to offer excellent service to our customers and expect to see continued improvement in performance this year provided Covid conditions do not worsen and the war in Ukraine does not escalate. The Directors note the inflationary pressures in European economies but feel the critical nature of our services mean the business will help to insulate it from any negative impacts. Business with the larger customers who value national coverage and service excellence is particularly strong. The Group continued to focus on cash management and carefully monitored expenditure and remained within its banking covenants throughout the year.

The Group is exposed to the general economic conditions in each of the countries it operates as well as the performance of specific sectors. However, the number of countries, range of sectors as well as the number and varying sizes of end customer provide a high level of overall resilience.

Financial risk

The Group relies on both equity and debt finance to fund the Group's activities. The Group relies on its financial counterparties to provide various facilities such as its term loan and revolving credit facility. Failure of financial counterparties to provide such services could have a material effect on the Group, therefore the debt funding position is closely monitored.

Strategic report *(continued)*

Principal risks and uncertainties *(continued)*

Financial risk (continued)

During 2020, the Group started to feel the impact of the coronavirus pandemic which has continued to impact countries and companies across the world to varying degrees. This negatively impacted the operating results of the Group and introduced greater uncertainty regarding the Group's financial projections for trading and liquidity. The war in Ukraine added to some of the Covid related supply chain issues but the group successfully managed it's way through the challenges by acting quickly to identify potential problems and using its long term relationships with key suppliers to ensure it had sufficient levels of stock to supply customers and franchises. The effects of the Covid 19 and the Ukraine war have eased greatly but both could so in the short to medium term the key operating and financial risks to the Group could include:

- reduction in end customer demand, and as a result reduction in revenues and cash flows;
- franchisee settlement terms being extended, re-negotiated or certain debts being deemed irrecoverable;
- impact on service delivery from franchisee and own staff absence due to sickness;
- disruption to the supply chain and delivery of product to franchisees and end customers; and
- supplier manufacturing facilities suffering from staff absence due to sickness or having enforced social distancing rules and the resultant impact on product supply.

Management continually monitor the impact of the above challenges with a particular focus on ensuring sufficient products available to meet customer demand for our services,

The directors have reviewed cash flow forecasts prepared by management covering a period of more than 12 months from the date of approval of these financial statements. These cash flow forecasts indicate that in a downside scenario based on reduced growth the Company will have sufficient funds to meet its liabilities as they fall due during 12 month period from the date of.

Currency risk

The Company has exposure to translation and transaction foreign exchange risk, which it manages through forward planning of purchasing and assessing on-going exposure to movements in foreign exchange.

Credit risk

The Company's principal credit risk relates to the recovery of amounts owed by franchisees. In order to manage credit risk, debt aging and collection history are reviewed on a regular basis. Debts are actively pursued by the credit control departments in each country.

Liquidity risk

Current and projected working capital demand is reviewed in conjunction with existing financing facilities to determine cash requirements as part of the routine reporting process.

As discussed in the financial risk section, ongoing liquidity is dependent on Group performance following the impact of the coronavirus pandemic and the Directors' ability to take mitigating actions should they be required.

Strategic report *(continued)*

Principal risks and uncertainties *(continued)*

Cash flow risk

The Group's operations are cash generative and not capital intensive. Management continually monitor interest rate and liquidity risk and prepare cash flow forecasts on a regular basis to monitor its ability to repay capital and interest as it falls due.

Approved and signed on behalf of the Board on 25th July 2023.



C Stuckey
Director
Ashwood Court Springwood Close,
Tytherington Business Park,
Macclesfield, England,
SK10 2XF

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2023.

Results and dividends

The statement of comprehensive income is set out on page 12 and shows the profit for the year of £701,012 (2022: £732 633).

No dividend has been declared or settled during the year (2022: £Nil).

Principal activities

The Company supports the network of UK franchisees through the supply of products and services. The principal activity of the network itself is the delivery of time-sensitive, on-site hose replacement services.

