

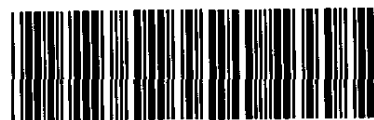
PEARSON HYDRAULICS LIMITED

UNAUDITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 9 MONTH PERIOD ENDED 30 SEPTEMBER 2022

THURSDAY



AC4A@WP5

A15

25/05/2023

#106

COMPANIES HOUSE

PEARSON HYDRAULICS LIMITED

COMPANY INFORMATION

Directors	Richard James Davies Alessandro Lala Howard Roger Morrell Richard Derek Dring
Company secretary	John Morrison
Registered number	00809034
Registered office	10 - 11 Charterhouse Square London EC1M 6EE

PEARSON HYDRAULICS LIMITED

CONTENTS

	Page
Strategic Report	1 - 3
Directors' Report	4
Directors' Responsibilities Statement	5
Profit and Loss Account	6
Balance Sheet	7 - 8
Statement of Changes in Equity	9
Notes to the Financial Statements	10 - 24

PEARSON HYDRAULICS LIMITED

STRATEGIC REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2022

Principal activity and future developments

The principal activity of the Company continued to be the manufacture, supply and distribution of specialist industrial parts and equipment. The Directors anticipate these activities to continue for the foreseeable future.

Business review and principal risks and uncertainties

The Company is managed as part of an overall group of companies whose ultimate parent company is Diploma PLC ("the Group"), following the acquisition during the period of its immediate parent company R&G Fluid Power Group Limited. The accounting period has been reduced to 9 months following the acquisition to align with the Group's year end.

The Directors report revenue for the 9 month period ended 30 September 2022 of £7,591,000 (Year ended 31 December 2021: £8,741,000) and a decrease in profit before tax from £1,145,000 to £963,000. The Profit and Loss Account shows profit for the 9 month period of £864,000 (Year ended 31 December 2021: £1,034,000). The net assets as at 30 September 2022 were £3,962,000 (31 December 2021: £3,975,000).

The financial statements have been prepared in accordance with Financial Reporting Standard 102 ("FRS 102").

The principal risks and uncertainties of the Company are integrated with the principal risks and uncertainties of the Group and are not managed separately.

The continued success of the Company is the ability to identify and manage effectively the risks to the business. Accordingly, in common with the Group generally, the Company has well-defined, rigorous policies and processes designed to identify, mitigate and control risk.

The primary risks that have the potential to adversely impact on our business over the next twelve months are considered to be as follows:

- Downturn/instability in major markets: Adverse changes in the major markets in which the Company operates can have a significant impact on performance. The Company identifies key market drivers and monitors the trends and forecasts, as well as maintaining close relationships with key customers.
- Loss of key customers - the loss of one or more major customers can be a material risk. The nature of the Group's businesses is such that there is not a high level of dependence on any individual customer.
- Loss of key personnel - the Company is built upon a strong management team and the loss of key personnel can have an impact on the company. The company places high importance on developing and rewarding key employees to help in mitigating this risk.
- Inventory obsolescence - working capital management is critical to the success of the Company and the principle risk to working capital is inventory obsolescence and write-off. Inventory write-offs are controlled and managed by maintaining an appropriate inventory provision policy and perpetual inventory counts.

The Group manages its funding and liquidity risks on a consolidated basis, as referred to in the accounting policies. Full disclosure of the Group's financial risk management policies are set out in the consolidated financial statements of Diploma PLC which are prepared under International Financial Reporting Standards.

PEARSON HYDRAULICS LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2022

Financial key performance indicators

The Directors monitor and manage the performance of the Company assisted by the production of detailed monthly management reports containing a number of key financial and non financial measures including turnover, profit margins, working capital levels and cash flows.

