FLOWTECH FLUIDPOWER

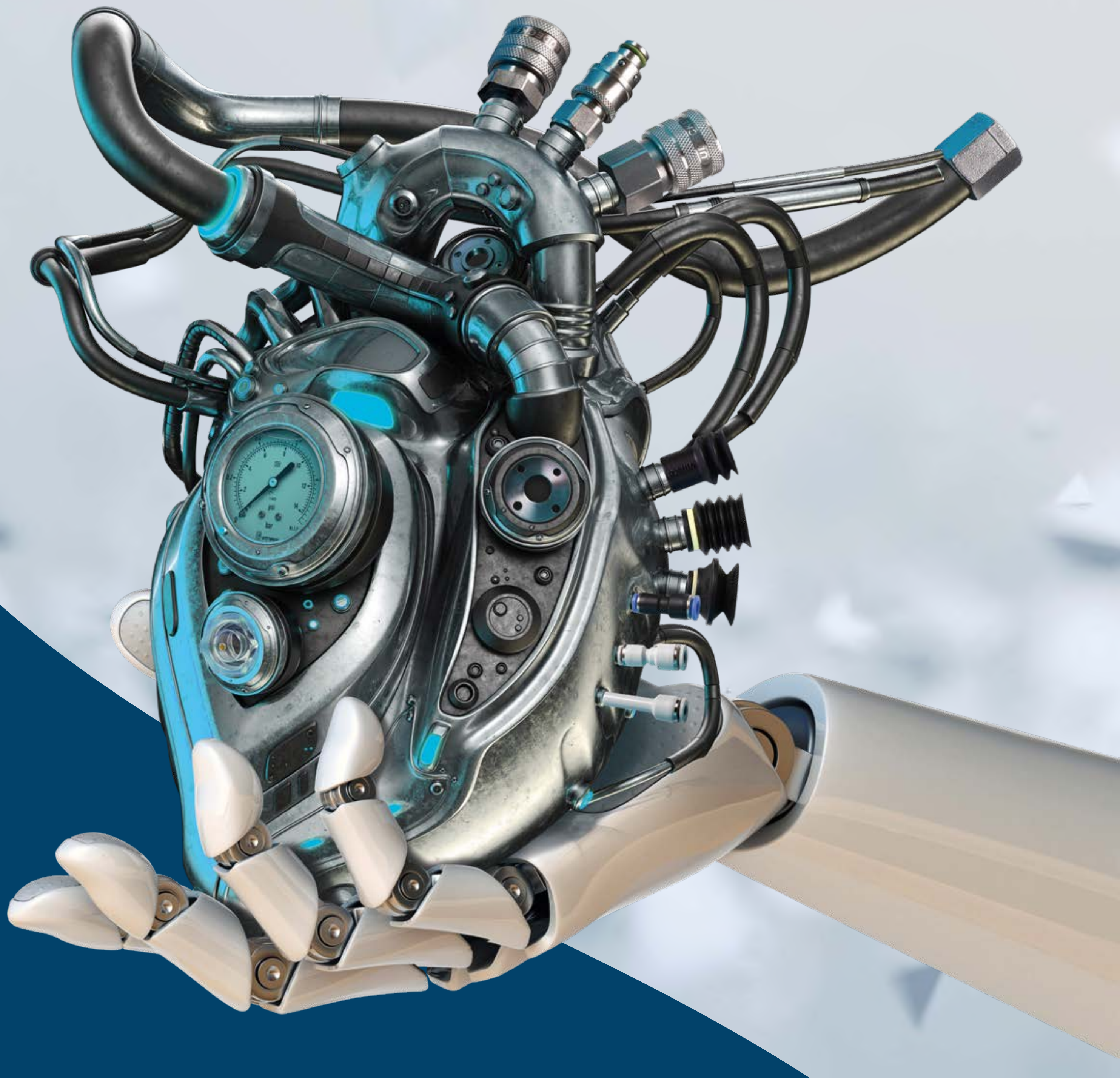
Fluid Thinking

Making a powerful difference

Annual Report

for the year ended
31 December 2019

Company number: 09010518



Flowtech Fluidpower plc is a **specialist Group**, supplying technical **fluid power components and services**.

We aspire to be a **trusted partner** in fluid power, delivering added value for our **customers**, **suppliers and investors**.

Read more about **our Group** on pages 4 and 5.

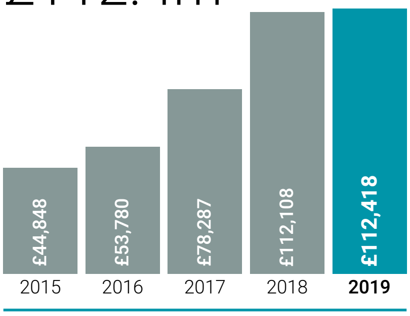
2020 Indequip catalogue front cover image, designed in-house.

Highlights

Financial Highlights

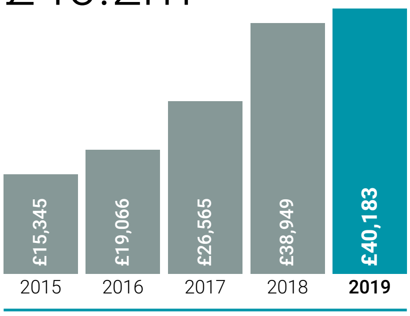
Revenue* £000

£112.4m



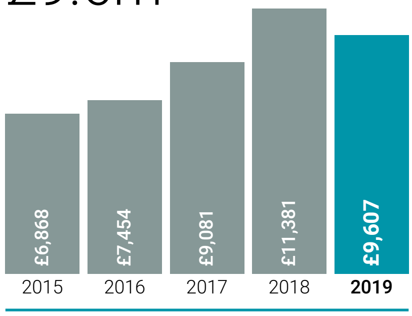
Gross Profit* £000

£40.2m



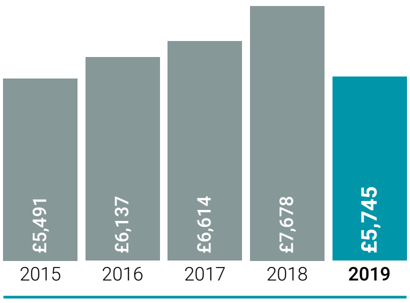
Underlying Operating Profit† £000

£9.6m



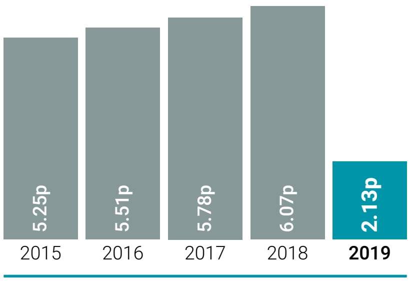
Operating Profit £000

£5.7m



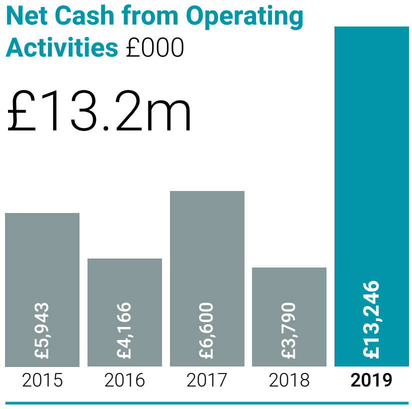
Total Dividend £000

2.13p



Net Cash from Operating Activities £000

£13.2m



*All results relate to continuing operations. Prior year values have been restated as described in note 2.30.

†Underlying operating profit is continuing operations' operating profit before separately disclosed items (note 4) and the impact of fair value adjustment to inventory (note 3). Underlying operating profit for 2019 also excludes the impact of restating operating lease rentals under IFRS 16 (note 22).

Operational Highlights

- £13.2m positive cash flow from operating activities, £9.4m in excess of £3.8m in 2018.
- 100bps improvement in GP%.
- Organic revenue decline but at a modest level in difficult market conditions.
- Underlying operating profit of £9.6m in the year.
- Profit before tax of £4.7m in the year (2018: £6.9m).

Contents

Dealing with COVID-19 while Retaining a Firm Focus on Long-term Prosperity

"Over time, we are therefore confident of achieving further reductions in both operating cost and working capital investment, which will further underpin our financial defence against the COVID-19 crisis."

Malcolm Diamond MBE
Chairman

Dear Shareholder,

It will possibly come as no surprise to you for me to confirm that 2019 has been not only a challenging year, but also a transformative one. With the UK political situation at least appearing to have some sense of stability re-established, the Group was very much looking forward to 2020 as a year in which this transformation would be fully embedded. However, the global impact of the COVID-19 pandemic has clearly forced many companies, including our own, to take emergency action to protect all stakeholders as best as can be achieved.

To this end, I would firstly like to cover our main asset, our staff. Despite many businesses needing to take immediate action to cut costs, we took the view that, for at least March and April, we would guarantee that all our staff, whether currently working or furloughed, would continue to be paid in full. For the many that remain working but cannot work remotely, we have implemented robust procedures to ensure we protect staff as best we can, whilst at the same time ensuring that we continue to provide a service to industry, including many of those sectors specifically involved in dealing with the crisis.

We also recognise that there are several of our smaller suppliers and customers under stress, and we have been assisting them as much as we can by ensuring that cash continues to flow through the system while keeping all doors open to support urgent supplies.

Despite the difficulties associated with working from home in what is a 'teams' and physical assets business, we have continued to progress our rationalisation and productivity improvement programmes, and all activities outlined in our CEO's report have not been derailed – if anything, with the support of the whole management team, these activities have gathered pace in a way that emphasises the skill and commitment of everyone involved in the Group. Over time, we are therefore confident of achieving further reductions in both operating cost and working capital investment, which will further underpin our financial defence against the COVID-19 crisis. Along with our decision to cancel the final dividend for 2019, this gives us the strong belief that the business will continue to generate positive cash flow in 2020.

We are only too aware of the patience and understanding displayed by our staff and managers as we have gone through this major refocus and the challenges of COVID-19, for which we are extremely appreciative. Ultimately, the best thing we can do for all our stakeholders is to ensure that when life does return to normal, the measures we take during this upheaval leave us stronger in every respect.

The situation we find ourselves in is moving rapidly but we feel our business, and our balance sheet, will prove resilient. However, following a detailed re-forecasting exercise including downside scenario planning, the Directors' assessment on going concern will include reference to material uncertainty in common with many other businesses. Further details around the consideration the Directors have given to going concern are contained elsewhere in this report, notably note 2.2. Notwithstanding this, the Directors confirm that, after due consideration, they have an expectation that the Group has adequate resources to continue for the foreseeable future and we have thereby continued to adopt the going concern basis in preparing the financial statements. We believe we are in a much better position than ever to deal with these unexpected challenges. Bryce Brooks' CEO's Year in Review includes further comments on the impact and our response to COVID-19.

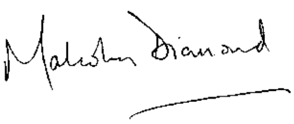
Moving on to our broader activities, having executed a number of acquisitions between 2014 and 2018, due to the fact that we do not consider turnaround targets, and all the additions were profitable in themselves, revealing cost synergies via consolidation of duplicated activities was not seen as a priority whilst we focused on transitioning local leadership teams from an owner-managed model to a group format. However, having made significant changes to our organisational structure since Bryce Brooks became CEO in late 2018, and invested in the necessary central functions, notably finance, systems and project management to provide the resources and infrastructure to support a change programme, we have now very much moved our focus towards releasing the undoubted productivity and cost out opportunities that our business possesses. Just as importantly, all our staff engaged in front line sales have undergone retraining in sales techniques as we drive towards order makers – rather than order takers. This is also supported with individual performance monitoring going forward.

I refer you to Russell Cash's Financial Review on page 22 for a fuller account of our results for 2019.

Finally, given the pivotal point that we are now at in our transformation, I have decided to retire as Chairman with effect from the AGM and hand over the reins to my colleague, Bill Wilson. Whilst this will be Bill's first time as a PLC Chairman, he has extensive experience in similar and larger organisations in both the role and the sector, and I know I will leave the Group in very good hands. Having been Chair since 2014, I have had the pleasure of working with ambitious and dedicated colleagues over the past six years as we have expanded rapidly, dealing with several challenges along the way. It has been a pleasure to support Bryce as he stepped up to be CEO, and welcome Bill, Nigel Richens and Russell Cash on to the Board. I feel that the benefits of our actions are now becoming tangible, and it is therefore the right time to retire.

In addition, I look forward to working with Roger McDowell when he joins the team following the AGM. Roger is a highly successful businessman and entrepreneur, with a strong record of delivering shareholder value. The Board's objective is to have three Executive Directors, supported by three Non-Executives. A search has already commenced for the additional Non-Executive Director so I can fully step down, but until the right candidate has been identified I will continue to serve until the search is concluded.

I would like to thank all my Flowtech colleagues for their passion and commitment over my period at the helm and, once the obvious threat of COVID-19 has passed, I am sure the business will prosper in a way that rewards all those who have invested in its future.



Malcolm Diamond MBE
Chairman
29 April 2020

"We believe we are in a much better position than ever to deal with these unexpected challenges."

Malcolm Diamond MBE
Chairman

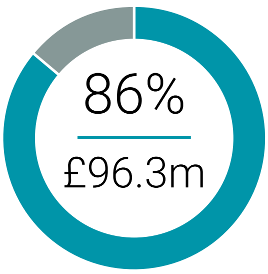
A Vital Partner in the Fluid Power Supply Chain

Flowtech Fluidpower is a Group of specialist fluid power businesses. Working in partnership with customers and suppliers, we deliver essential components, custom solutions and high-quality servicing support to keep global industry moving.

Our business is separated into two distinct segments: Components and Services.

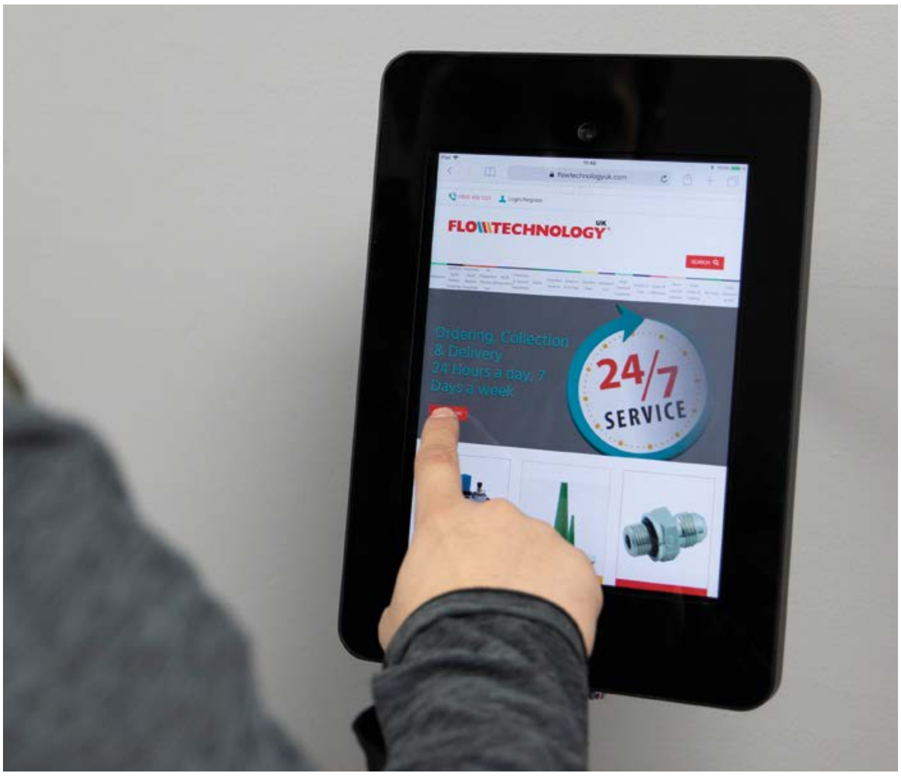
Components

Group Revenue



Employees

466*



Supply of both hydraulic and pneumatic consumables, predominantly through distribution for maintenance and repair operations across all industry markets, but supported by supply agreements direct to a broad range of original equipment manufacturers (OEMs).

Channels to Market

E-commerce websites, customer white label e-commerce websites, 100,000+ catalogues, own and customer trade counters.

Strengths

- Consistent cash generator, high profits.
- Widest set of leading brands from extensive stock inventory.
- Purchasing synergies through common product set.
- Essential urgent delivery, critical for MRO market.
- Supply chain consolidation for suppliers and customers.
- Added value customer services.

*Excludes 44 Central employees.