Financial risk management objectives and policies

The Company has various financial instruments including cash and trade debtors and creditors that arise directly from its operations.

The main risks arising from the Company's financial instruments are currency risk, credit risk, interest rate risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are outlined in the Strategic Report on pages 1 to 4.

Going concern

Pirtek UK Limited is a trading company of the group headed up by Hydraulic Authority 1 Limited.

Following an acquisition on 21 April 2023, the company and its subsidiaries (the Group) are a subsidiary of the Group headed by Franchise Brands PLC (the Franchise Brands Group), the Company no longer forms part of a cross guarantee in respect of borrowings by Hydraulic Authority III Limited. The Company meets its day to day working capital requirements from cash generated from operations. The directors have prepared cash flow forecasts for the Company and performed a going concern assessment which indicates that, in both the base and reasonably possible downsides scenarios the Company will have sufficient funds to meet its liabilities as they fall due during 12 month period from the date of signing ("the going concern assessment period").

The base case scenario contains original budget data, including key assumptions related to sales growth, margin and cost inflation, which has been updated to reflect the financing arrangements of the group following the sale to Franchise Brands PLC. The forecasts include severe but plausible downside scenarios such as reduction in franchisee sales, and slower than forecast growth in sales.

Taking the above into consideration, and the principal risks identified on page 3, 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.

Directors' report *(continued)*

Directors

The directors of the company during the year were:

A Burrows
P J Dunlop
C S Falla
K Hardy
S R Martin
A S McNutt
A J Richards
D Seetahul
C Stuckey

Qualifying third party indemnity provisions

The company has arranged qualifying third-party indemnity insurance for all of its directors.

Post Balance Sheet Event

On the 21 April 2023, Franchise Brands PLC purchased the Hydraulic Authority I Group for £200m plus a working capital adjustment of £12.2m. Following the acquisition, the Hydraulic Authority III bank loans were settled and replaced with intercompany borrowings with the Franchise Brands Group.

Auditor

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 auditor for the purposes of its audit and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information of which the auditor is unaware.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

Approved and signed on behalf of the Board on 25th July 2023.



C Stuckey

Director

Ashwood Court Springwood Close,
Tytherington Business Park,
Macclesfield, England,
SK10 2XF

Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

The directors are responsible for preparing the Annual Report, 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 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 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 related 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 Pirtek (UK) Limited

Opinion

We have audited the financial statements of Pirtek (UK) Limited ("the company") for the year ended 31 March 2023 which comprise the Profit and loss account and other comprehensive income, Balance Sheet, Statement of changes in equity 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 March 2023 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.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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 as to the Company's high-level policies and procedures to prevent and detect fraud, 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.

Independent auditor's report to the members of Pirtek (UK) Limited

(continued)

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 the post year end sale of the Group, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the opportunity to misstate revenue is deemed remote due to the nature of the revenue recognised.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included unexpected account pairings with revenue, cash and borrowings and specific words.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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 and 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.

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, data protection laws, anti-bribery 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 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.

Independent auditor's report to the members of Pirtek (UK) Limited

(continued)

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.

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.

Independent auditor's report to the members of Pirtek (UK) Limited
(continued)

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.

Rob Andrews

Rob Andrews (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

8 August 2023

Profit and loss account and other comprehensive income
for the year ended 31 March 2023

	<i>Note</i>	2023 £	2022 £
Turnover	3	22,460,986	19,306,110
Cost of sales		(7,257,630)	(6,073,528)
Gross profit		15,203,356	13,232,582
Administrative expenses		(14,756,428)	(12,684,752)
Other operating income		305,843	244,237
Operating profit	4	752,771	792,067
Interest receivable and similar income	7	98,242	125,408
Interest payable and similar charges	8	-	(1,643)
Profit on ordinary activities before taxation		851,013	915,832
Taxation on profit on ordinary activities	9	(150,001)	(183,199)
Profit for the financial year		701,012	732,633

There was no other comprehensive income in the current or preceding year. Comprehensive income comprises the profit for the current and preceding financial year.

