Pirtek Europe Limited

Report and Financial Statements

Year ended

31 March 2020

Company Number 03232759

BDO

Pirtek Europe Limited

Report and financial statements
for the year ended 31 March 2020

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Legal form

Private company limited by shares

Country of incorporation

England and Wales

Directors

K Hardy
A S McNutt
H Overwater
A J Richards
D Seetahul
C Stuckey
M Thiehofe

Company number

03232759

Registered office

c/o Addleshaw Goddard LLP, One St Peter's Square, Manchester, England, M2 3DE

Independent auditors

BDO LLP, Level 12, Thames Tower, Station Road, Reading RG1 1LX

Business Review

Pirtek Europe Limited an intermediate parent company in the Pirtek group of companies ("the Group"), which operate in seven European countries, each subsidiary supporting a network of franchisees in each country through the supply of products and services except in Sweden which operates a company owned model, and Belgium with a mixed model. The principal activity of the network itself is the delivery of time-sensitive, on-site hose replacement services.

Pirtek has continued with the same strategy and operational focus which has seen us grow over the past few years. Business performance for the year was in line with expectations until early 2020 when the coronavirus pandemic hit the markets in which we operate. In March 2020, our key markets were in lockdown and this continued into April 2020. The Group's operations have proved very resilient with all 196 centres staying open and coping well through the disruption and negative impact on demand caused by the pandemic. During these difficult times the Group continued to provide services to end customers in a wide range of sectors including those designated by governments as critical to keeping economies functioning. These included waste management, construction, food production, logistics and manufacturing. The Group has kept all its trade counters open throughout and has maintained the highest levels of mobile service possible.

The directors attribute the resilience to the Group's strong competitive position including:

1. The strength of one-hour mobile service and product offering
2. Excellent geographic coverage
3. Long term end-customer relationships
4. Industry leading staff training
5. Strong network of franchisees and dedicated employees

Despite the positive trends noted above, the directors have assessed the uncertainties present due to the ongoing impact of the coronavirus pandemic and considered probable scenarios in financial forecast models. This is further discussed in the principal risks and uncertainties section of this report.

Key performance indicators

The Company's principal key performance indicator is the comparison between the carrying value of its investments against the position and performance of these investments.

Management's assessment of the recoverability of the company's investments, based on its subsidiaries' position and current and projected performance.

Mainly due to the impacts of coronavirus, the directors concluded that there were indicators of impairment relating the company's investment balance. The directors engaged an independent firm of valuation experts in order to perform an exercise to compare the carrying value of the cash generating units to which the investment balance relates, against their recoverable amounts and to determine whether there were impairments to be recognised (note 13).

Business environment

The emergency hydraulic hose replacement markets, in the countries in which the operating companies trade, are diverse due to 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 cost 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;
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

Our strategy is dependent on our evolutionary position in each country. In the United Kingdom, Ireland and Netherlands, the group has a mature network in place which results in a need to maximise market opportunities available and create new revenue channels through products and services aligned to our core activities. In Belgium, Germany, Austria and Sweden the group is looking to expand its coverage significantly.

As well as continuing to develop our existing business, the company will actively consider acquisition opportunities, which have the potential to strengthen our position in existing countries or expand into new countries or market sectors.

Principal risks and uncertainties

As the company is party to a cross guarantee in respect of borrowings by Hydraulic Authority III Limited as described in Note 18, its liquidity is intrinsically linked with the performance of the Hydraulic Authority I Limited group of companies (The Group), of which this entity is a member.

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 good 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.

During February 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 has negatively impacted the operating results of the Group and introduced greater uncertainty regarding the Group's financial projections for trading and liquidity. The countries in which the Group operates experienced lockdowns introduced at different times which lasted for differing periods and had a more severe impact in some countries than others. Of the Group's key markets, sales in Germany held up best during the lockdown phase and started to recover earlier than the Group's other markets. The resulting economic uncertainties have altered the risk environment such that 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;
- supplier manufacturing facilities suffering from staff absence due to sickness or having enforced social distancing rules and the resultant impact on product supply.