The matters required to be discussed in the Business Review, which include the key performance indicators and principal risks and uncertainties, are set out in the Annual Report & Accounts of Diploma PLC on pages 82 to 88. A copy of this is available on the website at www.diplomaplc.com or can be obtained from the Group Company Secretary, Diploma PLC, 10-11 Charterhouse Square, London, EC1M 6EE.

Going Concern

At 30 September 2022, the Company had net assets of £3,962,000 (At 31 December 2021: £3,975,000). The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The going concern position of the Company is linked to that of the wider Group due to the cross guarantees on financing given by a number of Group companies as well as the provision of a letter of financial support from the ultimate parent company, Diploma PLC in respect of the going concern status of various Group companies.

The Group's balance sheet is strong and working capital is well controlled. On 13 October 2020, the Group entered into a debt facility agreement (SFA) which comprised a three-year term loan for an aggregate principal amount of £136.0m (\$170.0m) and a committed multi-currency revolving facility for an aggregate principal amount of £135.0m, which was increased to £185.0m during the previous financial year.

During the year the Group has amended the SFA to increase the total facility size. As at 30 September 2022, the SFA comprises a committed multi-currency revolving facility for an aggregate principal amount of £359.7m, an amortising term loan for an aggregate principal amount of £114.2m (\$127.5m), a bullet term loan for an aggregate principal amount of £59.1m (\$66.0m) and a further bullet term loan for an aggregate principal amount of £45.3m. The SFA is due to expire in December 2024 and there is an option to extend for a further 12-month period.

The Group's debt facilities are subject to interest at variable rates. During the year, the Group entered into interest rate swap contracts with the effect of fixing the interest rate on \$100m (£89.6m) of debt. The effective fixed rate debt was 24% as a proportion of total debt. Subsequent to the year end, the Group entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional \$100m of debt.

At 30 September 2022, the Group's Net Debt/EBITDA was 1.4x, and year end headroom was £204m. The Group continues to operate against a backdrop of macroeconomic disruption, including widespread global inflation, rising interest rates and the continued uncertainty of the Covid-19 pandemic, in particular its lasting impact on global supply chains. Accordingly, the Directors have again considered a more comprehensive going concern view than in previous years. The Group has considerable financial resources, together with a broad spread of customers and suppliers across different geographic areas and sectors, often secured with longer term agreements. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully as described in the strategic report.

Diploma PLC, the ultimate parent company of the Company has provided a letter of support to the Company for a period of at least twelve months from the date of these financial statements confirming that it will provide adequate financial support to the Company to allow the Company to meet its financial obligations as they fall due.

The Directors of the Company are satisfied that there are no material events or uncertainties that they are aware of which will impact the ability of the Company to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

PEARSON HYDRAULICS LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

This report was approved by the board on 29 March 2023 and signed on its behalf.



R Davies
Director

PEARSON HYDRAULICS LIMITED

**DIRECTORS' REPORT
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

The directors present their report and the financial statements for the 9 month period ended 30 September 2022.

Results and dividends

The profit for the period, after taxation, amounted to £737,000 (Year ended 31 December 2021: - £1,034,000).

The Directors paid an ordinary dividend of £750,000 (Year ended 31 December 2021: 827,000) during the period. The Directors do not recommend a final dividend (2021: £Nil).

Directors

The directors who served during the period and up to the date of signing the report were:

Richard James Davies

Alessandro Lala (appointed 1 October 2022)

Howard Roger Morrell

Richard Derek Dring (appointed 3 March 2023)

Barbara Gibbes (appointed 6 April 2022, resigned 30 September 2022)

Chris Ford (resigned 6 April 2022)

Qualifying third party indemnity provisions

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

This report was approved by the board on 29 March 2023 and signed on its behalf.