All amounts relate to continuing operations.

The accompanying notes form part of the financial statements.

Balance sheet
at 31 March 2023

	Note	2023 £	2023 £	2022 £	2022 £
Fixed assets					
Tangible fixed assets	10		466,728		315,357
Current assets					
Stocks	11	1,387,075		1,580,790	
Debtors	12	6,762,294		7,749,023	
Cash at bank and in hand		2,822,110		1,310,371	
Current Asset Investment		145,454		82,219	
		<u>11,116,933</u>		<u>10,722,403</u>	
Creditors: Amounts falling due within one year	13	<u>(3,383,014)</u>		<u>(3,540,627)</u>	
Net current assets			<u>7,733,919</u>		<u>7,181,776</u>
Total assets less current liabilities			<u>8,200,647</u>		<u>7,497,133</u>
Creditors: Amounts falling due after more than one year	14		<u>(29,450)</u>		<u>(60,705)</u>
Provision for liabilities					
Deferred tax liabilities	16		<u>(85,547)</u>		<u>(51,790)</u>
Net assets			<u>8,085,650</u>		<u>7,384,638</u>
Capital and reserves					
Called up share capital	17		150,000		150,000
Profit and loss account			<u>7,935,650</u>		<u>7,234,638</u>
Shareholders' funds			<u>8,085,650</u>		<u>7,384,638</u>

The accompanying notes form part of the financial statements.

These financial statements were approved by the board of directors on 25th July 2023 and were signed on its behalf by:



C S Falla
Director

Company registered number: 02301810

Statement of changes in equity

	Called up share capital £	Profit and loss account £	Total £
Balance at 1 April 2021	150,000	6,502,005	6,652,005
Comprehensive income for the year			
Profit for the year	-	732,633	732,633
Deemed distribution cancelled	-	-	-
Balance at 31 March 2022	150,000	7,234,638	7,384,638
Balance at 1 April 2022	150,000	7,234,638	7,384,638
Comprehensive income for the year			
Profit for the year	-	701,012	701,012
Deemed distribution cancelled	-	-	-
Balance at 31 March 2023	150,000	7,935,650	8,085,650

The accompanying notes form part of the financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Pirtek (UK) Limited (the Company) is a company limited by shares, incorporated in the United Kingdom under the Companies Act and is registered in England & Wales. The Company's registered number is 02301810 and the registered address is Ashwood Court Springwood Close, Tytherington Business Park, Macclesfield, England, SK10 2XF.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102), the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland, and the Companies Act 2006. The presentation currency of these financial statements is sterling.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 2).

The Company's parent undertaking, Hydraulic Authority I Limited includes the Company in its consolidated financial statements. The consolidated financial statements of 31 March 2022 are prepared in accordance with the Financial Reporting Standard 102 (FRS 102) and are available to the public and may be obtained from Companies House. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Hydraulic Authority I Limited include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

1.1 Going concern

Pirtek UK Limited is a trading company of the group headed up by Hydraulic Authority I Limited.

Following an acquisition on 21 April 2023, the company and its subsidiaries (the Group) are a subsidiary of the Group headed by Franchise Brands PLC (the Franchise Brands Group), the Company no longer forms part of a cross guarantee in respect of borrowings by Hydraulic Authority III Limited. The Company meets its day to day working capital requirements from cash generated from operations. The directors have prepared cash flow forecasts for the Company and performed a going concern assessment which indicates that, in both the base and reasonably possible downsides scenarios the Company will have sufficient funds to meet its liabilities as they fall due during 12 month period from the date of signing ("the going concern assessment period").

The base case scenario contains original budget data, including key assumptions related to sales growth, margin and cost inflation, which has been updated to reflect the financing arrangements of the group following the sale to Franchise Brands PLC. The forecasts include severe but plausible downside scenarios such as reduction in franchisee sales, and slower than forecast growth in sales.