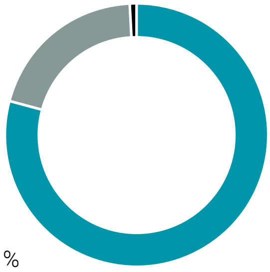
Group Employees**
631

Locations
22

Superior brands
500+

Geographies

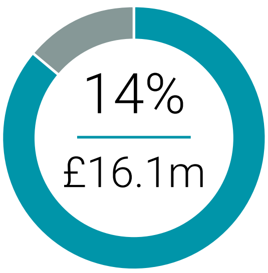
Group Revenue %



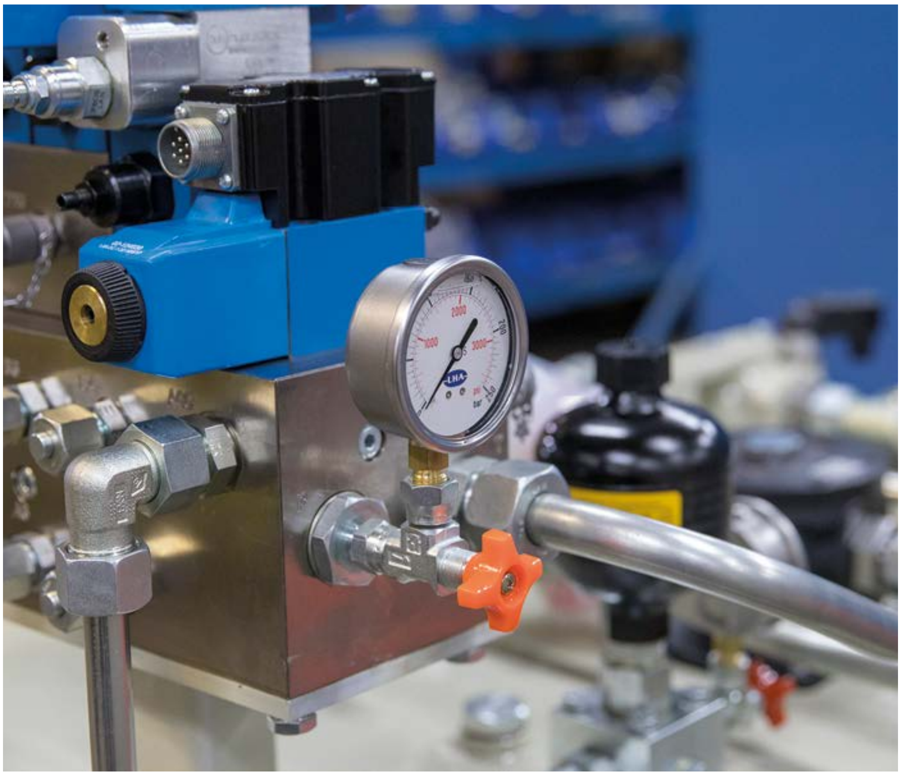
- UK – 80%
- Europe – 19%
- Rest of world – 1%

Services

Group Revenue



Employees
121*



Bespoke design, manufacturing, commissioning, installation and servicing of systems to manufacturers of specialised industrial and mobile hydraulic OEMs and, additionally, a wide range of industrial end users.

Channels to Market

In-house design and build, combined with on-site installation, servicing and support.

Strengths

- Working in partnership with suppliers and customers on large industry projects with cross-sell opportunities for the Group and, additionally, ongoing repeat business for Components division.
- Bespoke assembled customer solutions and deep technical support.
- Installation, commissioning and local servicing.
- Leading manufacturer brands in system builds.

Read more about **our Group** online at **www.flowtechfluidpower.com**

*Excludes 44 Central employees.
** Average in 2019.

CEO's Year in Review

Transforming the Way We Operate

"The Board believes that further progress will be made in improving productivity across the Group and looks forward to updating investors as we make further progress during the remainder of 2020."

Bryce Brooks
Chief Executive Officer

	2019	2018
Group revenue (*)	**£112.4m**	£112.1m
Underlying operating profit (†)	**£9.6m**	£11.4m
Net cash generated from operations	**£13.2m**	£3.8m
Net debt (‡)	**£16.6m**	£19.9m

(*) Prior year values have been restated as described in note 2.30.
(†) Underlying operating profit is continuing operations' operating profit before separately disclosed items (note 4), the impact of fair value adjustment to inventory (note 3) and IFRS 16 (note 22).
(‡) Excludes IFRS 16 lease dept.

2018 was a year in which relatively buoyant conditions in the first half were replaced with more benign conditions in the latter part of the year – this, combined with the deferment of planned activity on one project resulted in a downgrade to profit expectations being reported in September 2018. The start of 2019 saw a return to more favourable trading conditions.

Creating the framework for change has involved some short-term increase in resources, which, when coupled with the more negative sales environment, has affected our profit growth, but it is particularly satisfying for the Executive team to see strong cash flow underlying this position, with Net Cash Generated from Operations of £13,246,000 (2018: £3,790,000), leaving Net Debt at the year-end of £16.6m (2018: £19.9m).

The COVID-19 crisis has cast a considerable shadow across most sectors, but the improvement in cash resources created, and the change programme detailed below, will stand the Group in good stead when markets start to take shape again after the lockdown, and the Board is confident that the changes being made will become a real differentiator against our competitors.

Group Strategy & Progress in 2019

In 2018, we laid out a clear vision focused on the delivery of best-in-class service and support as the UK's leading fluid power distributor within a highly fragmented marketplace. We have looked to maintain the majority of our sales being associated with maintenance, repair and overhaul (MRO) applications, and the consistency of return that this sector brings, complemented by the supply of products and services to a broad base of industries engaged in the manufacture of capital equipment.

At the same time we outlined a change in our structure to a two segment approach – Components and Services – with different divisional management teams that has allowed us to develop strategy in each segment to suit their specific characteristics and requirements, and which the Board firmly believes will lead to enhanced profit growth over the medium term.

We have also established a Group central services team and facility in South Manchester and invested in the necessary skills in Accounting, Credit Management, IT Operations and Project Management to ensure we have the best platform to support the business as it currently stands, most crucially in the extensive change process now being implemented and detailed below, and to ensure future growth is long term in nature.

Whilst this investment has increased overall costs in the short term, we are convinced this has given us a resilient position from which to move forward in a controlled manner. After a four-year period of significant growth had given the Group 'critical mass', in 2019 we therefore used our new structure and resources to focus on extracting the considerable synergy potential available, with emphasis on the following:

Optimisation of our operational cost base

At the date of this report last year we had completed an initial review of our resources and made a preliminary assessment of what our optimal operating structure might look like with regard to warehousing and logistics within our Components division, and how this might then support the engineering capabilities of our Services division. The Executive team progressed this plan during the remainder of the year and has actioned several elements to date, with further activity planned in 2020.

In summary, the multiple sites and IT systems acquired as part of our acquisition programme since IPO can now be combined into a 'hub and spoke' system, with the majority of pick and ship activities undertaken by a centrally operated structure, predominantly our distribution centres based in Skelmersdale and Leicester, led by a network of customer-facing sales units. These two sites currently undertake around 70% of the Group's warehouse movements, producing class-leading efficiency rates, and following the assessment the Board is convinced that with only relatively modest capital investment, their activity levels can be enhanced to absorb the majority of similar activity for the UK and Republic of Ireland, without undermining the service to the legacy Flowtechnology and Beaumanor businesses.

This has resulted in the following actions designed to both reduce cost and improve service:

- In September 2019, Hi-Power in Stockport, Cheshire, was closed and merged with Primary Fluid Power in Knowsley.
- In October 2019, TSL in Mytholmroyd, West Yorkshire, was closed and also merged with Primary Fluid Power.
- In January 2020, we announced that the Components element of Primary Fluid Power would move to Skelmersdale site with a target for full implementation by May 2020.
- Also in January 2020, we announced that Hydravalve, in Willenhall in the West Midlands, would move to Skelmersdale with a target for full implementation by May 2020.
- Again, in January 2020, we announced that HES Durham would close with immediate effect and relocate to Orange County in Spennymoor, County Durham.
- In February 2020, we announced that Nelson Hydraulics in Lisburn, Northern Ireland, would close and its operation relocated to either Dungannon in County Tyrone or Skelmersdale with a target for full implementation by June 2020.
- Also in February 2020, we announced that the warehousing and distribution of HES Gloucester, Birmingham and Leeds would close and be serviced from Leicester, with a target for full implementation by June 2020.

All the above projects require both IT implementations as well as physical stock movements under tightly managed project governance supported by the investment we have made in the last 12 months. I am pleased to confirm that to date all have been completed or are progressing to timetable and within expected budget.

The annualised savings attached to the above are estimated at £1.6m, with a £0.8m impact in 2020. The cash cost of this restructuring is estimated at £1.8m (of which £0.5m was incurred in 2019), with £0.9m relating to capital investment in IT upgrades and additional Kardex racking systems.

Making efficient use of our considerable working capital base, and wherever possible making improvements

As a natural by-product of reducing our warehousing requirements, and beginning the process of 'centralisation' of the bulk of our stockholding, the Executive team were also keenly aware that the stockholding profile of the Group should be improved substantially. During 2019, via a mixture of stock clearance programmes and improved supply chain management, the Group has reduced its investment in Net Inventory (being Inventories less Trade and Other Payables) from £10,295,000 at 31 December 2018 to £8,490,000 at 31 December 2019, and Gross Inventory was reduced by c£7m, without any reduction in service levels.

*Turn and Earn Index is calculated by multiplying gross margin by stock turn. In 2019, the gross margin achieved was 35.7% and the average stock turn achieved was 2.67, therefore the Turn and Earn index was 95.

Whilst an element of this reduction results from scrappage of slow moving items and a resultant reduction in our stock provision, a bigger proportion reflects the underlying reduction in the level of stock our businesses are carrying; this element of the reduction naturally flows into free cash flow. This remains a focus of the business in 2020 and we anticipate further reductions being achieved. The overall metric that we use to measure against will be 'Turn and Earn'* with a target by 2022 of 130% versus an average of 95% achieved in 2019. This indicates an optimum stock investment of between £20m and £21m which compares with an actual of £24.0m at year end (2018: £28.7m).

Improved procurement terms from our major supplier partners

In July 2019, the Group appointed John Farmer into a new role of Group Commercial Director, with the express focus on actively co-ordinating our supply strategy and building on the huge steps forward we have taken in extracting regular procurement data from across the Group's trading systems. A clearly defined supplier strategy has now been developed, focused on enhancing terms with a much narrower group of multinational manufacturers with global standing and operational infrastructure, thereby improving pricing and Net Inventory investment. Whilst the direct effects in 2019 can only be limited, it is pleasing to see that Gross Margins have again improved to 35.7% (2018: 34.7%) and I expect this trend to continue in 2020.

Organic sales growth

The above three elements of our strategic focus will ensure we build the best platform from which to operate. At the same time, the Group must ensure that it continues to develop a 'proactive' sales organisation, building on the important position of its legacy Profit Centre operations. To this end, long term strength is being built from the following focused initiatives:

- 1. E-business capabilities – the Group already holds a sector-leading position with regard to e-commerce trading with over £28m of sales transacted by its customers online. However, with advances made by both our supplier base and the multi-sector international distribution organisations, we must continue to enhance our resources in this area in order to ensure competitive advantage remains and gives scope for considerable organic growth. The Group is currently improving the customer experience with a view to overlaying a single platform for its online trading which, when coupled with the transition of stockholding to a reduced number of sites described above, will mean that all the Group's stock will be within 'one click' of being sold by the close of 2020.
- 2. Key Account Management – in 2019, the Group traded with over 10,000 live accounts. Within this, only 200 accounts accounted for around 50% by value and they represent most of the leading players in our marketplace. Building an effective cross-selling infrastructure to support these key accounts will be an important engine for growth.
- 3. Training and Technical Capabilities – as described on pages 10 and 11.

Importantly, we believe there is further scope for significant cost savings, particularly in warehousing, our procurement activity (where we expect to take the number of suppliers down from over 1,000 to around 500), and the centralising of certain back office functions. The Board looks forward to updating investors as we make further progress during the remainder of 2020, with a target to complete all activity in this area by the end of the calendar year.

CEO's Year in Review

Business Model

Since our first acquisition, the Group has operated a distinct 'Profit Centre' structure, where each business leader acts in a semi-autonomous manner, which has encouraged local decision-making and ensured that we have been able to successfully transition previously owner-managed businesses to a Group structure. The move to the centralisation of supply chain activities within the Components division refocuses some of this local management responsibility. However, the key elements of customer-facing activities and importantly price management remain local. This approach will continue to support an entrepreneurial culture across the Group and ensures that we remain focused on delivering customer service at its highest level, responsive to both immediate and strategic needs, and safeguards growth before any centrally sponsored initiatives need to enhance this.

Year in Review

The start of 2019 was characterised by a continuance of the generally buoyant sector conditions seen in 2018. However, as the year progressed it became clear that uncertainty in the UK political situation was acting as a drag on growth, in both domestic and export markets for our customers, and with a December general election this particularly affected Q4, which saw an organic decline in revenue. This resulted in two separate downgrades to our forecasts, one issued in September 2019 and one in January 2020. The new year did start with a clear view that the sector would return to growth quickly and this trend was beginning to appear just as the COVID-19 crisis took hold. Therefore the Executive team has, for the duration of this period in which negative growth was the norm, operated with increasing focus on the mantra of 'controlling the controllable' and ensuring that both the cost base and working capital are managed downwards effectively. Therefore, whilst it is disappointing that overall underlying operating profit has reduced in the year, we believe that the platform for future strong growth is being established.

In 2018, the operational highlight of the year was the acquisition of our major competitor, Balu Ltd, and its subsidiaries, Beaumanor Engineering and Derek Lane & Co, in March 2018. In 2019, the two businesses contributed an Operating Profit of £1,844,000 (2018: £1,347,000) and the level of integration achieved with the rest of the Group's operations has been particularly satisfying for the teams involved, and in line with our expectations.

The organisational structure announced last year, where we moved into a two-division format based around 'Components' and 'Services', has also proved to be a significant change. The large-scale redevelopment of our logistics platform currently being implemented underpins the collective reporting for the Components division, and the focus that has been brought to the Services division is ensuring that shared engineering and technical support is now being used more effectively.

The reduction in profitability seen in the Services division has been a function of the market downturn in late 2019, with many of the initiatives instigated by the divisional leadership team beginning to bear fruit in the early part of 2020. The division adds considerably to the technical resources of the whole Group. However, the sector as a whole operates at lower financial margins that the intrinsic niche value suggest should be achieved, and I remain focused on the clear need for this division to improve its overall profitability. The change to a single coordinated leadership team and reporting structure will assist in this process.

IT Development

In conjunction with our operational review, we have reviewed our long-term IT strategy and we now believe that we can move towards an optimised position in the medium term without the need for enterprise-wide IT change. This will be achieved by focusing on only three or four providers with each being capable of being linked to each, thereby creating a single framework, backed up by a cloud-based hardware solution that was successfully established in May 2019. These platforms can all be used in conjunction with our developing e-business operation and place us at the forefront of the sector.

As an example of how our investment in both resources and personnel has started to provide tangible benefit to the Group, following the announcement by the Government of the 'Work From Home' guidance on 16 March 2020, the Group successfully created a framework allowing over 200 people to effectively transfer their working base from office to home, including telecoms, within a working week using the cloud-based infrastructure established during the previous twelve months. This ensured that customer contact was retained and operations seamlessly transitioned during what became a stressful period for all.

People

In March 2019, Jon Burke was promoted to take overall responsibility for Services and is now working to co-ordinate all sales and operational matters across the various businesses within the division. In July 2019, Ian Simpson was promoted to Divisional Director within the Components segment with a specific remit covering the cluster of business units that focus on catalogue and web sales with a high-service offering. Finally, in November 2019, having previously worked as a consultant to the Group, Anne Fogg was appointed to the new role of Systems Director with responsibility for all the Group's IT, Internal Audit and Project Management resources.

In addition to the senior appointments described above, we are committed to training and development with several initiatives implemented in the period in leadership, sales training, technical and employee engagement.

We are always acutely aware that our progress is achieved with the continued commitment and effort of all our employees, and with our status in the sector developing, we are confident in our ability to retain and attract the best staff the industry can offer. The passion and commitment shown by the many staff members employed across the Group, particularly through periods of change, has been exemplary. On behalf of the Executive Management team, and the plc Board, I would like to thank everyone for their efforts, and the continued support that has been shown in 2020.