R Davies
Director

PEARSON HYDRAULICS LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

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 the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 for the Company's financial statements and then apply them consistently;
- make judgments and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

PEARSON HYDRAULICS LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

	Note	9 month period 30 September 2022 £000	<i>Year ended 31 December 2021 £000</i>
Turnover	4	7,591	8,741
Cost of sales		(4,515)	(5,267)
Gross profit		3,076	3,474
Distribution costs		(13)	(25)
Administrative expenses		(2,096)	(2,291)
Operating profit		967	1,158
Interest payable and similar expenses		(4)	(13)
Profit before tax		963	1,145
Tax on profit	8	(226)	(111)
Profit for the financial period / year		737	1,034

The notes on pages 10 to 24 form part of these financial statements.

PEARSON HYDRAULICS LIMITED
REGISTERED NUMBER: 00809034

BALANCE SHEET
AS AT 30 SEPTEMBER 2022

	Note	30 September 2022 £000	31 December 2021 £000
Fixed assets			
Intangible assets	10	6	14
Tangible assets	11	890	904
		<u>896</u>	<u>918</u>
Current assets			
Stocks	12	3,116	2,544
Debtors: amounts falling due within one year	13	2,155	1,652
Cash at bank and in hand	14	901	541
		<u>6,172</u>	<u>4,737</u>
Creditors: amounts falling due within one year	15	(2,937)	(1,006)
Net current assets		<u>3,235</u>	<u>3,731</u>
Total assets less current liabilities		<u>4,131</u>	<u>4,649</u>
Creditors: Amounts Falling Due After More Than One Year	16	(76)	(581)
Provisions for liabilities			
Deferred tax		(93)	(93)
		<u>(93)</u>	<u>(93)</u>
Net assets		<u><u>3,962</u></u>	<u><u>3,975</u></u>
Capital and reserves			
Share premium account		113	113
Capital redemption reserve		1	1
Profit and loss account		3,848	3,861
Total Equity		<u><u>3,962</u></u>	<u><u>3,975</u></u>

The members have not required the Company to obtain an audit for the year in question in accordance with section 476 of the Companies Act 2006.

The Company was entitled to exemption from audit under section 479A of the Companies Act 2006.

The Directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of financial statements.

The Company's financial statements have been prepared in accordance with the provisions applicable to

PEARSON HYDRAULICS LIMITED
REGISTERED NUMBER: 00809034

BALANCE SHEET (CONTINUED)
AS AT 30 SEPTEMBER 2022

companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 March 2023.



R Davies
Director

The notes on pages 10 to 24 form part of these financial statements.

PEARSON HYDRAULICS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total equity £000
At 1 January 2021	113	1	3,654	3,768
Comprehensive income for the year				
Profit for the year	-	-	1,034	1,034
Total comprehensive income for the year	-	-	1,034	1,034
Dividends	-	-	(827)	(827)
At 31 December 2021	113	1	3,861	3,975
Comprehensive income for the period				
Profit for the period	-	-	737	737
Total comprehensive income for the period	-	-	737	737
Dividends	-	-	(750)	(750)
At 30 September 2022	113	1	3,848	3,962

The notes on pages 10 to 24 form part of these financial statements.

PEARSON HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2022

1. General information

The Company is a private company, limited by shares, incorporated and domiciled in the United Kingdom under Companies Act 2006 and registered in England and Wales. The address of the registered office is 10-11 Charterhouse Square, London, EC1M 6EE. The Company is part of a UK listed group with all revenue originating in the UK therefore the Company's functional currency is UK Sterling. The Company's financial statements are presented in UK Sterling and all values are rounded to the nearest thousand pounds (£000), except where otherwise indicated.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Diploma PLC as at 30 September 2022 and these financial statements may be obtained from www.diplomaplc.com.

2.3 Going concern

At 30 September 2022, the Company had net assets of £3,962,000 (31 December 2021: £3,975,000). The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The going concern position of the Company is linked to that of the wider Group due to the cross guarantees on financing given by a number of Group companies as well as the provision of a letter of financial support from the ultimate parent company, Diploma PLC in respect of the going concern status of various Group companies.