Taking the above into consideration, and the principal risks identified on page 3, 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.

Notes (continued)

1 Accounting policies (continued)

1.2 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the Group entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance income or costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other operating income'.

1.3 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the entity to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the entity; and
- where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.4 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price plus attributable transaction costs. Trade and other creditors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.5 Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Notes (continued)

1 Accounting policies (continued)

1.5 Tangible fixed assets (continued)

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.14 below.

Depreciation on assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Leasehold improvements, fixtures and fittings	-	5 years
IT systems and office equipment	-	5 years
Plant and machinery	-	5 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

1.6 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 periods in which the related costs are incurred. Amounts recognised in the profit and loss are presented under the relevant heading within profit and loss account.

1.7 Stock

Stock is stated at the lower of cost and net realisable value being the estimated selling price less costs to complete and sell. The cost of goods for resale is based on an average cost basis.

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

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

1.8 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes (continued)

1 Accounting policies (continued)

1.9 Employee benefits

Defined contribution plans and other long-term employee benefits A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.10 Revenue

Revenue represents the amounts derived from the provision of product sales and services which fall within the Group's ordinary activities and is stated net of value added tax and trade discounts.

The Group's policy is to recognise a sale when substantively all the risks and rewards in connection with the products have been passed to the buyer. Licence fees, business development fees and the recharge of other services are recognised after the services have been provided.

1.11 Leasing arrangements

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 profit or loss over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term 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 profit or loss on a straight-line basis over the term of the lease.

1.12 Interest receivable and Interest payable

Interest payable and similar expenses include interest payable, finance expenses 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 entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes (continued)

1 Accounting policies (continued)

1.13 Taxation (continued)

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.14 Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the group's accounting policies outlined above, the directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and so actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors do not consider that there have been any key assumptions made concerning the future end other key sources of estimation in certainty at the balance sheet date which may cause material adjustment to the carrying amount of assets or liabilities within the next financial period.

3 Analysis of turnover

Analysis of turnover by country of destination is as follows:

	2023 £	2022 £
United Kingdom	21,094,308	18,470,692
Overseas (including Republic of Ireland)	1,366,678	835,418
	<u>22,460,986</u>	<u>19,306,110</u>

Notes (continued)

3 Analysis of turnover (continued)

Analysis of turnover by business segment is as follows:

	2023 £	2022 £
Sales of goods	7,413,401	6,541,210
Rendering of services	15,047,585	12,764,900
	<u>22,460,986</u>	<u>19,306,110</u>

4 Operating profit

	2023 £	2022 £
<i>This is arrived at after charging:</i>		
Depreciation of tangible fixed assets	108,338	82,163
Fees payable to the company's auditor for the audit of the company's annual accounts	76,645	51,972
Fees payable to the company's auditor for non-audit services	38,345	15,728
Exchange gains/(losses)	32,548	(15,594)
Operating lease expense rentals	367,864	338,479
Pension costs	87,073	95,215
	<u>690,773</u>	<u>602,957</u>

5 Employees

	2023 £	2022 £
<i>Staff costs (including directors) consist of:</i>		
Wages and salaries	3,195,897	2,932,851
Social security costs	378,980	413,014
Cost of defined contribution scheme	87,073	95,215
	<u>3,661,950</u>	<u>3,441,080</u>

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

	2023 Number	2022 Number
Management	7	7
Sales and marketing	33	28
Distribution and service	15	13
Administrative staff including finance	12	10
	<u>67</u>	<u>58</u>

Notes (continued)

6 Directors

	2023 £	2022 £
<i>Directors' remuneration consists of:</i>		
Directors' emoluments	753,745	695,911
Company contributions to money purchase pension schemes	79,338	86,847
	<u>833,083</u>	<u>782,758</u>
<i>Highest paid director:</i>		
Emoluments	250,278	239,626
Company contributions to money purchase pension schemes	23,048	30,932
	<u>273,326</u>	<u>270,558</u>