Management reacted promptly to the impact of the above challenges with a number of key short term actions across the business to ensure continuity of operations. These included taking extra steps to safeguard the health and safety of employees and working closely with suppliers to maintain supply of hydraulic products. Management worked with franchisees to ensure trade counters remained open and mobile operations were maintained to ensure service to end customers, particularly those which governments designated as essential 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 show that in a downside scenario the Group would need to take mitigating actions to conserve cash. The Directors have considered what mitigating actions would be required and the timeframe within which those actions would be needed. The key mitigating action available to the Group would be reductions in controllable expenditure. The Directors' consider that this mitigating action would be achievable as operating cash generation could be maintained whilst deferring the identified expenditures.

The cash flow forecasts are also dependent on the Group continuing to have access to short term financing, principally the revolving credit facility, and longer term borrowing which ends in November 2025. The downside cash flow forecast indicates that the Group may reasonably expect to be in breach of its quarterly debt to EBITDA banking covenant in the second half of the financial year to March 2021. However, given the Group's stronger than budgeted performance for the first 5 months of the year, this is becoming increasingly less likely. In the event of a breach of covenant, the Group's bank borrowings, as well as its shareholder loan notes, would become repayable on demand. If circumstances led the Directors to believe a breach of covenants is likely, they will engage in discussions with the lenders and with its shareholders in order to secure waivers, revise covenants or seek additional financial support as required. The receipt of such waivers, revised covenants or additional financial support is uncertain, as is the extension or replacement of the facility. However, given the relationship with the lender and shareholders, and the current market backdrop, the directors consider it reasonable to conclude that such agreements will be obtained.

Approved

This strategic report was approved on behalf of the Board on 7 October 2020

A J Richards

Director

The directors present their directors' report together with the strategic report and the audited financial statements for the year ended 31 March 2020.

Results and dividends

The statement of comprehensive income is set out on page 13 and shows the profit for the year of £8,626,458 (2019 - £5,080,125).

Dividends of £11,850,994 have been declared or settled during the year (2019 - £Nil).

The trading results for the year, and the company's financial position at the end of the year, are shown in the attached financial statements.

Principal activities

The company supplies services to its subsidiaries which operate in seven European countries, each subsidiary supporting the network of franchisees in each country through the supply of products and services, except Sweden which operates an owned model, and Belgium which operates a mixed owned and franchise model. The principal activity of the franchise network itself is the delivery of time-sensitive, on-site hose replacement services.

Financial risk management objectives and policies

The company uses various financial instruments including cash, debtors and creditors that arise directly from its operations.

The existence of these financial instruments exposes the group to a number of financial risks, which are described in more detail below. The main risks arising from the company's financial instruments are credit risk, liquidity risk and currency risk. The directors review policies for managing each of these risks and they are discussed in detail in the Strategic Report on pages 3 to 5.

Going concern

As the company is party to a cross guarantee in respect of borrowings by Hydraulic Authority III Limited as described in Note 18, its liquidity is intrinsically linked with the performance of the Hydraulic Authority I Limited group of companies (The Group), of which these entities are members. The going concern of the company has therefore been assessed at the Group level.

In consideration of the Group's current resources and trading, access to funding if and as required, and review of financial forecasts and projections, the Directors have a reasonable expectation that the Group and therefore the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements.

In the period to the end of January 2020, prior to the emergence of the coronavirus pandemic in Europe, the Group's operations were performing in line with budget and ahead of the prior year. However, from late February through to May 2020, the pandemic negatively impacted the operating results of the Group and introduced uncertainty into our markets. Management and the directors were proactive to respond and support the franchisee network, which remained open for business throughout, and the Group has demonstrated resilience in both operational performance and a strengthening of financial results. As at the date of approval of these financial statements, the impact of the coronavirus pandemic on the global landscape, and consequently the Group's trading, is continually evolving. The resulting economic uncertainties have altered the risk environment, such that in the short to medium term, the key financial risks to the Group are considered as follows:

- reduction in end customer demand, and as a result reduction in revenues and cash flows;
- franchisee settlement terms being extended, re-negotiated or certain debt 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.