COVID-19

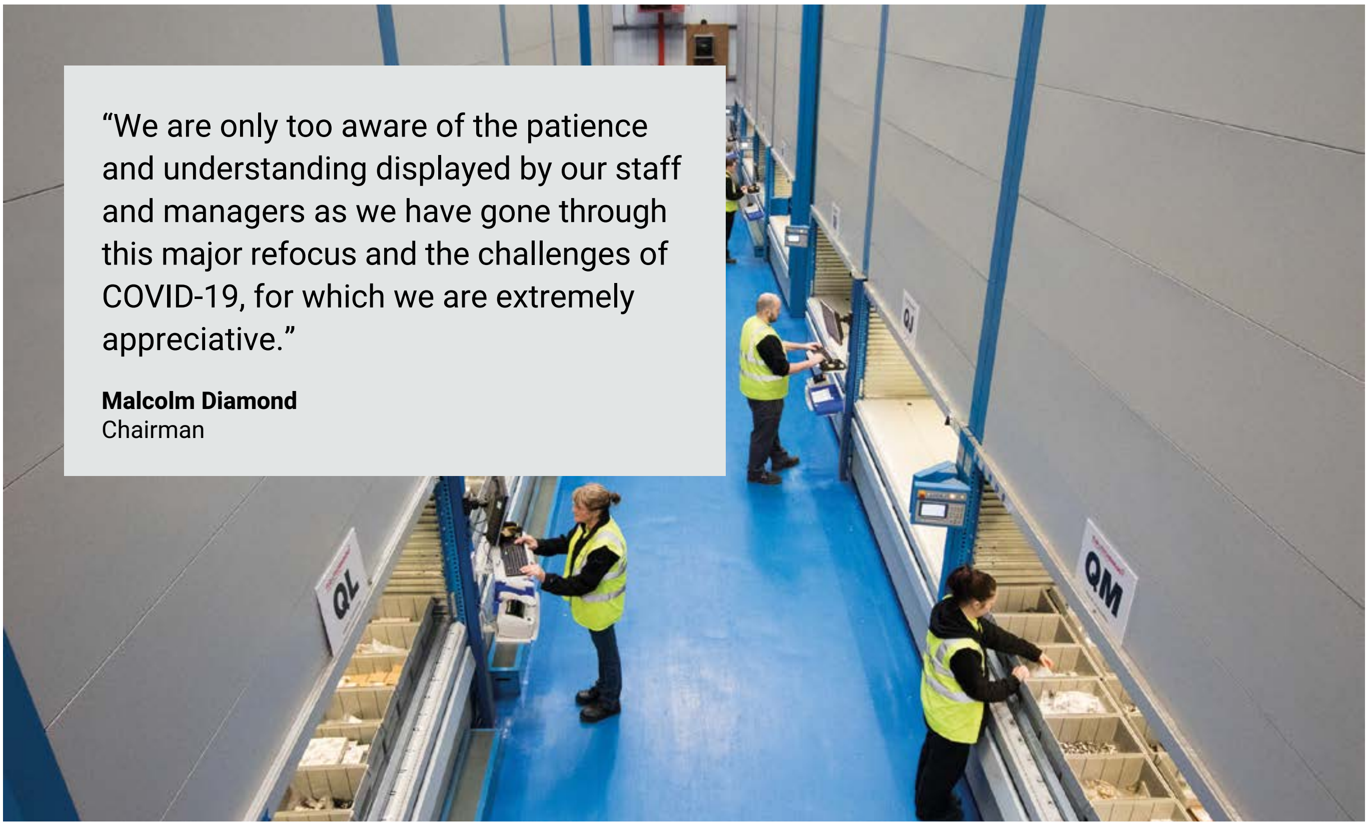
Prior to the COVID-19 lockdown, Q1 2020 performance was in line with our expectations at that time: down on the buoyant conditions seen in early 2019, but with a return to growth in customer order patterns and outlook. However, the final few weeks of this period created an altogether different position going into April 2020. Many of our suppliers and customers suspended operations, although recent indications suggest that some have either already reopened or are planning to reopen in May, albeit with reduced capacity.

On a daily basis the Board now receives reports on, amongst other things: headroom over banking facilities, use of governments' support, debtor collections, despatches from major distribution sites, COVID-19 staff illness, and the number of major suppliers and customers closed or reopening for business. In addition, we are holding weekly board meetings, as well as daily video conference calls amongst the operational leadership team, and our focus is on supporting our staff, suppliers and customers and matching our cost base to the emerging trends in activity.

As a result of our actions, since safe working guidance was introduced last month, costs have been reduced by a combination of internal actions and the utilisation of 'furlough' or equivalent schemes introduced in the UK, Republic of Ireland, and the Netherlands. We estimate that our cost base has fallen by around 25%, with further savings still to come from our restructuring activities. We will therefore continue to pursue our rationalisation and cost reduction programmes, creating operational efficiencies in our procurement, logistics, sales, and back office activities.

Whilst the full impact of the COVID-19 lockdown remains unclear, it is not possible to make any accurate predictions for the remainder of the year. A significant part of our sales depends on the manufacturing and construction sectors, both of which have seen large scale shut-downs. It is possible that these sectors will begin to reopen during early May, and our current plan is to ensure that we continue to support/service our customers and react as quickly and effectively as possible if this were to happen. However, if there is a need to undertake further cost reductions should the lockdown extend further into the year, we must ensure that we are in a position to initiate change without detriment to our future business and our customers. This being said, the work undertaken as part of our restructuring activities over the past 12 months is helping our planning enormously in this regard.

Bryce Brooks
Chief Executive Officer
29 April 2020



"We are only too aware of the patience and understanding displayed by our staff and managers as we have gone through this major refocus and the challenges of COVID-19, for which we are extremely appreciative."

Malcolm Diamond
Chairman

Improving our Solutions to Customers through Leadership & Unity

The Group's strategy is to continually support and develop our people and we continue to invest in training and forums which unite like-minded individuals to share and inspire each other, nurturing a culture of reward and empowerment to achieve the best results for our customers.

Our Annual Sales Conference

This event, held in February 2020, was attended by over 80 business development individuals from every brand across the Group, a 70% increase on last year, to develop cross-selling opportunities across the Group.

The two-day event involved thought-provoking presentations and informative workshops, along with views of the future landscape of the fluid power sector.

Highlights of the event included an awards evening, with ten awards presented for outstanding performance during 2019, along with a presentation from former Olympian and World Champion Gold Medallist Derek Redmond, which included a clearly emotive video of determination with clear messages linked to our own business.

Our Technical Conference

This biannual event, held at various locations during the summer and winter, invites around 30 team members from across the Group over two days to share ideas and experience, partake in product training and learn more about strategy and techniques to improve the solutions and services we provide to customers.

This cross-fertilisation of ideas has generated additional sales opportunities via an increased number of collaborative projects between businesses within the Group, combined with a heightening number of inter-company referrals.

The conference is further supported by an online forum, including a profile for each business and a Q&A chat feature, to promote collaborative problem-solving.

"This cross-fertilisation of ideas has generated additional sales opportunities via an increased number of collaborative projects."

Bryce Brooks
Chief Executive Officer

Forecast Meetings

Held annually in January with an update meeting in June, these meetings invite all Profit Centre Directors (PCDs) to present their annual forecast and plans for the year ahead to the Board. At the 2020 meeting, held in London, a number of awards were also presented including; 2019 Best Improvement in return on Working Capital, 2019 Best return on Working Capital, 2019 Best Organic Growth, 2019 Best Idea/Initiative as well as a 25 Years' Service Award to Flowtechnology UK's Managing Director, Keith Dickinson.

Elite Training Programmes

We have been proactive in approaching premium training partners who share our ethos for building partnerships and delivering outstanding performance.

The Leadership Trust

Introduced to the Group in 2018, the Leadership Trust is a five-day residential programme available to all PCDs across the Group and includes a 360-degree leader audit along with tailored expert coaching, designed to help managers understand and motivate teams and shape culture for maximum impact.

Since rolling out the programme, we have progressed five colleagues through this programme, with a further four completing in 2020.

Pareto Training

Pareto is a professional sales training and recruitment agency with over 25 years' experience of delivering improvement in sales performance to over 100,000 delegates.

Since beginning to work with them in 2018, over 100 employees have received training, on courses of various duration from single day courses to full development programmes. For those trained, we have witnessed a significant improvement in terms of motivation and performance.

High Quality Fluid Power Products & Solutions

As an aggregator of fluid power specialists, we buy and develop complementary businesses, reducing their operating costs while maximising their commercial value, to ensure we're the most cost-efficient provider of high quality fluid power products and solutions in the market. Our sustainable business model makes fluid power supply convenient and efficient for customers and suppliers and drives growth and returns for Shareholders.

Resources

Widest Product Choice

- Leading industry brands (500+) through key supplier partnerships.
- Central purchasing, allowing cost saving synergies.
- Extensive stocks £24m net.

Expertise in Our Market

- Established businesses between 10 and 50 years in operation.
- Highly skilled, highly knowledgeable employees with extensive supplier and business training.
- Robust IT, systems and processes by working with expert third parties, e.g. e-commerce and logistic partners.

Key Group Activities

Unrivalled, Low-cost Full-service Provision in Fluid Power

Vital Products & Solutions

- We have a healthy balance of operational and capex driven revenue. We have the largest market share in our sector for the indirect supply of urgently required fluid power components, vital for maintenance and repair operations across all industry segments. Additionally, we design, manufacture and install bespoke solutions across all industry sectors, predominantly sold to OEMs and driven by capital investment.

Vital High-quality Service

- High-quality service, which is both responsive and delivers significant value to customers, whether that be next day delivery from stock, technical support, customer training, on-site servicing or added value services such as bespoke sales and marketing support or e-commerce solutions.

Driving Force

Strong Leadership Culture

- Through our decentralised structure, we promote an entrepreneurial spirit, where the leaders of each business within the Group have the freedom to run their businesses independently and at the same time benefit from central resource and support. Each business and its employees is further empowered through access to training and reward schemes.

Our Strategy for Growth

Sales Growth

Procurement & Productivity Improvement

Cash Generation & Management of Net Debt

IT Strategy

People

Value Created

Short to Medium Term

- Sustained annual growth with strong financial performance and attractive returns for **investors**.
- Widest brand choice from a single source, with tailored options, supported by technical expertise and reliable added-value services for **customers** (98% on-time delivery for MRO).
- Respected collaborative **supplier** partnerships.
- Rewarding and progressive careers for **employees**, through training and incentive schemes.
- Reliable, efficient solutions for **industry**.
- Support for our local **communities** through local apprenticeships and charitable work.

Long Term

- Most cost-efficient provider of a high-quality service in fluid power.
- Sustainable long-term growth, through reliable repeat business and carefully selected acquisitions.
- Experience, stability and strength to support large long-term projects.
- Critical mass, with resources to adapt and explore new market opportunities.
- Thought leadership in fluid power with innovative solutions for industry.

"Our sustainable business model makes fluid power supply convenient and efficient for customers and suppliers and drives growth and returns for Shareholders."

Our Strategy for Growth

The Group has a clear view of growth objectives – to create a specialist fluid power organisation that remains focused on its core competencies through its delivery of class-leading service and support. Our long-term growth model is based on organic growth, coupled with complementary acquisitions in the UK and Europe, in a very fragmented marketplace. The Board regularly monitors a range of financial and non-financial performance indicators to allow it to measure performance against expected targets.

Strategic Focus > KPIs

Sales Growth

Target to ensure continuous above 'market' sales growth with strong gross and net margin contribution.

At Profit Centre level, we review sales and gross profit on a daily basis, comparing performance against prior year and plan. Each business has additional reporting available from local systems detailing overall sales and gross margin performance on a summarised customer and product group basis, with further detail available at individual product level. The Group also measures organic sales growth on a quarterly basis and compares this to market information produced by our industry trade associations. Whilst there are some differences in the composition of the index to our own business, this does give us a guide as to how we are performing against the sector.

Procurement & Productivity Improvement

After an extended period of growth driven primarily by acquisition, we look to use our wider resources to both improve purchasing terms with our major supplier partners, as well as improve our operational efficiency.

At individual Profit Centre level, various KPIs are measured to cover service levels including stock availability. However, during 2020 the Group is developing a number of additional measures to be able to compare efficiency levels accurately between Profit Centres, and these will include such KPIs as overall cost per pick, cost per delivery (both in overall quantum and as percentage of sales) and number of suppliers for both stock and expense supplies, with an overall view to support the various cost improvement initiatives being undertaken.

Cash Generation & Management of Net Debt

A focus on reducing gearing in the balance sheet, and the creation of excess cash positions, will protect the business from any macroeconomic uncertainties, provide scope for the payment of dividends and support further acquisition activity when appropriate to do so.

Working capital as a percentage of total revenue

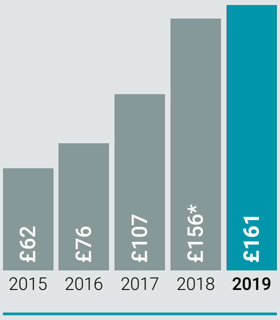
32.2%
2018

Working capital as a percentage of total revenue

26.8%
2019

FY2020

Daily Gross Profit £000



Total Value of Sales from Online & EDI £000

- We will establish a single e-business platform using established resources in this area capable of being available to all business units.
- We will now look to grow sales above market by 3% using the significant cross-selling opportunities and customer data now available whilst managing resources carefully.

*Prior year values have been restated as described in note 2.30.

Group Cost per Pick**

£3.32

2019 (2018: £3.94)

Group Cost per Pick**

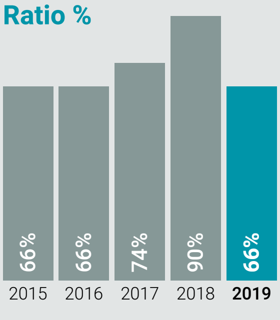
£2.40

2020 target

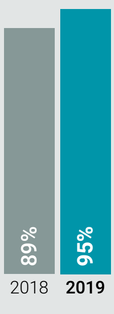
- We will complete the Group-wide warehouse and logistics plan significantly reducing cost base in this area, and providing a platform for future growth.
- Return on sales in each operating segment will be a key metric to ensure productivity measures across the Group are improved.

**Being the Group's total cost of warehousing, including property and people, divided by number of invoiced lines in the year.

Net Debt to Total Facilities Ratio %



Turn & Earn %†



- The Group has a target to achieve a Turn & Earn KPI of 130% by 2022.

†Turn and Earn Index is calculated by multiplying gross margin by stock turn. In 2019, the gross margin achieved was 35.7% and the average stock turn achieved was 2.67, therefore the Turn and Earn index was 95.

Strategic Focus > KPIs

IT Strategy

Cost-effective, secure IT environments that provide long term stability for the Group's activities remains a key part of the Group's strategy.

The Board believes that a reduction in the number of IT systems that operate within the Group is a key element in improving overall efficiency and control and reducing risk. The long-term objective is to have a single integrated process and accounting system. However, in the medium term, the focus will be on reducing the number of process systems to four or less, and with a single accounting system for aggregating financial performance summaries, sales credit management and supplier payment processing.

People

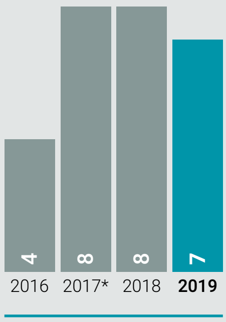
Investing in our management teams and staff brings the benefits of improved retention and talent identification for succession planning. We see training and development of employees as key to our long-term success.

Starting in 2019, in order to improve leadership skills at management levels from Profit Centre and above, all senior staff will undertake training at Leadership Trust.

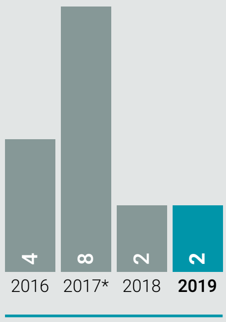
In October 2018, the Group introduced an Employee Engagement Programme operated by Thomas International to measure and strengthen employee satisfaction. Following this, the Group has introduced various activities tailored to each business unit with a view to improve overall employee engagement.

FY2020

Process Systems



Accounting Systems



- The Group will reduce the number of business process systems in use across the Group from the current 7 to 4 by the end of 2020.

*Increase due to acquisition activity.

Group Employee Engagement

66%
2019

Group Employee Engagement

72%
2020 target

- We look to improve our overall engagement score from 66 to 72, as measured by our annual survey in December 2020.
- All Profit Centre Directors and above to complete Leadership Trust training by the end of 2020.

A Growing Fluid Power Market

We operate in a growing fluid power market, worth £1 billion in the UK, €13.9 billion across Europe and $49.2 billion globally*. It is broadly estimated that 'distribution' accounts for between 30% and 40% of this market, with the balance covered by direct supply from product manufacturers to eventual end user.

Our Market

Fluid power technology is widely utilised in all industrial sectors. It is split into two distinct sectors: hydraulics and pneumatics. Of the total UK fluid power market, hydraulics represents approximately 70%, pneumatics 20% and the remaining 10% in industrial products which act as conduits for gases and liquids.

Hydraulics

The hydraulic market is highly fragmented, comprising a large number of manufacturers, supplying direct to manufacturers of specialised equipment (OEMs) or resellers who sell onto OEMs. This market is further split between mobile hydraulics (56%) and industrial hydraulics (44%).

Core products include:

- Pumps
- Motors
- Valves
- Cylinders
- Filters
- Hose and tubing
- Fittings

Key industry drivers include:

- Construction
- Agriculture
- Defence
- Aerospace
- Oil and gas
- Heavy machinery for lifting and moving equipment

Pneumatics

The pneumatic market comprises a smaller number of key players, who supply direct to end users or to resellers who then sell onto the end user.

Core products include:

- Compressors
- Filtration
- Valves
- Cylinders
- Vacuum products

Key industry drivers include:

- Food processing
- Electronics
- Medical
- Automotive
- Packaging

Global Landscape

In the UK and Ireland, we estimate Flowtech Fluidpower currently holds around 10% market share in fluid power. Across the Benelux, we hold around 2% market share (Benelux is €646 million – BFPA, latest available statistics). We partner with over 500 supplier brands, giving us potential access to a large share of the €13.9 billion European fluid power market. As global manufacturers lean towards supply chain consolidation through closer partnerships and purchasing synergies, the Group aims to further support supplier supply chain consolidation and grow its market share.

Below are some of the leading brands we sell and partner with.