The Group's balance sheet is strong and working capital is well controlled. On 13 October 2020, the Group entered into a debt facility agreement (SFA) which comprised a three-year term loan for an

PEARSON HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

2. Accounting policies (continued)

2.3 Going concern (continued)

aggregate principal amount of £136.0m (\$170.0m) and a committed multi-currency revolving facility for an aggregate principal amount of £135.0m, which was increased to £185.0m during the previous financial year.

During the year the Group has amended the SFA to increase the total facility size. As at 30 September 2022, the SFA comprises a committed multi-currency revolving facility for an aggregate principal amount of £359.7m, an amortising term loan for an aggregate principal amount of £114.2m (\$127.5m), a bullet term loan for an aggregate principal amount of £59.1m (\$66.0m) and a further bullet term loan for an aggregate principal amount of £45.3m. The SFA is due to expire in December 2024 and there is an option to extend for a further 12-month period.

The Group's debt facilities are subject to interest at variable rates. During the year, the Group entered into interest rate swap contracts with the effect of fixing the interest rate on \$100m (£89.6m) of debt. The effective fixed rate debt was 24% as a proportion of total debt. Subsequent to the year end, the Group entered into further interest rate swap contracts with the effect of fixing the interest rate on an additional \$100m of debt.

At 30 September 2022, the Group's Net Debt/EBITDA was 1.4x, and year end headroom was £204m. The Group continues to operate against a backdrop of macroeconomic disruption, including widespread global inflation, rising interest rates and the continued uncertainty of the Covid-19 pandemic, in particular its lasting impact on global supply chains. Accordingly, the Directors have again considered a more comprehensive going concern view than in previous years. The Group has considerable financial resources, together with a broad spread of customers and suppliers across different geographic areas and sectors, often secured with longer term agreements. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully as described in the strategic report.

Diploma PLC, the ultimate parent company of the Company has provided a letter of support to the Company for a period of at least twelve months from the date of these financial statements confirming that it will provide adequate financial support to the Company to allow the Company to meet its financial obligations as they fall due.

The Directors of the Company are satisfied that there are no material events or uncertainties that they are aware of which will impact the ability of the Company to continue as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

PEARSON HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2022

2. Accounting policies (continued)

2.4 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot 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 profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

2.5 Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of assets given and liabilities assumed.

Goodwill is considered to have a finite useful life and is amortised on a systematic basis over its expected life, which is five years.

2.6 Revenue

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

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

PEARSON HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2022

2. Accounting policies (continued)

2.7 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.8 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2.9 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.10 Tangible fixed assets

Tangible fixed assets under the cost model 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.

PEARSON HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2022

2. Accounting policies (continued)

2.10 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using both the straight line and reducing balance methods.

Depreciation is provided on the following basis:

Freehold property	-	2% Straight line over 50 years
Long-term leasehold property	-	2% Straight line over 50 years
Plant and machinery	-	15% Straight line method
Motor vehicles	-	25% Reducing balance method

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or 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 in profit or loss.

2.11 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock 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.

2.12 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.13 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.14 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.15 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

PEARSON HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

2. Accounting policies (continued)

2.15 Financial instruments (continued)

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Investments in non-derivative instruments that are equity to the issuer are measured:

- at fair value with changes recognised in the Profit and Loss Account if the shares are publicly traded or their fair value can otherwise be measured reliably;
- at cost less impairment for all other investments.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Profit and Loss Account.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the *difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the balance sheet date.*

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet 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 the liability simultaneously.

2.16 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

PEARSON HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The application of the Company's accounting policies requires the use of management judgement and estimation, which often involves assumptions regarding future events which can vary from what is anticipated. The preparation of the Company's financial statements does not require management to make any critical accounting judgements, assumptions or estimates with regard to assets or liabilities that could potentially have a material adjustment to the carrying amount of assets or liabilities in the next 12 months.