Key mitigating actions have been taken by the Directors include:

- cost control measures and accessing government payroll subsidies where available;
- supporting franchisees to access the grants and funding available;
- improved communication with and between franchisees so they can help each other maintain coverage in the event of staff sickness;
- our supply chain teams in different countries working closely together to move group stock between countries as appropriate and steps taken to increase franchisee stock of key products; and,
- holding higher stocks of certain items and maintaining dual sourcing of key products.

In consideration of the factors above, the management team have prepared a revised three year forecast, resetting expectations of operating revenues, profitability and cash flows. These cash flow forecasts are dependent on the Group continuing to have access to short term financing, principally the revolving credit facility, and existing longer term borrowing which ends in November 2025. These forecasts, in the base case, indicate that the Group will have sufficient funds from its existing facilities to meet its liabilities as they fall due.

The delivery of the forecasts, particularly to achieve the forecast growth, is subject to uncertainty. The downside scenario cash flow forecast indicates that the Group may reasonably expect to be in breach of its quarterly debt to EBITDA banking covenant in the second half of the financial year to March 2021. In the event of a breach of covenant, the Group's bank borrowings which are held by Hydraulic Authority III Limited and for which cross guarantees are provided by subsidiaries of the Group, as well as its shareholder loan notes which are held by Hydraulic Authority II Limited, would become repayable on demand. If circumstances lead the Directors to believe a breach of covenants is likely, they will proactively engage in discussions with the lenders and with its shareholders in order to secure waivers, revise covenants or seek additional financial support as required. The directors acknowledge that receipt of such waivers, revised covenants or additional financial support is uncertain, as is the extension or replacement of the facility. However, given the relationship with the lender and shareholders, and the current market backdrop, the directors consider it reasonable to conclude that such agreements will be obtained. Also, with the Group's continued improvement in financial performance since the height of the European lockdown, if market conditions were to remain broadly similar to those faced now, the directors consider a breach would be significantly less likely.

Having reviewed the latest financial information and forecasts available, the Directors consider that the Group and Company will obtain the necessary support referred to above, if required, from its credit facility provider and shareholders and will continue as a going concern for a period of at least twelve months from the date of signing these financial statements. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing these financial statements.

The directors acknowledge that the possible impact of the coronavirus on future trading, through a reduction in sales and cash flows caused by reduced demand, may cause a breach of covenants leading to the withdrawal of financial facilities. The ability of the Group to obtain waivers for both covenant breaches and the repayment of the shareholder loan notes, revise covenants or obtain such additional funding as may then be required is not guaranteed. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and therefore the Company's ability to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would be necessary should the going concern basis of preparation no longer be appropriate.

Qualifying third party indemnity provisions

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

Directors

The directors of the company during the year were:

K Hardy
A S McNutt
A J Richards
M Thiehofe
H Overwater
D Seetahul
C Stuckey

Directors' responsibilities

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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 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.

Auditors

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

BDO LLP have expressed their willingness to continue in office.

On behalf of the Board

A J Richards

Director

Date 7 October 2020

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF PIRTEK EUROPE LIMITED

Opinion

We have audited the financial statements of Pirtek Europe Limited ("the Company") for the year ended 31 March 2020 which comprise the Statement of comprehensive income, Balance sheet, Statement changes in equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements, which indicates that the company is a cross guarantor for its group's facilities and as a result of Covid -19 there may be a breach of covenants leading to the withdrawal of the financial facilities and repayment of shareholder loan notes. The ability of the group to obtain waivers for both covenant breaches and the repayment of the shareholder loan notes, revise covenants or obtain such additional funding as may then be required is not guaranteed. As stated in note 1, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

BDO LLP

Jonathan Roberts (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Reading, UK

Date: 7 October 2020

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

Pirtek Europe Limited

Statement of comprehensive income
for the year ended 31 March 2020

	Note	2020 £	2019 £
Turnover	3	**8,857,919**	7,679,001
Administrative expenses		**(2,577,485)**	(2,009,595)
Operating profit	4	**6,280,434**	5,669,406
Other interest receivable and similar income	7	**809,355**	777,943
Interest payable and similar charges	8	**(418,635)**	(599,930)
Dividend income	9	**2,442,722**	-
Profit on ordinary activities before taxation		**9,113,876**	5,847,419
Taxation on profit on ordinary activities	10	**(487,418)**	(767,294)
Profit on ordinary activities after taxation		**8,626,458**	5,080,125
Total comprehensive profit for the year		**8,626,458**	5,080,125

All amounts relate to continuing activities.