*British Fluid Power Association (2017) CETOP (2019).

Market Trends in the UK

The British Fluid Power Association (BFPA) captures market insight based on two key channels: direct sales from manufacturers to OEMs/end users and indirect sales via distribution (approximately 30% of the hydraulic market and 37% of the pneumatic market). The former having a higher involvement in more volatile capex spending, and the latter supporting maintenance, repair and operations (MRO), present different trends in the fluid power market.

While manufacturers witnessed a slight drop in sales for 2019, distributors reported an increase of 2.2% since 2018. Anecdotal evidence points towards Brexit as a significant contributor to this situation, with capex projects being put on hold as industry adopted a 'make do' attitude, focusing on maintaining and repairing older machines to keep production on track.

We would expect to generally grow ahead of the market forecast by the BFPA due to the strong market position that the Group has created.

At the date of this report, market data on a similar basis is not available for the Republic of Ireland and the Netherlands, being the other countries in which the Group has operating centres, although the Board believes that the recent short term trends in these markets is broadly similar to that in the UK.

UK End User Market Composition – BFPA 2018

Flowtech Fluidpower – Market Segmentation 2019

VH SW

Marketplace

How We're Responding to the Brexit Ruling

The UK formally left the EU on 31 January 2020. At the date of this report, the potential impact of Brexit is difficult to assess as the UK moves through a transition period to establish what the future relationship will look like.

The Flowtech Fluidpower Group services an extensive range of industry sectors, thus spreading the risk of adverse market conditions and creating many opportunities for the Group. Despite the uncertainty around Brexit, there are a number of positive trends and initiatives that we are ideally positioned to capitalise on:

- Securing new business in growing sectors such as transport and renewable energy.
- Driving down cost in our business by maximising purchasing synergies and operational efficiencies.
- Consolidation of stock, allowing us to maintain margins despite increased pressure on import costs.
- Market penetration as one Group, ensuring we cross-sell to keep business within the Group.
- Expansion into European markets through acquisition and e-commerce.

We have reviewed our business and consider our Group to be relatively stable. We have taken the following measures to safeguard our business as much as possible.

Risk	Response
Product compliance	We have reviewed product standards, e.g. CE marking.
Logistics – potential threat to supply chain	We have mapped out our supply chain, identifying any potential threat to our business. For 90% of our business, we hold up to 3 months stock as standard and the majority of any potential disruption relates to supply by global brands from their manufacturing sites in the EU. We therefore believe we have some 'buffer' against short-term disruption, with medium and long-term issues to be negotiated in due course. We also have a supplier base in Ireland and Europe, so have the option to ship to these countries if significant delays are apparent.
Tariffs and customs	We have reviewed trade tariffs, rules of origin and associated additional costs.
Employees right to work in the UK	We have audited all permanent employees and established their right to work in the UK.
Intellectual property	We have reviewed IP and international contracts. We were advised by our Patent Lawyers that a transition grace period will be in place until 31 December 2020.

The BFPA has been heavily involved with the European ISO/CETOP standards agencies to gain alignment with British standards. An agreement was reached that regardless of the outcome of Brexit, alignment would be maintained and they would continue working together.

A Transformation in the Level of Cash Generation

"The Board believes that areas capable of being controlled have been suitably focused on and results delivered. We are particularly pleased that efforts to reduce working capital has been a key factor in a £3.3m reduction in our Net Debt."

Russell Cash
Chief Financial Officer & Company Secretary

The focus on working capital management, combined with our profitable trading performance, has delivered a transformation in the level of cash generation.

Operational Review

	2019	2018	Change %
Group revenue (*)	**£112.4m**	£112.1m	0.3%
Gross profit (*)	**£40.2m**	£38.9m	3.2%
Gross profit %	**35.7%**	34.7%	100bps
Group operating profit	**£5.7m**	£7.7m	(25.2%)
Underlying operating profit (†)	**£9.6m**	£11.4m	(15.6%)

(*) All results relate to continuing operations. Prior year values have been restated as described in note 2.30.

(†) Underlying operating profit is continuing operations' operating profit before separately disclosed items (note 4), the impact of fair value adjustment to inventory (note 3). Underlying operating profit for 2019 also excludes the impact of re-stating operating lease rentals under IFRS 16 (note 22).

Reconciliation of Underlying Operating Profit to Operating Profit

	2019 £000	2018 £000
Underlying operating profit	**9,607**	11,381
Less impact of fair value adjustment to inventory (note 24)	**(297)**	(382)
Add impact of re-statement under IFRS 16 on operating profit (note 22)	**147**	–
Less separately disclosed items (note 4)	**(3,712)**	(3,321)
Operating profit	**5,745**	7,678

Headline Commentary

Given the background of increasingly challenging market conditions encountered in 2019, in particular the final quarter of the year, the Board is satisfied with the trading result.

The Board believes that areas capable of being controlled have been suitably focused on and results delivered. We are particularly pleased that the efforts to reduce working capital has been a key factor in a £3.3m reduction in our Net Debt (£19.9m reducing to £16.6m). The underlying reduction is £5.9m if account is taken of the c£2.6m paid out in respect of historic acquisition activities.

Earlier in 2020 we announced our plans to take cost out of certain of our businesses to build on the more modest savings which were achieved in 2019. These plans revolve around getting much better benefit from certain of our more efficient distribution facilities. The Board remains confident that further, significant, savings will be achieved in the next two to three years.

Revenue

Revenue increased by 0.3% (2018: 42%). After accounting for the impact of the Balu acquisition (March 2018) there was underlying organic decline of 1.9% (2018: growth of 5.7%). 2019 was a story of two halves with organic growth of c3% in H1 being more than offset by decline of c7% in H2 with Q4, in line with the overall market, being particularly challenging.

Gross Profit Margins

Our overall gross margin improved by 100bps. This is particularly pleasing and builds on a 81bps gain in 2018. Gross margin remains a key indicator for each of our businesses; this, combined with increasing focus on businesses within the Group working together to generate improved terms, sees us well placed to retain and improve on these strong margins in the future.

Underlying Operating Profit

Underlying operating profit reduced by £1.8m (15.6%). After taking account of separately disclosed items, statutory operating profit reduced by £1.9m (25.2%).

Separately Disclosed Items

	2019	2018
Share option costs	**143**	191
Amortisation intangibles	**1,051**	1,040
Additional deferred consideration	**596**	264
Restructuring costs	**1,739**	1,002
Acquisition costs	**183**	824
Total	**3,712**	3,321

Results by Segment

During 2019 we began to review and measure our business under the two reporting segments of Components and Services. The rationale for this was to enable us to draw a distinction between the relatively predictable Components business with a large proportion of business being maintenance and repair related and, in contrast, the Services division which provides a broader spectrum of offering and which is more difficult to predict but which our key suppliers view as being a major reason why they wish to develop strategic partnerships with the Group.

Revenue	2019 £000	2018 (*) £000
Components	**96,348**	94,581
Services	**16,070**	17,527
Group	**112,418**	112,108

(*) Prior year values have been restated as described in note 2.30.

Gross Profit	2019 £000	%	2018 (*) £000	%
Components	**35,167**	**36.5**	33,362	35.3
Services	**5,016**	**31.2**	5,587	31.9
Group	**40,183**	**35.7**	38,949	34.7

(*) Prior year values have been restated as described in note 2.30.

Underlying Operating Profit (Loss)	2019 £000	%	2018 £000	%
Components	**13,995**	**14.5**	14,254	15.2
Services	**(59)**	**(0.4)**	314	1.8
	13,936		14,568	
Less allocation of central costs	**(4,329)**		(3,187)	
Group	**9,607**		11,381	

Revenue

Overall revenues grew by £0.3m, split:

- Components – £1.8m increase (£2.5m increase through acquisition activity and £0.7m (0.8%) organic decline.
- Services – £1.5m (9.1%) decline.

Financial Review

Gross Profit Margins

It is pleasing to see a 1.2% improvement in an already strong margin within our Components businesses. We continue to see benefits of the creation of a central Commercial/Procurement Director in prices we are achieving with our suppliers as buying decisions are made on a consolidated Group basis rather than by individual Profit Centres.

The margin within the Services division typically vary more. We have plans in place which should see both gross, and more importantly, net margins improving within this part of our business.

Underlying Operating Profit

Underlying operating profit within our Components division remains strong at £13.9m, a margin of 14.5%. Whilst the lack of contribution from our Services businesses is disappointing, the division remains key in developing our ever stronger relationships with key suppliers. Actions are now in place to improve the performance, through a combination of extracting operational efficiencies and by charging more appropriately for certain of the services which are provided.

Central Costs

Central costs comprise executive management, finance and IT departments, divisional sales and the cost of running the plc.

We made significant investment in these areas during the second half of 2018 and early 2019. We believe an element of these costs will not recur in 2020; this, combined with the focus we have on managing our overall cost base down, means we are confident that these costs have reached a mature level and will not materially increase in the foreseeable future.

This provides a robust platform to deliver material cost and working capital savings. The Board believes we are well placed to capitalise on future growth opportunities, both organic and when the time is right through acquisition activity.

Statement of Financial Position & Cash Flow

In a year where trading conditions were challenging it is pleasing to see that we achieved a £3.3m reduction in Net Debt, in particular given £2.6m was paid out in respect of contingent consideration relating to historic acquisition activity.

This performance reflects the emphasis which the entire business placed on management of working capital. In 2019 cash generated from operations activities totalled £13.2m (2018: £3.8m).

In terms of working capital achievements:

- Net stock levels were reduced by c£4.7m and our focus on achieving further reductions has continued into 2020.
- The average payment term with suppliers was increased from c45 days to c55 days – this was achieved by agreeing enhanced terms with a number of our key suppliers.
- We agreed reduced payment terms with a certain number of our customers – as a result our debtor days reduced by c3 days (c£1.0m in cash terms).

The chart at the foot of this page shows the key components of the cash flow.

The business generated £10.4m (2018: £10.1m) of positive operating cash flow. This was augmented by the effect of the focus on management of working capital with an overall benefit of £5.8m in the year. The aggregate total of £16.2m enabled the following to be funded:

- Dividends (£3.7m).
- Earn out consideration in respect of historic acquisitions (£2.6m).
- Taxation (£3.0m).
- Lease payments & IFR16 related interest (£1.9m).
- Capital expenditure (£0.8m).
- Interest (£0.8m).
- Other items (£0.2m).
- Reduction in bank debt (3.3m).

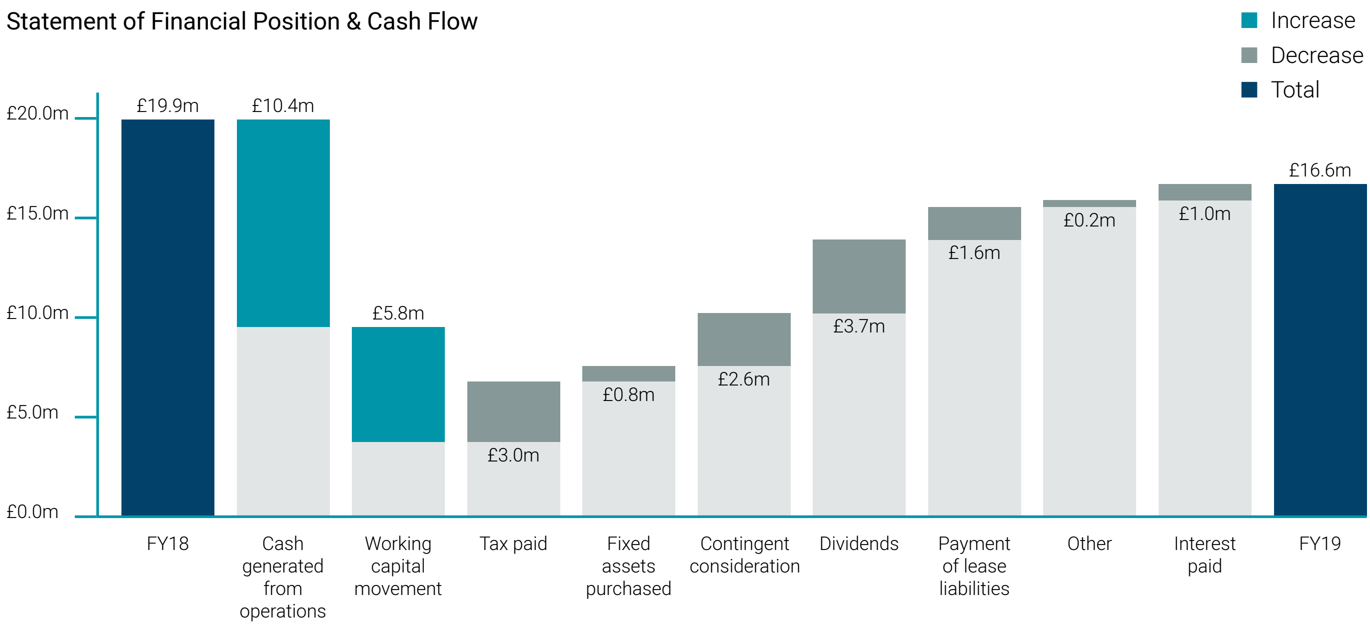
Dividends

Given the challenges presented by the COVID-19 pandemic, the Board has concluded it is in the best interests of all stakeholders to suspend the dividend policy. As such, the interim dividend of 2.13p per share (paid on 29 October 2019), will not be added to. The Board will review the dividend policy once more stable conditions have returned.

Taxation

The tax charge for the year was £0.97m (2018: £1.99m), with an effective tax rate of 20.6% (2018: 28.8%). The significant reduction in the effective rate primarily relates to the fact that there is a much lower level of disallowable acquisition-related expenditure in 2019 as compared with 2018.

Statement of Financial Position & Cash Flow



“Gross margin remains a key indicator for each of our businesses; this, combined with increasing focus on businesses within the Group working together to generate improved terms, sees us well placed to retain and improve on these strong margins in the future.”

Russell Cash
Chief Financial Officer

Risk Management Framework

The Board is responsible for risk and internal control systems across Flowtech Fluidpower. Each of our Profit Centres are asked to provide input into this thinking on at least an annual basis. This oversight ensures regular and consistent challenge is applied to all parts of the organisation.

We continually integrate new risk mitigations into the way we work to ensure risk management is effective and practically embedded throughout the organisation. This ensures the safety of our staff, the public and protection of the business.

During the past year, we have continued to build and enhance our risk management framework. We began this process by working alongside Marsh, specialist consultants in this area; Marsh has undertaken an independent maturity assessment of our risk processes across multiple exposures. This has resulted in an improved roadmap which the organisation has committed to work on over 2020 and which is referred to in this section of our report

These improvements include the alignment of the risk management framework to ISO 31000 and the establishment of a Risk Management Committee (RMC).

Core Risk Management Process

1 Identify Risks

- Identify internal and external sources of risk (threats and opportunities).
- Determine risks, causes and consequences.
- Define categorisation, connectivity and ownership of risks.

2 Analyse & Assess

- Conduct qualitative analysis across multiple impacts.
- Determine financial exposure.
- Assess inherent and residual level of risk.
- Align against risk appetite.

3 Respond & Control

- Determine risk response (treat, terminate, tolerate, transfer).
- Implement control strategies.
- Set up controls process (ownership, time frames).
- Develop further action plans and align with risk appetite.

4 Monitor & Review

- Review and aggregate risk data.
- Monitor risk profile changes.
- Measure Enterprise Risk Management (ERM) performance against key risk indicators.
- Monitor control effectiveness and compare with incidents and claims.

Risk Governance Structure

Board
Direction and decision.

Risk Management Committee
Suggested approaches.

Specialists & Department Heads
Invited based on topic discussed at meeting.

The RMC will be attended by a selection of department heads and managers from the different business units and will be a regular forum to discuss the changing risk landscape facing the organisation and suitable mitigations. Outputs from the RMC will be provided to the Board in line with the insurance renewal process.

Risks will be escalated to the RMC and the Board based on the risk appetite of the organisation. Those risks which exceed this acceptable level will be escalated to the RMC and then onto the Board for discussion.

Risk Hierarchy

Level 1

Group Principal Risks

Adverse circumstances that could have the ability to effect all business units operating within the Group. These risks could destroy the organisation or seriously impair its ability to perform.

Level 2

Business Unit Risks

Risks that have the potential to impact specific business unit activities. Teams will feed into this level, which are in turn are reported up to the Board based on risk appetite.

Level 3

Team/Functional Risks

Risks that may impact teams or functions within the business units. Risks are normally specific to the individual teams who could retain ownership and control.

Three Lines of Defence

Flowtech Fluidpower will operate a three lines of defence model in line with good practice for priority risk areas. This will ensure constructive challenge and continuous improvement is maintained.

3 Third Line of Defence

2 Second Line of Defence

1 First Line of Defence

Business as Usual

- Perform business activities to fulfil strategic objectives in line with risk appetite.
- Accountable for risks incurred in these activities.
- Manage risks via avoidance, mitigation, transfer or acceptance.
- Design and operate effective primary controls and procedures in line with frameworks and policies.

Risk & Compliance

- Support the establishment of an effective risk management framework and definition of risk appetite.
- Monitor risk profile and escalate as appropriate.
- Provide advisory support and challenge to first line of defence.