The number of directors who are accruing benefits under pension schemes were as follows:

	Number	
Money purchase schemes	4	5
	<u>4</u>	<u>5</u>

7 Interest receivable and similar income

	2023 £	2022 £
Intercompany interest receivable	98,242	125,408
	<u>98,242</u>	<u>125,408</u>

8 Interest payable and similar charges

	2023 £	2022 £
Intercompany interest payable	-	1,643
	<u>-</u>	<u>1,643</u>

Notes (continued)

9 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2023 £	2022 £
<i>UK corporation tax</i>		
Current tax on profits of the year	103,362	146,189
Prior period tax	12,882	-
Total tax	116,244	146,189
<i>Deferred tax</i>		
Origination/reversal of timing differences	25,656	31,700
Adjustment in respect of prior periods	-	488
Effect of tax rate change on opening balance	8,101	4,822
Total deferred tax charge	33,757	37,010
Tax on profit on ordinary activities	150,001	183,199

Reconciliation of current tax charge

The tax assessed for the year is different to the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

	2023 £	2022 £
Profit on ordinary activities before tax	851,013	915,832
Profit on ordinary activities at the standard rate of corporation tax in the UK at 19%	161,692	174,008
<i>Effects of:</i>		
Fixed asset differences	(13,191)	-
Expenses not deductible for tax purposes	34,627	7,489
Depreciation of assets not eligible for capital allowances	-	(9,954)
Income not taxable for tax purposes	(54,111)	(1,261)
Group relief claimed	-	-
Adjustments to tax charge in respect of prior periods	12,882	-
Adjustments to tax charge in respect of prior periods – deferred tax	-	488
Remeasurement of deferred tax for changes in tax rates	8,102	12,429
Total tax debit for the year	150,001	183,199

Factors that may affect future current and total tax charges

In the 3 March 2022 Budget, it was announced that the UK tax rate will increase from 19% to 25% from 1 April 2023. The impact of the rate change on the deferred tax liability is not considered significant. The deferred tax liability at 31 March 2023 has been calculated at 25% (2022: 25%).

Notes (continued)

10 Tangible fixed assets

	Leasehold improvements, fixtures and fittings £	IT systems and office equipment £	Plant and machinery £	Total £
Cost				
At beginning of year	263,275	1,447,249	136,780	1,847,304
Additions	-	259,709	-	259,709
Disposals	-	-	-	-
At end of year	263,275	1,706,958	136,780	2,107,013
Depreciation				
At beginning of year	263,062	1,166,999	101,886	1,531,947
Charge for the year	213	95,104	13,021	108,338
Disposals	-	-	-	-
At end of year	263,275	1,262,103	114,907	1,640,285
Net book value				
At 31 March 2023	-	444,855	21,873	466,728
At 31 March 2022	213	280,250	34,894	315,357

11 Stock

	2023 £	2022 £
Finished goods and goods for resale	1,387,075	1,580,790

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

Finished goods and goods for resale recognised as cost of sales in the year amounted to £6,339,305 (2022: £5,321,786). The write-down of stocks to net realisable value amounted to £33,749 (2022: £6,787). The write-down and reversal are included in cost of sales.

12 Debtors

	2023 £	2022 £
Trade debtors	3,731,665	3,455,375
Amounts owed by group undertakings	104,262	2,477,611
Other debtors	745,521	151,427
Prepayments and accrued income	2,150,771	1,664,610
Corporation tax asset	30,075	-
	6,762,294	7,749,023

Notes (continued)

13 Creditors: Amounts falling due within one year

	2023 £	2022 £
Trade creditors	1,359,827	1,523,869
Corporation Tax Liability	-	16,149
Taxation and social security	459,419	403,263
Accruals and deferred income	1,440,553	1,513,316
Other creditors	91,960	52,775
Finance lease creditor (see note 15)	31,255	31,255
	<u>3,383,014</u>	<u>3,540,627</u>