The notes on pages 16 to 28 form part of these financial statements.

Pirtek Europe Limited

Balance sheet
at 31 March 2020

	Note	2020 £	2020 £	2019 £	2019 £
Fixed assets					
Tangible fixed assets	12		**40,146**		21,321
Investments	13		**11,273,826**		12,550,389
			11,313,972		12,571,710
Current assets					
Debtors	14	**4,130,674**		17,083,800	
Cash at bank		**378,160**		15,743	
		4,508,834		17,099,543	
Creditors: amounts falling due within one year	15	**(583,035)**		(11,027,060)	
Net current assets			**3,925,799**		6,072,483
Net assets			**15,239,771**		18,644,193
Capital and reserves					
Called up share capital	17		**4,565,959**		4,565,959
Share premium account			**8,771,236**		8,771,236
Capital redemption reserve			**23,799**		23,799
Profit and loss account			**1,878,777**		5,283,199
Shareholders' funds			**15,239,771**		18,644,193

The financial statements were approved by the Board of Directors and authorised for issue on 7 October 2020

A J Richards
Director

The notes on pages 16 to 28 form part of these financial statements.

Pirtek Europe Limited

Statement of changes in equity
for the two years ended 31 March 2020

	Note	Share capital £	Share premium £	Capital redemption reserve £	Profit and loss account £	Total equity £
At 1 April 2018		4,565,959	8,771,236	23,799	203,074	13,564,068
Comprehensive income for the year						
Profit for the year		-	-	-	5,080,125	5,080,125
At 31 March 2019		**4,565,959**	**8,771,236**	**23,799**	**5,283,199**	**18,644,193**
Comprehensive income for the year						
Profit for the year		-	-	-	**8,626,458**	**8,626,458**
Dividends	11	-	-	-	**(11,850,994)**	**(11,850,994)**
Deemed distribution paid		-	-	-	**(179,886)**	**(179,886)**
At 31 March 2020		**4,565,959**	**8,771,236**	**23,799**	**1,878,777**	**15,239,771**

The notes on pages 16 to 28 form part of these financial statements.

1. Accounting policies

Basis of preparation of financial statements

Pirtek Europe Limited is a company incorporated and domiciled in the United Kingdom under the Companies Act. The address of the registered office is given on the contents page. The nature of the company's operations and its principal activities are set out in the strategic report on pages 3 to 5.

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 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).

Consolidated financial statements

The financial statements contain information about Pirtek Europe Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company has taken advantage of the exemption conferred by section 400 of the Companies Act 2006 not to produce consolidated financial statements as it is included in the consolidated financial statements of its ultimate parent company, Hydraulic Authority I Limited. These financial statements therefore present information about the company as an individual undertaking and not about its group.

FRS 102 – reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 for qualifying entities:

- Section 3 Financial Statement Presentation paragraph 3.17(d) and Section 7 Statement of Cash Flows not to prepare a statement of cash flows;
- Section 4 Statement of Financial Position paragraph 4.12(a)(iv) not to prepare a reconciliation of the number of shares outstanding at the beginning and end of the year; and;
- Section 33 Related Party disclosures paragraph 33.7 not to disclosure key management personnel compensation in total.

The company's shareholders have been notified in writing about, and do not object to the use of, the disclosure exemptions. The company's results are included in the publicly available consolidated financial statements of Hydraulic Authority I Limited and these financial statements may be obtained from Companies House.

Going Concern

As the company is party to a cross guarantee in respect of borrowings by Hydraulic Authority III Limited as described in Note 18, its liquidity is intrinsically linked with the performance of the Hydraulic Authority I Limited group of companies (The Group), of which these entities are members. The going concern of the company has therefore been assessed at the Group level.