Internal or External Assurance

- Independent review of adherence to risk and control standards, mandates and guidelines.
- Opinion on adequacy and effectiveness of first and second line risk management approaches.

Risks

The most significant risk faced by the Group is the economic disruption caused by the COVID-19 pandemic and the knock on effect on the UK's withdrawal from the European Union. Our response to the pandemic is discussed in the Chairman's statement and the CEO's year in review and our preparation for Brexit is set out on page 21. The implications for the Group are included in note 2.2 Going concern and note 31 Subsequent events. This risk is managed by the Board as a whole and is the subject of, at least, weekly meetings.

Notwithstanding our position as market leader in the UK, our businesses constantly remain alert to the potential threat of our competitors. We believe investments we have made in an array of areas provide resilience in this regard and should lead to our position in the market further improving; this is an ongoing mindset and one which is certainly continued in 2020, notwithstanding the challenges presented by COVID-19.

Of particular note is the investment we have made in our people, both those that have been with us for a time and those who we recruited and welcomed into our businesses more recently.

A further area of particular significance is the focus we have applied to developing our already strong website offering with the aim of improving our reach to an ever increasing proportion of our customers who purchase through this forum. This is viewed as crucial to our ambition to achieve future growth and further develop the relationship with key suppliers who want to put increasing volumes through a limited number of trusted distribution partners.

Set out below are the risks identified by the Group's risk management process. These represent the other significant risks faced by the Group, each of which is owned by a member of the Executive Management team and reported on regularly to the Board.

Inability to Recognise & Control Cyber Exposure

Owner: Chief Executive Officer

Description

The Group recognises there is an increasing exposure to cyber risk, including advanced techniques to disrupt our websites and direct attacks on Group systems with the potential loss of confidential information.

Mitigation

Current mitigation measures for local business systems include anti-virus software, virus scans on incoming emails and firewall protection.

The main Group website is hosted in the cloud, with dual servers ensuring automatic switchover should one fail, with daily backup procedures.

We have taken measures to highlight this risk in several communications with all of our employees and worked with external providers to ensure that these messages are becoming embedded in all that we do within the business. This has assisted in our business successfully defending efforts to infiltrate our systems.

An on-site IT review is carried out post-acquisition, followed by standardisation of networks and controls. Continuing review of all existing IT systems during the year while working towards IASME Gold certification for all sites.

System & Site Disruption

Owner: Chief Executive Officer

Description

There is heavy operational dependence on the resilience of warehousing and IT infrastructure to support business operations and maintain high service levels. The risk is present that unplanned events could disrupt the functioning of key elements of the operational infrastructure, damaging customer service and business reputation.

Mitigation

Off-site disaster recovery provision for IT systems, including cloud-based technologies.

Business continuity plans in place at key operational locations. As the Group increases in size, resilience to disruption improves as distribution and production activities can be rerouted to other sites.

The robustness of our systems has been regularly tested throughout the year and, where appropriate, steps taken to enhance processes; we see this as an important, ongoing work stream to ensure our business is continually alert to future challenges.

A business continuity plan has been tested successfully at the Skelmersdale Logistics Centre. A regular test programme has been introduced across the Group.

Inability to Effectively Manage & Control IT Hardware & Software Changes

Owner: Chief Executive Officer

Description

A part of our strategic focus is to reduce the number of process systems operated by the Group and also operate from a single accounting environment. In order to create this position, the Group will need to identify, plan and implement a number of hardware and software changes that will require a significant amount of project management skill and resource.

Mitigation

Under the leadership of the Systems Director, in 2018 and early 2019 the central services function added full-time skills in user acceptance testing and project management.

In addition, the Group has also engaged external support from reputable consultants with a view to defining an internal 'Standard Practice Instruction' covering project management best practice generally and have introduced the main components defined by this process to all current IT change projects.

Trend:

Risk increasing — No risk movement — Risk decreasing

Quality Control

Owner: Chief Executive Officer

Description

Many of the key components and products supplied by the Group are for industrial use, often in hazardous environments. They must be fit for purpose to ensure that their reliability, performance and safety is of the necessary standard. Failure in this quality will cause damage to the Group's reputation and customer relationships, and potential legal consequences.

Mitigation

The majority of the Group's products are sourced from reputable 'brands' in the UK and Europe; while the business continues to source certain products from China, this is far less prevalent than it once was. The Group has quality control specialists who regularly visit suppliers' manufacturing sites to ensure that high quality standard operating procedures are being adhered to.

The majority at Group sites comply with ISO 9001, ensuring quality standards are maintained through all its operations.

Continual testing procedures are in place for both components and manufactured products.

Employees involved in assembly processes are qualified with the relevant industry body and continue with regular internal and external training. Our people have been supported where felt necessary by external input and in 2020 we will create the new role of Director of Product and Engineering Compliance to oversee all the Group's Quality Control procedures.

Talent Management & Succession Planning

Owner: Chief Executive Officer

Description

There is a risk that the business is not able to attract and retain high performing employees.

The Group also needs to maintain engagement with the employees to ensure they remain supportive of the business strategy.

Mitigation

Attraction and retention of employees is supported by bonus plans, recognition and reward programmes and innovative benefit packages.

Succession planning process introduced to identify and develop key employees. Training forms a key part of all employees' development within their roles. Training is arranged to support the Group's business plans and the personal goals of all employees.

In recent years there has been a programme put in place to support the development of each member of our Profic Centre, divisional and executive management teams. The feedback we have received from participants has been exceptionally good with each person acknowledging the relevance of the content to their role within the business.

Group-wide technical and sales conferences to aid skills sharing.

Breach of Regulations

Owner: Chief Operating Officer

Description

Inadvertent breaches of regulations could lead to prosecution and significant fines. Regulations impacting the Group include: Health and Safety at Work, Control of Substances Hazardous to Health; packaging waste regulations.

Mitigation

The Group engages external specialists as required to make sure internal procedures and policies are in place to provide compliance with the regulatory frameworks.

There is an ongoing review of relevant national and international compliance requirements.

Corporate Social Responsibility (CSR)

The Board has overall responsibility for Corporate Social and Environmental Responsibility and is committed to developing and implementing processes and policies which protect the environment and create long-term value for the business and wider communities

Our CSR responsibility focus on three core areas:

1. Our People
2. Our Communities
3. Our Environment

Our People

Our people and the service they provide are critical to our success as well as driving many CSR initiatives. We believe focusing on the following will lead to a committed and productive workforce:

Strong and supportive culture	Attracting, retaining and developing talent	Maintaining and promoting diversity	Engagement	Healthy working environment

Committed productive workforce

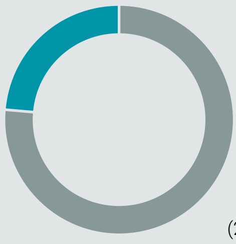
Strong & Supportive Culture

We continually strive to challenge the status quo in our market, aiming to be the most convenient and efficient provider of a high-quality service in fluid power.

Fundamental to this vision is a strong culture focused on recruiting and developing the right people in the right roles within our business – encouraging employees to work collaboratively with customers, suppliers and each other and empowering them to directly shape the future of our business and fluid power. This, we feel, breeds passion and a genuine desire to achieve the best solutions for our customers, and through a friendly, supportive culture focused on efficiency, technical competence and unrivalled service, we're in a strong position to drive added value right through the fluid power supply chain.

Statistics

Gender

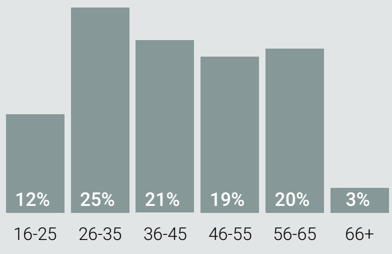


Male – 76%

Female – 24%

(2018 – no change)

Age Range



(no figures for 2018)

Number of Employees*

631

(2018 – 573)

Retention†

83%

(2018 – 89%)

Length of Service**

7.5 years

(2018 – 7.5 years)

*Average in 2019.

**Average number of years.

† (1- leavers during 2019)/average number of employees.

Attracting, Retaining & Developing Talent

The Board places a strong emphasis on employee recruitment and retention, giving leaders the appropriate support, training and tools to build confident, motivated teams.

Attracting the Best Talent

It is important that we ensure our people are the right fit for their role and the business in which they work.

As part of the recruitment process, we utilise workplace behaviour profiling to help confirm whether a candidate is an ideal match for the role. Many senior managers are trained practitioners, able to understand and give feedback on profiled behaviour.

We recruit using a number of methods deemed most appropriate for the position and we're increasingly utilising social media, namely LinkedIn as a channel to promote awareness of our brand and opportunities within each Group business. This enables us to reach out to talent within fluid power and potential candidates who may follow us for such opportunities. Since opening an office in Wilmslow we have successfully recruited employees, consultants and service providers from Manchester and Cheshire.

Apprentices

We are keen to attract and retain apprentices and currently employ ten apprentices across the Group, two in office positions and eight in engineering roles.

Through training and encouragement, we nurture and develop local talent and support school leavers seeking commercial or engineering experience. We enjoy a high retention rate as most apprentices go on to secure permanent positions with us. In 2019, we retained two apprentices who graduated across the Group, an engineer at Primary Fluid Power and a business admininstration apprentice for our supply chain team at Flowtech Fluidpower plc. We also support local students and communities where possible with work experience opportunities.

Retaining & Developing Talent

Business performance and ongoing success are directly related to the quality and effective performance of employees. We openly encourage employees to enhance skills via continuous learning, giving them appropriate access to training, development, coaching and counselling facilities. Induction training sets the foundation for all employees and introduces the Group's operational best and required practices which are documented in comprehensive Standard Practice Instructions (SPIs) as well as a Group Employee Handbook. This is followed by specific on-the job training, in-house or at accredited third parties. Many of our engineering apprentices attend courses with the National Fluid Power Centre (NFPC), the North Notts College, local colleges or training with our company mentors.

In 2018 a technical forum was introduced for technical personnel to share knowledge. This has created an additional revenue stream via an increased number of collaborative projects between businesses within the Group, combined with a heightening number of inter-company referrals.

We work with a number of high-quality training partners, accessible by business unit. Examples include:

The 'Leadership Trust' – a programme for all MDs which incorporates a 360-degree leader audit along with tailored expert coaching, designed to help managers understand and motivate teams and shape culture for maximum impact.

Mentor Programme – fluid power is a niche industry; loss of trained, specialist personnel poses a significant risk for the business. Each business is responsible for its own business continuity plans, which are supported by the Group, in terms of training and development of key personnel. In 2018, the Group started a mentor programme, which sees former Group business owners and important industry contacts guide and assist various members of the Group on a one-to-one basis. This investment will ensure Group leaders have the appropriate knowledge and support to take their business forward in the years ahead.

Reward Schemes

Employees undertake annual performance reviews and are rewarded via additional holidays for attendance, financial rewards and other softer perks. A Group profit share scheme was introduced in 2017, eligible to all businesses, subject to a minimum performance threshold of 20% annual return on investment at each business. Each Profit Centre Director has the autonomy to allocate this financial reward on an annual basis across their teams subject to approval by the Chief Operating Officer, which rewards employees and in many cases offers an additional motivational incentive for future years.

Corporate Social Responsibility (CSR)

Maintaining & Promoting Diversity

It is our Group policy to recruit and promote based on ability and attitude, regardless of gender, sexuality, ethnicity, disability, age, religion or belief, parenting, caring or marital status.

Promoting a culture of respect and equal opportunity is as important as ensuring the right skills fit our business. In instances where an employee becomes disabled, where practicable the Group has policies to providing continuing employment and career development where appropriate.

The Group recognises the importance of work-life balance, especially for employees with family commitments. Where the demands of the business allow, flexible working is encouraged. We have witnessed a very high return rate of female employees following maternity leave, additional flexibility, and in many cases career progression, has increased their commitment and attitude towards the business. We currently employ 24% females across the Group with 27% of senior management positions occupied by females.

Human Rights & Modern Slavery

The Group does not tolerate bullying or harassment. We are committed to fair employment practices and comply with national legal requirements regarding wages and working hours.

Our respect for human rights is implicit in our employment practices; the rights of every employee are respected and every employee is treated with dignity and consideration. Our employment practices are designed to attract, retain, motivate and train people and to respect their rights.

We do not use child labour, nor do we use forced labour. We make regular supplier visits to ensure our supply chain maintains the same standards of integrity and is free from modern slavery.

We recognise freedom of association by permitting our employees to establish and join organisations of their own choosing on their own initiative, and we recognise collective bargaining where required by local laws.

Our Modern Slavery Statement can be found online at www.flowtechfluidpower.com.

Boosting Engagement & Productivity

Engaged and committed employees are integral to our overall Group performance and the delivery of great customer service.

In 2018 the Group introduced an Employee Engagement Programme; surveys are conducted annually by a third party provider and each business unit is responsible for implementing ways to boost engagement. The second round of surveys will be completed by October 2020, at which point we'll be able to see progress made.

We currently share information via email and noticeboard communications as well as forums, meetings and shared servers or Dropbox. To improve efficiencies and Group collaboration we are exploring an intranet platform; we also see this as a positive step towards boosting employee engagement by virtually uniting teams in different locations.

Providing a Healthy Work Environment

The Group remains committed to providing a safe and healthy working environment. The Chief Operating Officer has overall responsibility for health and safety (H&S) practices, ensuring all MDs review and address any concerns on a monthly basis in accordance with their business needs, risk profile and local regulations. SPIs across the Group, along with local requirements, provide guidance for each Profic Centre and must be included as part of new employee inductions and new acquisitions.

H&S assessments are carried out annually by Croner and additionally each business has either a H&S representative or H&S committee, responsible for monitoring and improving H&S procedures and practices. Employees within assembly and services facilities represent the highest risk of employees for H&S. To supplement ongoing assessment, in November 2019 we appointed a H&S and Compliance Manager who will specifically support our services businesses to maintain safe working procedures and create a more structured approach to H&S within the division. All service engineers are fully H&S trained before arrival at customer premises and additional training is requested for employees depending on their job role and forms part of an ongoing improvement process.

Each H&S practice is measured through accident rates. Our accident rates are very low given the number of employees and the amount of manual work, with no RIDDOR incidents in 2019 (2018: one incident) and only one lost time accident (2018: 11 lost time accidents).

We are currently working with Croner to standardise procedures across our UK and Irish sites. Croner advised the Board that all sites except for Skelmersdale would go into the programme late 2019. All sites were visited and a second round of visits will be completed by end 2020. All incidents are investigated thoroughly and preventative measures put in place to mitigate any further reoccurrences. Equally, all employees are encouraged to remain vigilant and report any potential hazards and warn colleagues. Local initiatives towards health and fitness are encouraged, such as onsite gyms or subsidised membership to local leisure facilities, cycle to work schemes, fresh fruit and water for employees.

This year there has been a greater awareness over mental health, with many of our sites seeking to improve mental wellbeing also, attending courses and spreading awareness with the aim of reducing stress levels. In January and February, three personnel from the Group attended courses in mental health first aid, allowing them to understand the different types of mental health issues and direct colleagues to appropriate support resources and mitigate any time off sick.

Our Communities

Supporting Our Communities

Aligned with our strategy to support and develop our people, we believe it's important to extend this focus to local communities, which is why our charitable activities are geared towards supporting and developing people outside our organisation. This in turn brings together employees outside of work, further promoting cohesion in the workplace.

Local Community Engagement

We proactively encourage and support employees to take on additional roles which positively impact local communities and the environment. Each business unit has the freedom to choose their own local charities, enabling them to engage directly and see tangible benefits.

The Group has collected donated toys, clothes, food, bedding and also raised £12k in total, supporting local charities such as:

- Birchwood Centre – a charity located in Lancashire providing vital support and accommodation services for vulnerable people at critical points in their lives – see case study.
- Digmoor Food Bank – a food bank in the Skelmersdale area helping local people in crisis with much needed supplies.
- Gloucester City Mission – a charity who work with the homeless and vulnerable, providing food, clothes, showers and support.
- Rainbow's Hospice – providing care and support to life-limited children and their families.

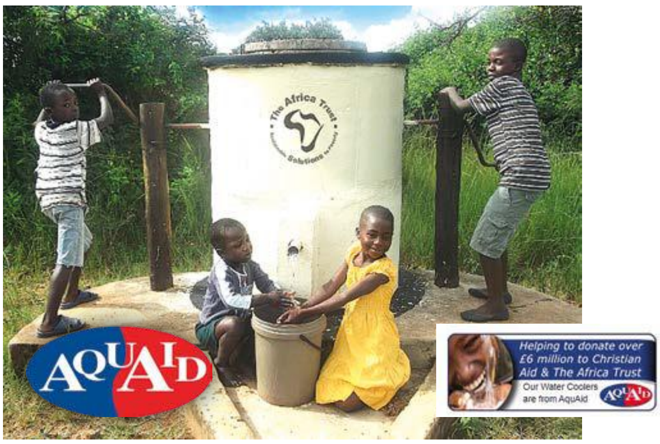
Prince's Trust

At a Group level we have recently engaged with the Prince's Trust, who will be our chosen charity, and focus on providing a better future for 8-25 year olds with education and upskilling.