The Directors believe that the financial statements reflect appropriate judgements and estimates and provide a true and fair view of the Company's performance and financial position.

4. Turnover

Analysis of turnover by country of destination:

	9 month period ended 30 September 2022 £000	<i>Year ended 31 December 2021 £000</i>
United Kingdom	7,591	8,741
	7,591	8,741

All turnover arose within the United Kingdom.

All revenue is recognised as point-in-time and there was no accrued income ("contract assets") or deferred income ("contract liabilities") included in trade and other receivables (note 13) and trade and other payables (note 15), respectively (2021: £nil).

5. Operating profit

The operating profit is stated after charging:

	9 month period ended 30 September 2022 £000	<i>Year ended 31 December 2021 £000</i>
Exchange differences	42	23

PEARSON HYDRAULICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

6. Employees

	9 month period ended 30 September 2022 £000	<i>Year ended 31 December 2021 £000</i>
Wages and salaries	965	1,211
Social security costs	215	121
Cost of defined contribution scheme	96	191
	<u>1,276</u>	<u>1,523</u>

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

	9 month period ended 30 September 2022 No.	<i>Year ended 31 December 2021 No.</i>
Management	2	2
Sales	10	10
Admin	30	29
	<u>42</u>	<u>41</u>

7. Directors' remuneration

	9 month period ended 30 September 2022 £000	<i>Year ended 31 December 2021 £000</i>
Directors' emoluments	71	78
Company contributions to defined contribution pension schemes	-	19
	<u>71</u>	<u>97</u>

PEARSON HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

8. Taxation

	9 month period ended 30 September 2022 £000	<i>Year ended 31 December 2021 £000</i>
Corporation tax		
Current tax on profits for the year	226	77
	226	77
Total current tax	226	77
Deferred tax		
Adjustments in respect of previous periods	-	34
Total deferred tax	-	34
Taxation on profit on ordinary activities	226	111

PEARSON HYDRAULICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

8. Taxation (continued)

Factors affecting tax charge for the period/year

The tax assessed for the period/year is higher than (2021 - lower than) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	9 month period ended 30 September 2022 £000	<i>Year ended 31 December 2021 £000</i>
Profit on ordinary activities before tax	963	1,145
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	183	218
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	16	23
Adjustments to tax charge in respect of prior periods	-	34
Adjustment in research and development tax credit leading to an increase (decrease) in the tax charge	-	(73)
Other differences leading to an increase (decrease) in the tax charge	27	(91)
Total tax charge for the period/year	226	111

Factors that may affect future tax charges

The rate of corporation tax will raise to 25% from 1 April 2023, as enacted by the Finance Act 2021. Profits earned in financial year 2023 will be subject to taxation at a hybrid rate of 22% and subsequent financial periods thereafter will be taxed at 25%.

PEARSON HYDRAULICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

9. Dividends

	9 month period ended 30 September 2022 £000	<i>Year ended 31 December 2021 £000</i>
Dividends	750	827
	<u>750</u>	<u>827</u>

Dividends of £1,662.97 per ordinary share (Year ended 31 December 2021: £1,833.70) were paid during the period.

10. Intangible assets

	Goodwill £000
Cost	
At 1 January 2022	75
At 30 September 2022	<u>75</u>
Amortisation	
At 1 January 2022	61
Charge for the period on owned assets	8
At 30 September 2022	<u>69</u>
Net book value	
At 30 September 2022	<u>6</u>
At 31 December 2021	<u>14</u>