In consideration of the Group's current resources and trading, access to funding if and as required, and review of financial forecasts and projections, the Directors have a reasonable expectation that the Group and therefore the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements.

In the period to the end of January 2020, prior to the emergence of the coronavirus pandemic in Europe, the Group's operations were performing in line with budget and ahead of the prior year. However, from late February through to May 2020, the pandemic negatively impacted the operating results of the Group and introduced uncertainty into our markets. Management and the directors were proactive to respond and support the franchisee network, which remained open for business throughout, and the Group has demonstrated resilience in both operational performance and a strengthening of financial results. As at the date of approval

1. Accounting policies (continued)

of these financial statements, the impact of the coronavirus pandemic on the global landscape, and consequently the Group's trading, is continually evolving.

The resulting economic uncertainties have altered the risk environment, such that in the short to medium term, the key financial risks to the Group are considered as follows:

- 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.

Key mitigating actions that have been taken by the Directors include:

- cost control measures and accessing government payroll subsidies where available;
- supporting franchisees to access the grants and funding available;
- improved communication with and between franchisees so they can help each other maintain coverage in the event of staff sickness;
- our supply chain teams in different countries working closely together to move group stock between countries as appropriate and steps taken to increase franchisee stock of key products; and,
- holding higher stocks of certain items and maintaining dual sourcing of key products.

In consideration of the factors above, the management team have prepared a revised three year forecast, resetting expectations of operating revenues, profitability and cash flows. These cash flow forecasts are dependent on the Group continuing to have access to short term financing, principally the revolving credit facility, and existing longer term borrowing which ends in November 2025. These forecasts, in the base case, indicate that the Group will have sufficient funds from its existing facilities to meet its liabilities as they fall due.

The delivery of the forecasts, particularly to achieve the forecast growth, is subject to uncertainty. The downside scenario cash flow forecast indicates that the Group may reasonably expect to be in breach of its quarterly debt to EBITDA banking covenant in the second half of the financial year to March 2021. In the event of a breach of covenant, the Group's bank borrowings which are held by Hydraulic Authority III Limited and for which cross guarantees are provided by subsidiaries of the Group, as well as its shareholder loan notes which are held by Hydraulic Authority II Limited, would become repayable on demand. If circumstances lead the Directors to believe a breach of covenants is likely, they will proactively engage in discussions with the lenders and with its shareholders in order to secure waivers, revise covenants or seek additional financial support as required. The directors acknowledge that receipt of such waivers, revised covenants or additional financial support is uncertain, as is the extension or replacement of the facility. However, given the relationship with the lender and shareholders, and the current market backdrop, the directors consider it reasonable to conclude that such agreements will be obtained. Also, with the Group's continued improvement in financial performance since the height of the European lockdown, if market conditions were to remain broadly similar to those faced now, the directors consider a breach would be significantly less likely.

Having reviewed the latest financial information and forecasts available, the Directors consider that the Group and Company will obtain the necessary support referred to above, if required, from its credit facility provider and shareholders and will continue as a going concern for a period of at least twelve months from the date of signing these financial statements. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing these financial statements.

The directors acknowledge that the possible impact of the coronavirus on future trading, through a reduction in sales and cash flows caused by reduced demand, may cause a breach of covenants leading to the withdrawal of financial facilities. The ability of the Group to obtain waivers for both covenant breaches and the repayment of the shareholder loan notes, revise covenants or obtain such additional funding as may then be required is not guaranteed. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Group and therefore the Company's ability to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would be necessary should the going concern basis of preparation no longer be appropriate.

1 Accounting policies (continued)

Turnover

Turnover represents management charges to subsidiary undertakings and is stated net of value added tax. Management charges are recognised as a proportion of subsidiary turnover in line with the contractual agreement.

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.

Depreciation

Depreciation 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:

Fixtures and fittings	-	5 years straight line
Plant and machinery	-	5 years straight line
IT systems	-	5 years straight line

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment in value.

Pension costs

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

Foreign currencies

Foreign currency transactions are translated into sterling 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.

1 Accounting policies (continued)

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 or 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 reporting date in the countries where the company's subsidiaries operate and generate taxable income.