During 2020 we intend to work more closely with the charity by supporting this age group with skills development and work experience across our business.

Helping Communities Worldwide

We also aim to help other communities in much need of support from businesses worldwide. In 2019, we signed up to the AquAid project. At the same time as hydrating colleagues at our head office in Wilmslow, our investment in an AquAid water cooler is helping supply clean water to communities in Africa.



Case Study

Flowtechnology UK Start New Community Partnership with Birchwood Centre

In November, FTUK started to support local charity The Birchwood Centre, who help prevent homelessness with accommodation options, reducing social isolation and improving health and well-being.

Birchwood began their journey more than 30 years ago and over the years they have progressed in expanding their work within West Lancashire. Over time they have grown and developed their services, connecting to more and more people through methods such as counselling services, mediation services, therapeutic accommodation, dispersed services in the community, support with employment, training, a 'Junk Food Café' and many more!

The Junk Food Café is a brilliant initiative that Birchwood have orchestrated, and is a clear example of how this charity are committed to helping as many members of our community as they can. The aim of the café is simple: to reduce the amount of waste food that ends up in landfill.

The café is run by Birchwood staff and some amazing volunteers; they turn up every week to create a safe space for people to come together and socialise with one another. Not only are those who come along able to socialise, but they will also be able to receive a plate full of nutritious food to enjoy.

Birchwood also offers a service called 'Birchwood Catering', where they offer numerous catering options for a range of events across West Lancashire.

"Here at Flowtechnology UK, we have recently tried and tested their catering – and the food really is delicious! (See below the amazing spread we had prepared for us). What's more, all of the profit generated by the catering services is reinvested back into the charity."

Corporate Social Responsibility (CSR)

Our Environment

The Group is mindful of the impact that its operations have on the environment and is committed to reducing its carbon footprint, encouraging individual Profic Centres to introduce environmentally friendly practices available for their business.

As a norm we:

- Use low energy, motion-sensored lighting within warehouses and most of our offices.
- Recycle as much as possible (100% paper across all sites, 100% oil rags at OCUK).
- At most warehousing and production sites, paper and cardboard are shredded and reused again in packaging.
- Personal recycling bins are used at most sites.
- Recycle non-usable pallets (FTUK).
- Over 80% of Group HES's power is generated by solar panels which were fitted in 2014.
- All warehouse vehicles such as forklift trucks are electric.
- Encourage cycle use through local government initiatives in both the UK and the Netherlands.
- Aim to reduce paper usage, e.g. by Electronic Data Interchange (EDI) for ordering and invoicing, reducing print frequency of catalogues and investing in ecommerce.
- Reduce unnecessary travel by online meeting software.

Some examples of our progress this year include:

- In 2019, we swapped over 57% of new leases to Hybrid vehicles, bringing our total hybrid vehicle count across the Group to 31%. We anticipate further conversion throughout 2020 with plans to be fully converted to hybrid and electric vehicles by 2025.
- Our chosen carrier is Fedex who, as part of their 'reduce, replace, revolutionise' campaign, plan to improve energy efficiency and reduce emissions in Europe across aircraft, vehicles and facilities over the next five years.

Section 172 Statement

In accordance with Section 172 of the Companies Act 2006 (S172) the Directors, collectively and individually, confirm that during the year ended 31 December 2019, they have acted in good faith and have upheld their 'duty to promote the success of the company' to the benefit of its members, with consideration for its wider stakeholders. Section 172 describes a diverse range of stakeholders whose interests are said to feature in the 'success of the Company'; comments on each of these areas are provided below:

- As a quoted company with a leading position in the fluid power industry, we are acutely aware of the potential impact that our decisions may have on certain stakeholders, including our employees, customers and suppliers, as well as our Shareholders. Our sustainable business model makes the procurement and supply of fluid power supply products efficient for customers and suppliers, thereby supporting our ambition of delivering growth and return for Shareholders. More information on the long-term value this gives is outlined on pages 12-13.
- The investment we have made in the Engagement Surveys across each of our businesses, combined with the training and career development plans we have put in place for a number of employees, demonstrates our commitment to ensuring our workplaces provide a positive environment for our staff. Of course, on occasion, decisions necessarily have to be taken which adversely impact on employees; in such scenarios we are careful to provide the necessary degree of compassion with the processes we adopt without removing the focus to deliver the commercial benefit for the greater good of the business. Through our flexible approach, our Group employees are driven towards finding solutions which create efficiencies for ourselves but more importantly our customers. This requires extensive knowledge, creativity and collaboration with customers and suppliers. The Board always aims to act fairly towards employees, further information outlining our approach to recruitment, development and diversity can be found earlier in this section.
- We work closely with our key suppliers, developing relationships in partnership with them. Suppliers are keen for their products, and in many cases an increasing proportion of their products, to be distributed via a professional distribution channel and for their brand/reputation to be protected when doing so. We regularly meet with key suppliers to develop these relationships, largely with a view to accomplishing a collective ambition of achieving the best possible experience for our vast network of customers.
- We aim to be the most cost-effective provider of a quality service to all customers, ensuring we deliver end-to-end fluid power solutions from a single source.
- We are a member of a number of trade bodies in the fluid power industry, including the British Fluid Power Association (BFPA) and the British Fluid Power Distributors Association (BFPDA). We work closely with these organisations and invest in them with representation from the Group at their various gatherings throughout the year. In November 2019, the Group's Commercial Director, John Farmer was appointed as Vice President for the BFPA, which is a positive step towards further aligning our Group activities within the industry bodies and helping to shape our industry for the future, especially in the areas of compliance and talent management.
- Our businesses have been supporting their local communities for many years and the Board encourages them to continue this good work. This takes many forms, including supporting charitable events, recruitment of local apprentices, open day support for local schools and educational events with local communities where Group members carry out projects to make the environment or services better. The Group remains committed to providing a safe and healthy working environment and supports individual Profit Centre efforts which reduce the Group's overall impact on the environment. Through sharing ideas and resources, every year we find new ways to reduce our impact on the environment. Many of our businesses also proudly support industrial users who are increasingly implementing more stringent environmental practices and seeking hydraulic and pneumatic solutions to facilitate this. Further information can be found earlier in this section.
- In addition to good governance practices mentioned in the Corporate Governance Report (pages 40 - 45), through our Group Handbook, Standard Practice Instructions, Health and Safety committees and various Group-wide and localised initiatives, we ensure that best practices are adopted for our employees, suppliers, customers and in turn Shareholders.

The Strategic Report, as set out on pages 01 to 35, has been approved by the Board.

Bryce Brooks
Chief Executive Officer
29 April 2020

The Board

Bryce Brooks
Chief Executive Officer

C

Appointed
March 2010 as CFO, promoted to CEO in September 2018.

Skills & Experience
Holds a degree in civil engineering and qualified as a chartered accountant with Deloitte Haskins & Sells (now PwC) in 1989.

Ten years as a Finance Director at Marlowe Holdings, an American-owned industrial products distribution group, as well as a Group corporate development role.

External Appointments
None.

Board Committees
- Member of the AIM Compliance and Corporate Governance Committee.
- Other committees by invitation.

Russell Cash
Chief Financial Officer
& Company Secretary

C

Appointed
November 2018.

Skills & Experience
Qualified as a chartered accountant with Deloitte Haskins & Sells (now PwC) in 1991.

Spent 27 years working as a turnaround and restructuring professional, 20 years with PwC prior to taking Partner roles at Baker Tilly (now RSM International) from 2008 to 2013 and FRP Advisory from 2013 to 2018.

At both Baker Tilly and FRP he played a key role in the success and expansion at both firms. Russell's experience in effecting change both in terms of operational improvement and cash management have already served the Group well given the focus in each of these areas in 2019 and beyond.

External Appointments
None.

Board Committees
- Member of the AIM Compliance and Corporate Governance Committee.
- Other committees by invitation.

Malcolm Diamond MBE
Non-Executive Chairman

N A R C

Appointed
May 2014.

Skills & Experience
49-year career in industry. Strong commercial and marketing experience as well as City investor knowledge and expertise. Experienced Chairman and Non-Executive having worked across industrial, pharmaceutical and investment sectors.

External Appointments
Non-Executive Chairman, discoverIE.

Board Committees
- Chair of Nomination Committee.
- Member of the Audit, Remuneration and AIM Compliance and Corporate Governance Committee.

Nigel Richens
Non-Executive Director
& Senior Independent Director

A C N R

Appointed
May 2014.

Skills & Experience
23 years within the accountancy sector at partner level with PwC. Experienced adviser to listed and private equity-owned businesses across manufacturing, distribution, construction and engineering sectors, bringing wide commercial experience and extensive knowledge of corporate governance, compliance, risk management and financial matters.

External Appointments
Charity trustee.

Board Committees
- Chair of the Audit, AIM Compliance and Corporate Governance Committee.
- Member of the Nomination and Remuneration Committee.

Other
In his role as Senior Independent Director, Nigel acts as a sounding board and intermediary for the Chairman and other Board members. He leads the performance evaluation of the Chairman and attends meetings with major Shareholders and analysts to gain an understanding of any issues or concerns.

Bill Wilson
Non-Executive Director

R A N C

Appointed
September 2018.

Skills & Experience
30+ years in global manufacturing and industry. Extensive domestic and international commercial experience in the private equity, private company and public company arena. Extensive involvement in international M&A.

Previously Non-Executive Chairman at Flowtech Holdings Ltd for 18 months prior to the IPO. Bill's appointment adds considerably to the Board's commercial and industrial knowledge and has been of significant benefit to the executives in meeting recent challenges as well as those which lay ahead of the business in 2020 and beyond.

External Appointments
None.

Board Committees
- Chair of the Remuneration Committee.
- Member of the Audit, Nomination and AIM Compliance and Corporate Governance Committee.

Key:
- Committee Chair
- A Audit
- N Nomination
- R Remuneration
- C AIM Compliance and Corporate Governance

Chairman's Statement on Corporate Governance

"…the Board is now confident we have a mature and robust central function which sees us well placed to effectively control what we as a business have today…"

Malcolm Diamond MBE
Non-Executive Chairman

A key component of my role is to oversee the development of the Group's corporate governance model and ensure there is a clear focus on this increasingly important area of our business.

Last year we reported on our adoption of the QCA Code and concluded that whilst cornerstones of best practice were firmly in place, there were areas which we needed to invest in. During 2019 the Board has been driving our governance standards forward with an objective of ultimately reaching a position where best practice is exceeded. The Board sees this as an important objective to support our ambition to control the growth of our business, in particular if in time we return to acquisition activity. I am pleased to report that we consider we are compliant with both the website and Annual Report disclosure requirements of the QCA Code.

Following a period of acquisition activity between 2015 and early 2018, the second half of 2018 and the entirety of 2019 has seen focus turn to two key areas: (1) control of our costs and cash, and (2) investment in our people and systems. I am delighted with progress made in each of these areas, the first is covered within the CEO and CFO reports, the second merits further comment from myself.

The investment we have made largely occurred in the second half of 2018 and the first half of 2019. Highlights within this included:

- The establishment of a cost-effective Head Office function in Wilmslow, close to the origins of our business but, importantly, in a perfect location to efficiently commute to our other businesses based across the UK, Ireland and the Netherlands.
- The establishment of a completely new central finance function which has taken back responsibility for preparation of our accounts from an expensive external provider. This has resulted in a significant improvement to the quality of accounting and management information with associated benefits already being seen across the entire business. This new team has implemented improvements in areas of financial control and the reporting of key performance indicators relating to both profit and working capital measures.
- The recruitment of IT, Internal Audit and Project Managers. We believe this now sees the business in a much more resilient position and able to ensure all projects, in particular those relating to operational efficiencies, are robustly managed and, as a result, ensuring the benefits are fully extracted on a timely basis without undue disruption to the business.
- Continued investment in our People. Of particular note is the work we have performed on Engagement Surveys across all of our businesses. This involves an assessment, performed by external advisers, as to the degree to which our staff are engaged with our management in each of our businesses; we now have plans in place within each location resulting from the findings of this work and have an objective of improving the results as we repeat this exercise later this year.
- A clear focus on talent management and putting in plans to develop not only the leaders of our business right now but those who will be able to develop into such roles in the future.
- Having listened to feedback from Investors, we are working hard on improving our messaging. We have recently engaged with an Investor Relations organisation and are confident that we will be delivering clearer messages, linked to the strategic ambitions we have set ourselves, with clear and measurable key performance indicators attached to each area.

As a result of these, and other actions not highlighted, the Board is now confident we have a mature and robust central function which sees us well placed to effectively control what we as a business have today, as well as ensuring future growth is controlled and the benefits gained lead to enhanced shareholder value.

In my Chairman's Statement earlier in this Report, I refer to the proposed changes to the Board which have recently been announced. As well as bringing additional experience and acumen to the Board table, I believe this will further enhance our approach to all areas of corporate governance.

On behalf of the Board I hope this provides you with evidence of the importance which we are placing on corporate governance; we see this as intrinsic to developing our business model and protecting shareholders' interests.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Corporate Governance Report

Framework for Corporate Governance

As an AIM listed entity, the Company complies with the corporate governance principles of the Quoted Companies Alliance Corporate Governance Code (the QCA Code). The QCA Code identifies ten principles to be followed as a guide to help companies deliver value for shareholders. This relies on effective management by the Board, accompanied by good communication which serves to develop confidence and trust.

Compliance with the QCA Corporate Governance Code

Within our Annual Report, we are required to demonstrate compliance with each of the Principles:

Principle 1

"Establish a strategy and business model which promote long-term value for shareholders."

Our strategy, business model and linked key performance measures are clearly articulated in pages 12-17; we believe this provides existing, and potential new, Investors with evidence of our determination to achieve long term shareholder value.

Principle 2

"Seek to understand and meet shareholder needs and expectations."

Later in this section of the Report we refer to the focus we apply to Investor Relations. This is an area where we accept improvements need to be made and we are working hard with respected advisors to ensure we achieve this on a consistent basis.

Principle 3

"Take into account wider stakeholder and social responsibilities and their implication for long-term success."

We welcome the requirement of Section 172 of the Companies Act 2006 and our comments thereon are provided in the CSR section on page 35.

As a trusted partner in fluid power, we aim to be the most cost-effective provider of a quality service to all customers, ensuring we deliver end-to-end fluid power solutions from a single source. Regardless of size, our Group values every customer and is committed to developing mutually beneficial relationships at local, national and international level. Continued dialogue has enabled the Group to develop its product and service offer and so match these changing requirements.

The Group invests time in developing relationships with a number of key leading fluid power suppliers; this leads to a position where suppliers have confidence and trust in us to deliver their products as well as dealing with after sales enquiries in an entirely professional manner. This ethos sees us well placed to capitalise on new business should the suppliers want put additional volume through distribution channels

Engaged and committed employees are integral to our overall Group performance and the delivery of great customer service. The Board places a strong emphasis on employee recruitment and retention which starts from the top, giving leaders the appropriate support, training and tools to build confident, motivated teams. Employees across each business are supported and rewarded in varying degrees through performance reviews, training and bonus schemes.

Principle 4

"Embed effective risk management, considering both opportunities and threats, throughout the organisation."

In conjunction with Marsh, specialist Risk Management advisors, we have sought to identify our key areas of risk on pages 26-29 and comments provided throughout this section demonstrate the investment we have made to put measures in place to address each of these areas. In particular, the systems of internal controls and the investment we have made in our Business Systems, Internal Audit and Project Management functions demonstrates how important this area is, and will always remain, to us.

An assessment of risk is a recurring agenda item at each Board meeting with issues requiring discussion brought to the attention of the full Board. In addition, the Systems Director meets regularly with Board members, including Non-Executive Directors, to provide relevant updates.

Principle 5

"Maintain the Board as a well-functioning team led by the Chair."

Details of the Board, and their roles within the Board environment and within Committees, is set out on pages 36-37.

Malcolm Diamond and Nigel Richens are independent Directors. As Bill Wilson is about to take up Executive responsibilities, he is no longer deemed to be independent. In the announcement on 27 March 2020, the Board set out its plans to recruit two further independent Non-Executive Directors.

Principle 6

"Ensure that between them, the Directors have the necessary up-to-date experience, skills and capabilities."

Brief biographies of each of our Directors are outlined on pages 36-37. A key role of the Nomination Committee is to ensure that the requisite skills and relevant experience are evident in candidates for Board roles. At the time of appointment, each Director is provided with training provided by our NOMAD and legal advisers, covering the responsibilities of a Director generally and in particular the requirements when involved in the Board of a listed company.

The Board regularly engages with external advisors to offer specialist, often technical, input as and when this is felt necessary or beneficial to the issues or projects being considered. In addition, support is often provided by senior professionals on a consultancy basis, current examples of this being with both our operational cost review and our project to develop our e-commerce offering.

Principle 7

"Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement."

During the year, a more formal but straightforward process was adopted involving discussion between each individual Director and, separately, the Chairman and Senior Non-Executive Director. The assessed criteria included contribution to Board discussion, development of strategic thinking, demonstration of experience, expertise and wisdom, and identification of opportunities for improvement as well as individual personal objectives. Feedback from Shareholders and advisors was also taken into account. A similar review will be conducted each year.