14 Creditors: Amounts falling due after more than one year

	2023 £	2022 £
Finance lease creditor (see note 15)	29,450	60,705
	<u>29,450</u>	<u>60,705</u>

15 Other Interest-bearing loans and borrowings

Finance lease liabilities

Finance lease liabilities are payable as follows:

Group	Minimum lease payments 2023 £	Minimum lease payments 2022 £
Less than one year	31,255	31,255
Between one and five years	29,450	60,705
	<u>60,705</u>	<u>91,960</u>

16 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Asset		Liabilities		Net	
	2023 £	2022 £	2023 £	2022 £	2023 £	2022 £
Accelerated capital allowances		-	(89,785)	(54,178)	(89,785)	(54,178)
Employee benefits	4,238	2,388	-	-	4,238	2,388
	<u>4,238</u>	<u>2,388</u>	<u>(89,785)</u>	<u>(54,178)</u>	<u>(85,547)</u>	<u>(51,790)</u>
Net tax asset / (liabilities)	4,238	2,388	(89,785)	(54,178)	(85,547)	(51,790)

Notes (continued)

17 Share capital

	2023 £	2022 £
<i>Allotted, called up and fully paid:</i>		
Ordinary shares of £1 each	150,000	150,000

18 Commitments under operating leases

As at 31 March 2023, the company had minimum lease payments under non-cancellable operating leases as set out below:

	2023 £	Other 2022 £
Less than one year	381,627	281,224
Between one and five years	480,239	346,509
	<u>861,866</u>	<u>627,733</u>

19 Contingencies

As at 31 March 2023, the company is party to a cross guarantee in respect of £47,838,381 in funded and £5,000,000 unfunded borrowing due to Golub Capital LLC, secured by the net assets of its investments in Hydraulic Authority III Limited and its subsidiaries.

At the balance sheet date, and at the date that the reports were signed, Hydraulic Authority III Limited had fulfilled all of its obligations under the terms of the loan. The company does not expect to have to make any payments in respect of this guarantee.

Hydraulic Authority III Limited is a direct subsidiary of Hydraulic Authority I Limited (see note 21).

20 Related parties

The company has taken advantage of the exemption under FRS 102 section 33 paragraph 1A from disclosing transactions with wholly owned group entities.

21 Ultimate controlling party and immediate parent company

The immediate parent undertaking of the company is Pirtek Europe Limited. The company is an indirect subsidiary of Hydraulic Authority I Limited, a company incorporated in the United Kingdom, which is the parent of both the smallest and largest groups in which the company's results are consolidated.

Copies of the consolidated financial statements of Hydraulic Authority I Limited are available from Companies House.

At 31 March 2023, PNC Capital Finance, LLC is considered the ultimate controlling party.

22 Post Balance Sheet Event

On the 21 April 2023, Franchise Brands PLC purchased the Hydraulic Authority I Group for £200m plus a working capital adjustment of £12.2m. Following the acquisition, the Hydraulic Authority III bank loans were settled and replaced with intercompany borrowings with the Franchise Brands Group.

Notes (continued)

23 Principal investments

The company holds the share capital of the following:

	Country of incorporation	Class of share	% of share capital held	Nature of business
Directly owned				
CSK Hydraulics Limited	United Kingdom	Ordinary	100%	Non-Trading
CSS Hydraulics Limited	United Kingdom	Ordinary	100%	Non-Trading
CSY Hydraulics Limited	United Kingdom	Ordinary	100%	Non-Trading
CST Hydraulics Limited	United Kingdom	Ordinary	100%	Non-Trading

The registered office of all of the Company's subsidiaries is Ashwood Court Springwood Close, Tytherington Business Park, Macclesfield, England, SK10 2XF.

On 3rd March 2023, the company sold 100% of the share capital of CH Hydraulics Limited to a new franchisee.