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

- 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;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries and the group can control their reversal and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not discounted.

Financial assets

Financial assets are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

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.

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.

2. Significant judgements in applying accounting policies and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, 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. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. 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.

In preparing the financial statements the directors have identified the following key sources of estimation uncertainty:

- *Investments (see note 13)*

Determine whether there are indicators of impairment of the company's investments. Factors taken into consideration in reaching such a decision include the expected future financial performance of the asset.

During the year, the Directors have identified impairments of the company's investment balance (note 13). Calculating the value of this impairment requires the use of assumptions and estimates in order to arrive at a recoverable amount for the relevant cash generating units (CGU) to which the investment relates. In assessing the recoverable amount of the investment balance, two separate cash generating units were identified, one relating to Pirtek Sweden which operates under an owned model and the other relating the wider Pirtek Group. The key assumptions used in value-in use calculations are projected EBITDA, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the projected period. EBITDA is based on past experience adjusted to take account of the impact of expected changes to sales volumes and margins. Cash flows are discounted at 10% and 12.4% across the Pirtek Sweden and wider Pirtek Group CGUs, and the company has probability weighted future forecast results to balance the likely impact on revenue growth of current uncertainties. Further key assumptions used in the market value calculation include assessing likely valuation multiples which are based on multiples achieved for similar businesses, adjusted for known differences. The determination of these assumptions and estimates results in key judgements in deciding the appropriate value of impairment to recognise. The directors appointed an independent firm of valuation experts to assist them in the valuation exercise.

- *Creditors and liabilities (see note 15)*

Liabilities are recognised at the balance sheet date and include amounts for accrued holiday pay, bonuses and legal costs. Although these amounts are reviewed on a regular basis and adjusted to reflect management's best current estimates, the judgmental nature of these items means that future amounts settled may be different from those provided.

3. Analysis of turnover

The turnover and loss before tax are attributable to the one principal activity of the company. Analysis of turnover by destination is as follows:

	2020 £	2019 £
United Kingdom	4,882,071	4,341,241
Rest of Europe	3,975,848	3,337,760
	8,857,919	7,679,001

All turnover arises from management charges to the company's UK and European subsidiary undertakings.

4. Operating profit

	2020 £	2019 £
This has been arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	13,384	12,516
Investment impairment	1,276,563	-
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	14,089	15,483
Fees payable to the company's auditor and its associates for non-audit services to the group	19,831	17,852
Foreign exchange gains	(72,726)	(41,335)

5. Employees

	2020 £	2019 £
Staff costs (including directors) consist of:		
Wages and salaries	846,648	1,453,464
Social security costs	110,144	197,842
Other pension costs	20,993	19,183
	977,785	1,670,489

The average number of employees (including directors) receiving remuneration during the year was 4 (2019 - 3). There were 7 directors in the year (2019 – 6).

6. Directors

	2020	2019
	£	£
Directors' remuneration consists of:		
Emoluments	846,648	1,453,464
Company contributions to money purchase pension schemes	20,993	19,183
	867,641	1,472,647
Highest paid director		
Emoluments	470,348	915,112

There were 2 directors (2019 - 2 directors) who accrued benefits under money purchase pension schemes during the year. Employees in the year were 4 directors (2019 - 3 directors).

7. Other interest receivable and similar income

	2020	2019
	£	£
Amount receivable from group undertakings	809,355	777,943

8. Interest payable and similar charges

	2020	2019
	£	£
Amount payable to group undertakings	418,635	599,930

9. Dividend income

	2020	2019
	£	£
Dividend income from fixed asset investments	2,442,722	-

10. Taxation on profit from ordinary activities

	2020 £	2019 £
UK corporation tax		
Current tax on profit for the year	646,477	765,088
Adjustments in respect of prior years	672,073	1,519
	1,318,550	766,607
Double taxation relief	-	(340,207)
After double taxation relief	1,318,550	426,400
Foreign taxation	-	340,207
Adjustments in respect of prior periods (foreign tax)	(841,473)	-
Total tax	477,077	766,607
Deferred tax		
Origination and reversal of timing differences	11,500	687
Effect of tax rate change on opening balance	(1,159)	-
Total Deferred Taxation	10,341	687
Total Taxation on profit from ordinary activities	487,418	767,294

At 31 March 2020, there was no unrecognised deferred tax asset (2019 - £Nil).