The review concluded that, as announced on 27 March 2020 and following the decision of Malcolm Diamond to step down from the Board, and the proposed appointment of Bill Wilson as Executive Chairman, there was a need to recruit additional independent Non-Executive Directors. The Board identified Roger McDowell as possessing the business skills and governance experience to meet the Board's needs. Once the proposed appointments take place at the forthcoming AGM, it is felt that the Board will have the necessary skills, but in order to improve the governance balance of the Board an additional independent Non-Executive Director is required. The specific skills of the successful candidate will be addressed by the new Board post AGM, particularly in the light of the developing COVID-19 pandemic. Succession planning will also be considered in the light of the proposed changes. Following the Board evaluation no bonuses were awarded.

Principle 8

"Promote a corporate culture that is based on ethical values and behaviours."

The Board aims to promote and maintain a culture of integrity across all businesses within the Group.

All new Companies joining the Group are integrated quickly, removing any administrative burden, and enabling each company to focus on maximising commercial gain. A specific 100-day plan is rolled out by the Acquisitions team, which aims to streamline accounting, payroll, HR, systems and health and safety processes. Standard Practice Instructions (SPIs) help guide personnel and ensure consistency across the Group. These SPIs include chapters on business ethics and focus on the high standards expected as part of the Group. They are supplemented by a Group Employee Handbook, and are accessible to all employees either in written or electronic formats.

An open culture is encouraged within the Group, with regular communications to employees regarding progress and business updates. Employee feedback is encouraged through line management and committee discussions.

The Group places significant emphasis on developing talent from within, continually evaluating employee performance and supporting training requirements through a flexible appraisal process driven at 'local' level, which will add value for the business and its long-term goals.

Over the last year, our focus on people and talent management, the regular Profit Centre Director (PCD) conferences and training events have provided additional opportunities to promote and monitor a healthy corporate culture. The regular contact between the PCDs and the Executive team, along with the employee engagement and satisfaction surveys, provide important feedback to the Board as to the current state of the Group's culture.

Principle 9

"Maintain governance structures and processes that are fit for purpose and support good decision making by the Board."

We have made significant investment in certain of our central functions and feel we now have a mature and robust infrastructure to manage the business we currently have and, over time, effectively manage an expanded operation. The narrative which follows later in this section of the report explains the roles and responsibilities across Board members and its various Committees.

Principle 10

"Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders."

Details relating to this are contained in the Group's website – www.flowtechfluidpower.com. This provides details of matters reserved for the Board, the role of Board Committees and other aspects relating to corporate and social responsibility.

The website provides further detail relating to some of these requirements.

Corporate Governance Report

The Board

The main responsibilities of the Board are the creation and delivery of sustainable Shareholder value by promoting the long-term success of the Company and upholding good corporate governance.

The Board, in addition to routine consideration of both financial and operational matters, determines the strategic direction of the Group. The Board has a formal schedule of matters specifically reserved for it which includes:

- Development and approval of the Group's strategic aims and objectives.
- Approval of annual operating and capital expenditure budgets.
- Oversight of the Group's operations.
- Approval of the Group's announcements and financial statements.
- Approval of new Bank facilities or significant changes to existing facilities.
- Declaration and recommendation of dividends.
- Approval of major acquisitions, disposals and capital expenditure.
- Succession planning and appointments to the Board and its Committees.
- Review of the Group's overall corporate governance arrangements and reviewing the performance of the Board and its Committees.
- Maintenance of sound internal control and risk management systems.
- Approval of the division of responsibilities between the Chairman, Chief Executive and other Executive Directors and the terms of reference of the Board Committees.

The Chairman

The main responsibilities of the Chairman are to lead the Board, ensuring its effective management of the Group's operations and governance, and to maintain relations with major Shareholders thus enabling the Board to gain an understanding of their views. The Chairman sets the Board's agenda and promotes a strong culture of challenge and debate. He also plays a key role in investor relations and corresponds with major Shareholders as he sees fit.

The Chief Executive

The Chief Executive is responsible for the day-to-day management of all the Group's activities and the implementation and delivery of the Board's strategic objectives. He also promotes appropriate cultural values and standards and seeks to maintain good relationships and communications with investors.

Company Secretary

Russell Cash, our Chief Financial Officer, is the Company Secretary and as such is responsible for legal and regulatory compliance as well as assisting the Chairman in preparation for, and the effective running of, Board meetings.

Senior Independent Director

Nigel Richens, as the Senior Independent Director and Chairman of the Audit Committee, acts as a conduit for all Directors, giving advice and guidance where appropriate.

Board Composition

The Board comprises an independent Chairman, two Executive Directors and two Non-Executive Directors. Details of the Directors' remuneration and terms of appointment are set out in the Directors' Remuneration Report on pages 46 and 47. Biographical details of the Directors are included on pages 36 and 37.

Malcolm Diamond is Chairman of the Board and the Nomination Committee. Each of the Non-Executive Directors performs additional roles: Nigel Richens is the Senior Independent Director and Chairman of the Audit and AIM Compliance and Corporate Governance Committees, and Bill Wilson is Chairman of the Remuneration Committee.

The Executive Directorships are full-time positions. The roles of Chairman and Non-Executive Director require a commitment of approximately five days per month. All the Non-Executive Directors have confirmed their ability to meet such commitment. Each Non-Executive Director is required to inform the Board of any changes to their other appointments.

Re-election

All Directors of the Board are subject to election by the Shareholders at the first AGM following their appointment by the Board and, in accordance with the Code, all Directors will also stand for re-election annually at the AGM.

Meetings of the Board

There were 11 formal Board meetings during the year. All meetings were attended by all eligible Directors.

Formal meetings are supplemented, when circumstances dictate, by other meetings often making use of teleconference facilities. In addition, the Chairman and Non-Executive Directors have met during the year without the Executive Directors.

Executive Management

The Executive Directors, together with Nick Fossey (Chief Operating Officer) constitute a separate Executive Board. The activities of this Executive Board include:

- Implementing the strategy as set out/agreed by the Board.
- Overseeing all commercial operations of the Group, ensuring good communication in key areas and alignment of local business objectives to the strategic direction at Group level.
- Assessment of growth opportunities, both organic and potential acquisition opportunities.
- Talent management and succession planning.
- Investor relations.
- Product quality.
- Health and safety.
- Financial control and systems, including IT infrastructure and development.
- Risk management.

Board Committees

The Board formally delegates responsibility to four committees: the Audit, Remuneration, Nomination, and the AIM Compliance and Corporate Governance Committees. Full terms of reference for each committee can be found on our website.

The Nomination Committee

Chaired by Malcolm Diamond

This Committee is responsible for ensuring that the Board is sufficiently well equipped to ensure that the Group continues to be governed by suitably qualified people with the breadth and depth of experience required to effectively lead the business.

The Committee recommends and reviews nominees for the appointments of new Directors to the Board and ensures that there is due process used in selecting candidates.

The most recent changes to the Board were enacted in late 2018 and as such the activities of this Committee have been restricted during 2019.

The Remuneration Committee

Chaired by Bill Wilson

The Remuneration Committee meets at least once a year to determine and agree remuneration packages of the Chairman and Executive Directors and other employee benefits. This year it met on two occasions – 4 March and 25 October 2019.

Where appropriate, the Committee seeks advice from remuneration consultants to gain an understanding of current trends and latest developments. In addition, taxation and legal advisors will usually be involved in drafting and finalising reward agreements.

The remuneration of the Non-Executive Directors is agreed by the Chairman and Executive Directors. Details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 46 to 47.

The AIM Compliance & Corporate Governance Committee

Chaired by Nigel Richens

The AIM Compliance and Corporate Governance Committee usually meets twice a year. It is responsible for establishing, reviewing and monitoring the Group's procedures and controls for ensuring compliance with the AIM Rules and the timely disclosure of information to satisfy the Group's legal and regulatory obligations. The meetings in January and September were attended by all Directors.

The Audit Committee

Chaired by Nigel Richens

The Audit Committee meets at least twice a year with the Group's Auditor and as otherwise required. Its duties are to:

- Monitor the integrity of the financial statements.
- Review the quality of the Group's internal controls, ethical standards and risk management systems.
- Review the Group's procedures for detecting and preventing bribery and fraud; corruption, sanctions and whistleblowing.
- Ensure that the financial performance of the Group is properly reported on and monitored, including reviews of the annual and interim accounts, results announcements and accounting policies.
- Oversee the relationship with the Group's external Auditor.

During the year, the Audit Committee discharged its responsibilities by:

- Reviewing the Group's draft financial statements, preliminary announcements and interim results statement prior to Board approval and reviewing the external Auditor's reports thereon.
- Reviewing the external Auditor's plan for the audit of the Group financial statements, confirmations of auditor independence and proposed audit fee and approving terms of engagement for the audit.
- Considering the effectiveness and independence of the external Auditor and recommending to the Board the reappointment of Grant Thornton UK LLP as external Auditor.
- Considering the review of material business risks.
- Monitoring of reporting and follow-up of items reported by employees.
- Considering the significant risks and issues in relation to the financial statements and how these were addressed including: impairment reviews of goodwill; valuation of intangibles; provisions; new accounting standards; going concern, covenants and cash headroom.
- Considering the adequacy of accounting resource and the development of appropriate systems and control.
- Engaging with external providers to assist with certain aspects of accounting disclosure.
- Review of progress in introducing best practice systems and procedures Group-wide.
- Reviewing the plans and progress to interface and integrate IT systems, in particular in areas where operational improvements and transition of warehousing functions are being progressed.
- Considering policies on non-audit engagements for the Company's Auditor.

The Audit Committee met twice during 2019 and meetings were attended by all Directors.

In accordance with best practice, the Chairman of the Audit Committee met separately with the Audit partner to provide an opportunity for any relevant issues to be raised directly with him. The key findings of last year's audit were discussed and plans put in place with a view to addressing the areas of concern. We believe significant progress has been made in this regard during 2019. In addition, Nigel Richens, as head of the Audit Committee, met with the Systems Director to discuss findings from internal audit work performed, to understand what necessary action was to be taken and to agree on areas of future focus.

COVID-19 Considerations

The Board renewed the financial information prepared by executive management to support the assumption of going concern and considered the implications of various trading sensitivities, especially that of COVID-19. The considerations are described in greater detail under note 2.2 Going Concern.

The Board has considered the basis of preparation of the accounts against this background of material uncertainty and have concluded that it remains appropriate to prepare the accounts on a going concern basis.

Board Effectiveness

Collectively and individually, the Directors monitor the performance of the Board and its members on a range of measures, The Non-Executive Directors discuss regularly the performance of the Executive Directors. In 2019, the Executive Directors, together with the COO, were set challenging objectives covering a range of financial, operational and personal matters. Progress against these objectives were considered regularly at Board meetings.

The Board continues to believe that a formal evaluation of Board performance by an outside agency would not be cost effective and is inappropriate given the size of the Board.

Knowledge & Training

Each newly appointed Director is provided with an induction programme comprising visits to Group locations, meetings with key personnel and introductions to the Group's advisers. In addition, care is taken to ensure each new Director has as good understanding as soon as possible with regards to the Group's strategy, risks, challenges and control and governance procedures.

The Chairman is responsible for ensuring that each Director is supplied with timely and relevant information of a quality, and in a form, that enables them to discharge their duties.

There is a policy in place by which a Director may obtain independent professional advice at the Group's expense where their duties so require.

The training needs of Directors are discussed and appropriate arrangements put in place. We work closely with external training providers and have a programme in place to deliver tailored training to all members of our central and divisional management teams.

Each Director is required to keep up-to-date with developments in the Group's areas of operation and their own knowledge base. Regular discussions with senior members of Group management and the Group's advisers, together with their own professional development obligations and experience in other roles, are usually sufficient to achieve this.

Our Nominated Adviser is invited to the AIM Compliance and Corporate Governance Committee to inform the Board of developments in these areas.

Diversity

The Board is committed to a policy of equal opportunity and diversity to attract and retain the talent needed to fulfil our strategic aspirations. Our culture recognises the need for diversity across a wide spectrum of factors including experience, skills and potential, as well as ethnicity, sexual orientation and gender. Appointment and advancement is based on merit with no positive or negative discrimination. We recognise that further strengthening our diversity as and when opportunities arise is important to our future well-being.

The Nomination Committee reviews various matters when considering the constitution of the Board, including diversity alongside other factors such as experience and capabilities.

Internal Controls & Risk Management

The Directors are responsible for the Group's system of internal control. However, such a system is designed to manage, rather than eliminate, the risk of failures to achieve business objectives and can provide only reasonable and not absolute assurance against misstatement or loss. The key elements within the Group's system of internal control are as follows:

- Regular Board meetings to consider matters reserved for Directors' consideration.
- Regular management reporting.
- Regular Board reviews of corporate strategy, including a review of material risks and uncertainties facing the business.
- Established organisational structure with clearly defined lines of responsibility and levels of authority.
- Documented policies and procedures.
- Regular review by the Board of financial budgets, forecasts and covenants with performance reported to the Board monthly.
- Detailed investment process for major projects, including capital investment coupled with post investment appraisal analysis.

In 2018, the Audit Committee reconsidered the need to establish an internal audit function; this has developed during 2019 with the team focusing on ensuring standard processes are complied with throughout the Group. We are pleased with the progress which is being made and the Board welcomes the added accountability which our local businesses now feel. The Board is in receipt of regular updates summarising the key findings of Internal Audit reviews, enabling decisive action to be taken in the event any issues are identified.

Shareholders & Stakeholders

Communication with Shareholders

The Group has recently engaged with Investor Relation specialists who are well known and, we believe, highly respected by a number of our key investors. We are working hard to improve the quality of our communication to provide existing, and potential new investors, with the information they require in a format which they wish to see. We believe progress has already been made and the Board is committed that this will remain a key priority throughout 2020 and beyond.

To ensure the Board is aware of Shareholder opinion and concerns, the Non-Executive Directors receive regular Shareholder feedback which is communicated at Board meetings. Additionally, independent information is received through the Company's Advisers, from both investors and analysts.

The Group aims to maintain a regular dialogue with both existing and potential Shareholders through an established investor relations programme, managed by the CEO, CFO and Company brokers.

All Shareholders who have elected for paper copies receive a printed copy of the Annual Report and Accounts and all Shareholders receive the Notice of the Annual General Meeting (AGM) along with a proxy form, should Shareholders wish to vote in advance of the AGM. In light of the COVID-19 pandemic, this year Shareholders will be invited to vote online and a virtual AGM will be held with a minimum quorum of two Directors. As normal, this provides a forum for results to be considered and questions may be answered by the Board. Following each AGM, a notice is posted on the corporate website confirming that all resolutions have been passed, including the specific results of voting on all resolutions, including any actions to be taken as a result of resolutions for which votes against have been received from at least 20% of independent Shareholders.

Beyond the Annual General Meeting, the Chief Executive Officer, Chief Financial Officer and, where appropriate, other members of the senior management team meet regularly with investors, analysts and media to provide them with updates on the Group's business and to obtain feedback regarding the market's expectations of the Group.

The Company engages in a minimum of two investor roadshows per annum.

Presentations by the Executive Directors of interim and full-year results are offered to all major Shareholders. Other Shareholders are welcome to contact the Company and, wherever possible, their concerns or questions are responded to by a Director in person.

Furthermore, the Group invites investors and potential investors to visit the premises of its subsidiary companies, should they wish to see day-to-day operations and speak with representatives from the Group in a more informal setting.

General information about the Group is also available via the Company's corporate website, www.flowtechfluidpower.com, which includes further information about the business, reports and key documents and recent company announcements. Interested parties have the opportunity to register for RNS alerts, to keep them informed when important announcements are released.

Shareholder feedback is regularly presented and reviewed at Board meetings. On an ongoing basis, the Board is also furnished with brokers' and analysts' reports when published.

The Company maintains a dedicated email address and telephone number which investors may use to contact the Company which, together with the Company's address, are prominently displayed on the Contacts page of the Company's website. Investors may also make contact requests through the Company's joint brokers, Zeus Capital and FinnCap.

Directors' Remuneration Report

The Remuneration Committee

The Directors' remuneration report sets out the key pillars of the remuneration policy for the Group, as well as the rationale for any major decisions made by the remuneration committee during the year. This is intended to help the investors assess and understand the remuneration policy in the light of the strategy for the Group.

The role of the Remuneration Committee will be to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees, Executives and Directors, including all share-based compensation. The remuneration of the Non-Executive Directors is approved by the Board of Directors.

Remuneration Policy

The remuneration policy of the Group is:

- **To provide a suitable remuneration package to attract, motivate and retain Executive Directors who will run the Group successfully.**
- **To ensure that all long-term incentive schemes for the Directors are in line with the Shareholders' interests.**

The Committee makes recommendations to the Board. No Director plays a part in any discussion about their own remuneration. The Remuneration Committee members are expected to draw on their experience to judge where to position the Group, relative to other companies' and other groups' rates of pay when considering remuneration packages for Executives.

Benefits in kind are the provision of medical insurance premiums and motor vehicles.

All of the Executive Directors have service contracts which provide for notice periods of 12 months. All of the Non-Executive Directors have service contracts which provide for notice periods of three months.