PEARSON HYDRAULICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

11. Tangible fixed assets

	Freehold property £000	Long-term leasehold property £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost or valuation					
At 1 January 2022	625	189	582	403	1,799
Additions	-	-	8	120	128
Disposals	-	-	(91)	(50)	(141)
At 30 September 2022	<u>625</u>	<u>189</u>	<u>499</u>	<u>473</u>	<u>1,786</u>
Depreciation					
At 1 January 2022	332	8	444	112	896
Charge for the period	9	3	19	70	101
Disposals	-	-	(91)	(10)	(101)
At 30 September 2022	<u>341</u>	<u>11</u>	<u>372</u>	<u>172</u>	<u>896</u>
Net book value					
At 30 September 2022	<u>284</u>	<u>178</u>	<u>127</u>	<u>301</u>	<u>890</u>
At 31 December 2021	<u>293</u>	<u>181</u>	<u>139</u>	<u>291</u>	<u>904</u>

PEARSON HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022

12. Stocks

	30 September 2022 £000	31 December 2021 £000
Finished goods and goods for resale	3,116	2,544
	<u>3,116</u>	<u>2,544</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

13. Debtors

	30 September 2022 £000	31 December 2021 £000
Trade debtors	1,887	1,430
Amounts owed by group undertakings	-	14
Prepayments and accrued income	268	208
	<u>2,155</u>	<u>1,652</u>

14. Cash and cash equivalents

	30 September 2022 £000	31 December 2021 £000
Cash at bank and in hand	901	541
	<u>901</u>	<u>541</u>

PEARSON HYDRAULICS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2022**

15. Creditors: Amounts falling due within one year

	30 September 2022 £000	31 December 2021 £000
Bank overdraft	416	-
Bank loans	-	43
Trade creditors	769	582
Amounts owed to group undertakings	714	154
Corporation tax	362	136
Other taxation and social security	230	70
Obligations under finance lease and hire purchase contracts	18	6
Accruals and deferred income	428	15
	<u>2,937</u>	<u>1,006</u>

16. Creditors: Amounts falling due after more than one year

	30 September 2022 £000	31 December 2021 £000
Bank loans	-	530
Obligations under finance lease and hire purchase contracts	76	51
	<u>76</u>	<u>581</u>

17. Share capital

	30 September 2022 £000	31 December 2021 £000
Allotted, called up and fully paid		
451 (2021 - 451) Ordinary Share Capital shares of £1.00 each	-	-
	<u>-</u>	<u>-</u>

2022 - 451 Ordinary Share Capital. Showing (£nil) due to accounts being rounded to the nearest thousand. (2021: 451).

PEARSON HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2022

18. Contingent liabilities

The Company, along with certain other companies in the Group, has given a guarantee in respect of bank borrowing facilities (the "SFA") of other Group companies comprising of a three-year term loan and a committed multi-currency revolving facility. As at 30 September 2022, the SFA comprises a committed multi-currency revolving facility (RCF) for an aggregate principal amount of £359,700,000, an amortising term loan for an aggregate principal amount of £114,200,000 (\$127,500,000), a bullet term loan for an aggregate principal amount of £59,100,000 (\$66,000,000) and a further bullet term loan for an aggregate principal amount of £45,300,000. As at 30 September 2022, the term loans have an aggregate outstanding principal amount of £173,300,000 (\$193,500,000) and the Group has utilised £201,000,000 of the revolving facility. There remains £158,700,000 undrawn on the revolving facility and £45,300,000 undrawn on the bullet term loan.

19. Finance lease commitments

At the reporting end date the company had outstanding finance lease commitments of £93,780 (31 December 2021: £56,965).

20. Controlling party

On 6 April 2022, 100% of the share capital of the Company's ultimate parent company, R&G Fluid Power Group Limited, was acquired by R&G Fluid Power Holdings Limited, a company registered in England and Wales and under the ultimate ownership of Diploma PLC.

Subsequent to 6 April 2022, The Company's ultimate parent undertaking and ultimate controlling party is Diploma PLC, a company incorporated in the United Kingdom and registered in England and Wales, which is the smallest and largest group into which the results of the Company are consolidated.

Copies of the Group's financial statements are available from Diploma PLC, 10-11 Charterhouse Square, London, England, EC1M 6EE.