Reconciliation of current tax charge

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

	2020 £	2019 £
Profit on ordinary activities before tax	9,113,876	5,847,419
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2019 - 19%)	1,731,636	1,111,010
Effects of:		
Expenses not deductible for tax purposes	255,742	160,864
Group dividend income	(464,117)	-
Group relief received	(865,285)	(506,018)
Adjustment to tax change in respect of previous periods	(169,400)	1,519
Adjust opening deferred tax to average rate of 19%	(1,158)	1,159
Deferred tax not recognised	-	(1,240)
Tax charge for year	487,418	767,294

11. Dividends

	2020 £	2019 £
Ordinary shares		
Interim dividend paid £2.61 per share (2019 - £Nil per share)	11,850,994	-

12. Tangible assets

	Fixtures and fittings £	Plant and machinery £	IT Systems £	Total £
Cost				
At 1 April 2019	323	575	499,711	500,609
Additions	-	-	32,209	32,209
Disposal	(323)	(575)	-	(898)
At 31 March 2020	-	-	531,920	531,920
Depreciation				
At 1 April 2019	323	575	478,390	479,288
Charge for the year	-	-	13,384	13,384
Eliminated on disposal	(323)	(575)	-	(898)
At 31 March 2020	-	-	491,774	491,774
Net book value				
At 31 March 2020	**-**	**-**	**40,146**	**40,146**
At 31 March 2019	**-**	**-**	**21,321**	**21,321**

There are no assets held under finance leases or hire purchase contracts.

13. Investments

	2020 £	2019 £
At cost	12,550,389	12,550,389
Investment impairment	(1,276,563)	-
Total	11,273,826	12,550,389

At 31 March 2020, mainly due to the impacts of coronavirus, the directors concluded that there were indicators of impairment relating the company's investment balance. The directors engaged an independent firm of valuation experts in order to perform an exercise to compare the carrying value of the cash generating units to which the investment balance relates, against their recoverable amounts and to determine whether there were impairments to be recognised. The completion of a valuation exercise includes the use of assumptions and estimates which are key judgements in determining overall recoverable amount (note 2). Recoverable amount was assessed as being less than carrying value in relation to the company's investment in Pirtek Sweden AB and therefore impairment was identified and recognised at 31 March 2020.

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				
Pirtek (UK) Limited	United Kingdom	Ordinary	100%	Trading
Pirtek Deutschland GmbH	Germany	Ordinary	100%	Trading
Pirtek Austria GmbH	Austria	Ordinary	100%	Trading
Pirtek BV	The Netherlands	Ordinary	100%	Trading
Pirtek Sweden AB	Sweden	Ordinary	100%	Trading
Indirectly owned				
Pirtek Belgium bvba	Belgium	Ordinary	100%	Trading
Pirtek Brussel bvba	Belgium	Ordinary	100%	Trading
Pirtek Lummen bvba	Belgium	Ordinary	100%	Trading
Pirtek Sweden Franchise AB	Belgium	Ordinary	100%	Non-trading

The registered office of each of the company's subsidiaries is as follows:

Pirtek (UK) Limited	c/o Addleshaw Goddard Llp,One St Peter's Square, Manchester, England, M2 3DE
Pirtek (Deutschland) GmbH	Maarweg 165, 50825 Koln, Germany
Pirtek Austria GmbH	C/o Hasperger Setiz & Partner, Gonzagagasse 4, 1010 Wien, Austria
Pirtek BV	Hongkongstraat 29, 3047 BR Rotterdam, The Netherlands
Pirtek Sweden AB	Box 90, 182 07 Stocksund, Sweden
Pirtek Belgium bvba	Floralienlaan 21, 2600 Antwerpen, Belgium
Pirtek Brussel bvba	Avenue Newton 7, 1300 Wavre, Belgium
Pirtel Lummen bvba	Klaverbladstraat 16, 3560, Lummen, Belgium
Pirtek Sweden Franchise AB	Box 90, 182 07 Stocksund, Sweden

14. Debtors

	2020 £	2019 £
Amounts due from group companies	2,791,674	16,625,399
Taxation and social security	49,204	85,151
Other debtors	744,955	151,141
Prepayments	198,059	212,261
Deferred tax asset (note 16)	-	9,848
Corporation Tax	346,782	-
	4,130,674	17,083,800

On 31 January 2020, the company agreed to waive a balance of £159,214 owed by its ultimate parent company, Hydraulic Authority I Limited. Subsequent to the year end, this waiver was cancelled and recorded as a capital contribution. The cancellation is a post year end adjustment and therefore has not been accounted for in these financial statements.

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

15. Creditors: amounts falling due within one year

	2020 £	2019 £
Trade creditors	62,313	118,960
Amounts due to group companies	275,242	10,333,993
Taxation and social security	-	85,151
Accruals	244,987	350,655
Deferred tax liability (note 16)	493	-
Corporation tax liability	-	138,301
	583,035	11,027,060

16. Deferred tax asset / (liability)

The deferred tax asset is recognised as follows:

	2020 £	2019 £
At 1 April 2019	9,848	10,535
Charged to profit and loss account	(10,341)	(687)
At 31 March 2020	(493)	9,848

The deferred tax asset is analysed as follows:

	2020 £	2019 £
Accelerated capital allowances	1,915	6,788
Short term timing differences	(2,408)	3,060
At 31 March 2020	(493)	9,848

17. Share capital

	2020	2019
	£	£
Allotted, called up and fully paid.		
'A' ordinary shares of £1 each	3,861,486	3,861,486
'B' ordinary shares of £1 each	683,473	683,473
	4,544,959	4,544,959
Preference shares of £0.01 each	21,000	21,000
	4,565,959	4,565,959

The preference shares are redeemable at a sum equal to the issue price of £0.01 per share. Realisation of these shares will be on the completion of an agreement for the purchase of all the Ordinary shares or the acceptance of an offer as a result of which the offer becomes entitled or bound to acquire any part of such shares, as set out in the Articles of Association adopted by special resolution on 20 December 2002.

All ordinary shares rank pari passu except on a winding up where distribution of assets is completed on the basis of a formula as set out in the Articles of Association adopted by special resolution on 20 December 2002.

18. Contingencies

As at 31 March 2020, the company is party to a cross guarantee in respect of £52,875,000 in funded and £1,500,000 unfunded borrowing due from Hydraulic Authority III Limited to Golub Capital LLC, secured by the net assets of its investments in Pirtek Europe 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.

Pirtek Europe Limited is a direct subsidiary of Hydraulic Authority III Limited (see note 20).

19. 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.

20. Ultimate controlling party and immediate parent company

The company's immediate parent company is Hydraulic Authority III Limited, a company incorporated in the United Kingdom. Hydraulic Authority I Limited, also incorporated in the United Kingdom, is the ultimate parent company and the parent of both the smallest and largest groups of 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 2020, PNC Capital Finance, LLC is considered the ultimate controlling party.

21. Post Balance Sheet event

On 31 January 2020, the company agreed to waive a balance of £159,214 owed by its ultimate parent company, Hydraulic Authority I Limited. Subsequent to the year end, this waiver was cancelled and recorded as a capital contribution. The cancellation is a post year end adjustment and therefore has not been accounted for in these financial statements.

The coronavirus global pandemic was a condition in existence at the year-end date therefore it is regarded as an adjusting subsequent event. Since early 2020, the global Covid-19 coronavirus pandemic has adversely impacted demand for the Group's products, and as a result the Group's financial performance has been adversely impacted.

Management reacted promptly to the impact of the pandemic subsequent to the year end with a number of key short term actions across the business to preserve liquidity, which included accessing government payroll incentives and providing advice and guidance to its franchisees in order for them to preserve their liquidity and maintain service to end customers. Since May 2020 the Group's trading has continued to improve and covenant requirements for lending have been met.