The Executive Directors participate in the EMI option scheme; these options are exercisable and will lapse if the Directors leave employment for any other reason than being a 'good leaver' as defined within the scheme rules, or at the end of the tenth anniversary of the date of grant.

During the year, the company granted an option over ordinary shares of 50 pence each in the Company ('Ordinary Shares') to Russell Cash pursuant to the rules of the Unapproved Sub-Plan to the Flowtech Fluidpower plc Enterprise Management Incentive Plan. The award provides an option to acquire a total of 150,000 Ordinary Shares at an exercise price of 50 pence per Ordinary Share. The option is exercisable upon publication of the Company's accounts for the financial period to 31 December 2021 and is not subject to the achievement of any performance criteria.

Further details are provided in note 23 to the consolidated financial statements.

Directors' Detailed Remuneration

	Salary and fees £000	Benefits £000	Bonus £000	**Total 2019 £000**	Total 2018 £000
Executives					
Bryce Brooks	225	16	–	**241**	184
Russell Cash	182	–	–	**182**	29
Sean Fennon (*)	–	–	–	**–**	542
Non-Executives					
Malcolm Diamond MBE	80	–	–	**80**	80
Bill Wilson	45	–	–	**45**	13
Nigel Richens	55	–	–	**55**	55
	587	16	–	**603**	903

(*) £188k relates to compensation for loss of office.

Directors' Share Interests

The table below shows the interests of the Directors in office at the end of the year in the share capital of the Company:

	As at 31 December 2019 number of ordinary shares	As at 31 December 2018 number of ordinary shares
Executives		
Bryce Brooks	**299,160**	299,160
Russell Cash	**28,570**	–
Non-Executives		
Malcolm Diamond MBE	**66,028**	66,028
Bill Wilson	**59,621**	20,000
Nigel Richens	**73,500**	73,500

The table below shows the interests of the Directors in office at the end of the year in the share capital of the Company's subsidiary, Flowtech MIP Limited:

	A shares £1 ordinary	B shares £1 ordinary	D shares £1 ordinary
Executives			
Bryce Brooks			
As at 31 December 2018	77	3,100	5
As at 31 December 2019	77	3,100	5

A and B shares were issued on admission to AIM at a cost of £10 per share on 21 May 2014. The D shares were issued at a cost of £400 per share on 1 June 2016. All shares were issued as part of an employee share-based remuneration scheme called the 'Management Incentive Plan'. For further details refer to note 23.

Directors' Share Options

Details of share options held by the Directors over the ordinary shares of the Company are set out below:

	Scheme	As at 31 December 2018	Granted	Exercised	Cancelled	As at 31 December 2019
Bryce Brooks	EMI (Approved)	159,999	–	–	–	**159,999**
Russell Cash	EMI (Unapproved)	–	150,000	–	–	**150,000**

The shares were issued as part of an employee share-based remuneration scheme called the 'Enterprise Management Incentive Plan'. Further details are provided in note 23 to the consolidated financial statements.

Directors' Report

The Directors present their Annual Report, together with the audited Group and Company financial statements for the year ended 31 December 2019. The Group financial statements have been prepared in accordance with International Reporting Standards as approved by the European Union (IFRS). The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced disclosure framework' (FRS 101).

A review of the Group's trading and an indication of future developments are contained in the Strategic Report on pages 12 to 15. Details of revenue and operating profits for each operating segment are contained in note 3 to the consolidated financial statements. The principal subsidiaries contributing to the profits and net assets of the Group are listed in note 12 to the consolidated financial statements.

Flowtech Fluidpower plc is incorporated in England (Company registration number 09010518) and has its registered office at Bollin House, Bollin Walk, Wilmslow, SK9 1DP.

Results & Dividends

The results for the year ended 31 December 2019 are set out in the consolidated income statement on page 59. The Group has reported an operating profit from its continuing activities of £5.7 million (2018: £7.7 million). After accounting for net finance costs, the consolidated income statement shows a profit from continuing operations before taxation of £4.7 million (2018: profit of £6.9 million).

In the light of the economic uncertainties relating to COVID-19, the Directors have decided to suspend dividend payment and retain as much cash in the business as possible until the situation becomes clearer.

Directors

The Directors who held office during the year and up to the date of approval of the financial statements are as follows:

- Malcolm Diamond MBE
- Nigel Richens
- Bryce Brooks
- Russell Cash
- Bill Wilson

Short biographies of each Director are provided on pages 36 to 37

Those Directors serving at the end of the year, or at the date of this report, had an interest in the ordinary share capital of the Company, and its subsidiaries, at 31 December 2019 which is disclosed in the Directors' Remuneration report on pages 46 to 47

Details of the Directors' share options are provided in the Directors' Remuneration report on pages 46 to 47

Material Interest in Contracts

No Director, either during or at the end of the financial year, was materially interested in any significant contract with the Company or any subsidiary undertaking.

Share Capital

Details of the Company's share capital are in note 25 to the consolidated financial statements.

The Company's share capital comprises one class of ordinary shares and as at 22 April 2020 there were in issue 61,492,673 fully paid ordinary shares of 50p each. All shares are fully transferable and rank pari passu for voting and dividend rights.

The Company has been notified of the following interest in more than 3% of the Company's issued share capital at 22 April 2020 (being the last practicable date before the publication of this report):

	Number of shares held	% of issued share capital
Odyssean Capital	7,103,559	11.55
Premier Miton Group	6,085,243	9.9
Close Brothers Group	5,586,785	9.09
Chelverton Asset Management	4,600,000	7.48
Charles Stanley	3,321,437	5.4
Lazard Freres Gestion	2,620,080	4.26
River & Mercantile Asset Management	2,403,000	3.91
Hargreaves Lansdown Asset Management	2,358,190	3.83
BGF Investments	1,896,724	3.08
Downing	1,867,368	3.04

Financial Instruments & Risk Management

Information about the use of financial instruments by the Company and its subsidiaries, and the Group's financial risk management policies, are given in note 30. It is not the Group's policy to trade in financial instruments.

Social Responsibility

The Board takes regular account of the significance of social, environmental and ethical matters. The following specific matters fall under the broad definition of 'social responsibility':

Employees

Details of the number of employees and related costs can be found in note 5 to the consolidated financial statements.

The Group is committed to ensuring each workplace provides a positive environment for all staff. Engagement surveys introduced in late 2018, give the Board an overall view of staff satisfaction and identify areas for improvement in each business. With the support of the Board and the promotion of a culture based on collaboration and reward, Managing Directors are encouraging employees to take a more active role in shaping a positive working environment. At the same time, the Group is committed to providing staff and management with training designed to develop attitudes and skills and give opportunities for advancement. The Group promotes good communication and consultation with regular management meetings, staff briefings, and a staff consultative committee to involve staff in the progress of the Group and its future.

The Group operates various performance bonus schemes related to KPI achievements and profitability within the operational functions. The Group believes that these schemes demonstrate the Group's commitment to involving employees in performance.

It is the policy of the Group that no employee, or potential employee, is discriminated against on the grounds of disability, age, race, religion, sex, sexual orientation or political belief and offer the same employment opportunities, training, career development and promotion prospects to all.

Employee Share Scheme Incentives

Flowtech Fluidpower plc operates two sharebased Enterprise Management Incentive (EMI) option schemes for the benefit of its staff and senior management. The aim of the share-based EMI option schemes is to align the interests of employees with those of the Company's Shareholders. Employees may exercise their options at any time between May 2017 and May 2024.

At 31 December 2019, the total shares in the Company held by the Enterprise Management Incentive Plans were 834,000 representing 1.4% of the issued capital. Further details are provided in note 23 to the consolidated financial statements.

Flowtech Fluidpower plc operates a sharebased Company Share Option Plan scheme (CSOP) for the benefit of its staff and senior management. The aim of the share-based CSOP scheme is to align the interests of employees with those of the Company's Shareholders. Please refer to note 23 for the exercise period of the schemes.

At 31 December 2019 the total shares in the Company held by the Company Share Option Plan was 475,000 representing 0.8% of the issued capital. Further details are provided in note 23 to the consolidated financial statements.

Health, Safety & Environmental Management

The Group recognises the importance of its environmental responsibilities and operates in accordance with policies agreed through a health and safety committee and a staff consultative committee. Initiatives designed to minimise the Group's impact on the environment include recycling of waste where practical, use of low emission vehicles and low energy lighting.

The health and safety of the Group's employees, customers and members of the general public is a matter of primary concern. Accordingly, it is the Group's policy to manage its activities so as to avoid causing any unnecessary or unacceptable risk to the health of its employees and members of the public. The policy is based on the requirements of national employment legislation in the countries where the Group operates, including the Safety, Health and Welfare at Work Act 1989.

Operations are conducted such that they comply with all the legal requirements relating to the environments in which they operate. During the periods covered by this report no Group company has incurred any fines or penalties or been investigated for any breach of environmental regulations.

Charitable Donations

As a Group we are committed to supporting local and national charities and encourage employees to participate in regular fundraising events.

Directors' Responsibility under Section 172

The Directors welcome the requirement under Section 172 of the Companies Act 2006. Comments on how the Directors have had regard for the interests of various stake holders whilst making key decisions are contained on page 35, under the Corporate Social Responsibility section.

Directors' Report

Conflicts of Interest

In line with the Companies Act 2006, all Directors have a duty to avoid situations where they have or could have a direct or indirect conflict of interest with the Company. The Act allows Directors of public companies to authorise conflicts and potential conflicts where appropriate to avoid a breach of duty. The Group has specific procedures in place to deal with any potential conflicts of interest and during this financial year, no actual or potential conflicts have arisen.

Board Composition

The Board aims to ensure it has the required balance of skills and experience.

Re-election

All Directors of the Board are subject to election by the Shareholders at the first AGM following their appointment by the Board and in accordance with the Code, all Directors will also stand for re-election annually at the AGM.

Liability Insurance

In line with market practice, each Director is covered by appropriate Directors' and Officers' liability insurance (D&O), at the Company's expense. The D&O insurance covers the Directors and Officers against the costs of defending themselves in legal proceedings taken against them in that capacity and in respect of any damages resulting from those proceedings. The Company also indemnifies its Directors and Officers to the extent permitted by law. Neither the insurance nor the indemnity provides cover where the Director or Officer has acted fraudulently or dishonestly.

Annual General Meeting

As a result of the COVID-19 pandemic, this meeting will be held on 10 June 2020. Shareholders are not permitted to attend. Two Directors will attend as the minimum quorum.

Subsequent Events

Note 31 contains information on the significant events occurring since the balance sheet date. The note makes reference to the COVID-19 pandemic and its impact on going concern which is considered below.

Going Concern

The financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons:

- The Group generated profit before tax of £4.7m in 2019 (2018: 6.9m).
- The Group is financed by revolving credit and non-amortising loan facilities totalling £20m (recently extended to 30 June 2021) and a £5m overdraft facility, repayable on demand.
- At the end of 2019 the Group's Net Debt was £16.6m (£8.4m within the aggregate banking facilities); this position reduced to £15.6m at 31 March 2020 (£9.4m within facilities).

The Directors have prepared forecasts covering the period to December 2021. Naturally these forecasts include a number of key assumptions notably relating, inter alia, to revenue, margins, costs and working capital balances.

In any set of forecasts there are inherent risks relating to each of these assumptions. If future trading performance significantly underperformed expectations, management believe there would be the ability to mitigate the impact of this by careful management of the Group's cost base and working capital and that this would assist in seeking to ensure all bank covenants were complied with and the business continued to operate well within its aggregate £25m banking facility.

Prior to COVID-19, results for the first quarter of 2020 were in line with management expectations which further supports the Director's belief that a going concern basis of preparation remains appropriate.

Whilst the Group's trading and cash flow forecasts have been prepared using current assumptions, the impact of the COVID-19 pandemic present challenges which could not previously have been contemplated. Clearly the ultimate impact of COVID-19 is difficult to predict; as such we have considered a range of scenarios when stress testing the base financial forecasts for the period to December 2021. We have based our stress testing on an assumption of a very significant reduction in Revenue in Q2 2020 with conditions remaining difficult for a further 9 month period before returning to a normal trading pattern by Q2 2021. In such a set of circumstances, and with the benefit of continued careful working capital management, the Directors believe it is still likely that the business would continue to operate within the aggregate £25m banking facility. However, it is possible that the leverage covenant would be breached; in such a case we would expect to work with the Bank to reset the Bank covenants to respond to the circumstances created by what would have to be a long-standing and significant COVID-19 impacted period. The Directors also note the range of Government and banking support which have been announced for businesses should the need arise.

The Directors have concluded that the potential prolonged impact of the COVID-19 pandemic on the business represents a material uncertainty that may cast significant doubt upon the Group and parent company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the ordinary course of business. Nevertheless, after making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the Group and parent company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

The financial statements do not reflect any adjustments which would result from the going concern basis of preparation proving to be inappropriate.

Disclosure of Information to Auditor

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

Auditor

Grant Thornton UK LLP was reappointed as Auditor of the Company during the year and a resolution to appoint them will be proposed at the Annual General Meeting.

By order of the Board.

Russell Cash
Chief Financial Officer & Company Secretary

29 April 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report and Directors' Report, the Directors' Remuneration 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. The company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 101 'Reduced Disclosure Framework'. 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 and profit or loss of the Company and Group 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;
- for the consolidated financial statements state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the Company financial statements 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 and the Directors' Remuneration report comply with the Companies Act 2006 and Article 4 of the IAS Regulation 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.

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. The Directors consider the Annual Report and the financial statements, taken as a whole, provides the information necessary to assess the company's performance, business model and strategy and is fair, balanced and understandable.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To the best of our knowledge:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Company financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Independent Auditor's Report to the Members of Flowtech Fluidpower plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Flowtech Fluidpower plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the Company income statement, the Company statement of financial position, the Company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In Our Opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's and parent company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 Group and the parent 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 as applied to listed entities, 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.

The impact of uncertainties arising from the UK exiting the European Union on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the Directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group's prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group associated with a course of action such as Brexit.

Material uncertainty related to going concern

We draw attention to note 2.2 in the financial statements, which indicates it is possible that the leverage covenant would be breached if there was a longstanding and significant Covid-19 impact on the business. As stated in note 2.2, these events or conditions, along with the other matters as set forth in note 2.2 indicate that a material uncertainty exists that may cast significant doubt on the Group's and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

GrantThornton

Overview of Our Audit Approach

- Overall materiality: £284,000, which represents a 3-year average of 5% of the Group's profit before taxation;
- Key audit matters were identified as revenue recognition, goodwill impairment assessment, provision for impairment of inventories, prior year implementation of IT system and sufficiency of reconciliation procedures, and recoverability of the carrying value of investments in and intercompany receivables due from the parent company's subsidiaries; and
- We performed full scope audit procedures on the financial statements of Flowtech Fluidpower plc and on the financial information of all subsidiary companies, which are considered to be material components based upon Group materiality. We performed specified audit procedures on Flowtechnology Benelux BV and Hydraulic Group BV.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter – Group

Revenue Recognition

The Group's revenue totalled £112,418,000 for the year ended 31 December 2019 (2018: £112,108,000). Revenue is recognised in accordance with the Group's accounting policies, including IFRS 15: 'Revenue from Contracts with Customers'.

The revenue recorded by the Group is one of the key determinants of the Group's underlying profitability.

We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the Matter was Addressed in the Audit – Group

Our audit work included, but was not restricted to:

- Assessment of whether revenue has been accounted for in accordance with the Group's accounting policies, including IFRS 15;
- Obtaining an understanding of the processes through which the businesses initiate, record, process and report revenue transactions;
- Testing a sample of revenue entries for material revenue streams to supporting documentation;
- Testing journal entries within revenue postings to supporting documentation; and
- Performing cut-off testing to ensure transactions have been recorded within the correct period.

The Group's accounting policy on revenue is shown in note 2.16 to the Group financial statements and related disclosures are included in note 3.

Key Observations

Our audit procedures identified a prior period adjustment relating to the reclassification of carriage income. Our audit procedures did not identify any other material misstatements in respect of revenue recognition for the Group's material revenue streams.

Key Audit Matter – Group

Goodwill Impairment Assessment

The Group carried £63,014,000 of goodwill in its consolidated statement of financial position at 31 December 2019 (2018: £63,022,000).

The recoverability of the carrying value of goodwill is contingent on future cash flows of the underlying cash-generating units ('CGU's') and there is a risk that if these cash flows do not meet the Directors' forecasts the goodwill may be impaired.

We focused our assessment of goodwill impairment on the estimates and judgements used by management in the impairment model.

No impairment charge was recognised by management in the year ended 31 December 2019.

The judgements made in respect of the impairment review are subject to significant measurement uncertainty. We therefore identified impairment of goodwill as a significant risk which was one of the most significant assessed risks of material misstatement.

How the Matter was Addressed in the Audit – Group

Our audit work included, but was not restricted to:

- Considering whether the Group's accounting policy for impairment of goodwill is in accordance with the financial reporting framework, including IAS 38 'Intangible Assets' and IAS 36 'Impairment of Assets';
- Understanding the design and evaluating implementation of the processes and controls through which the businesses initiate, record, process and report impairments on goodwill balances.
- Assessing management's impairment review which was informed by an external expert engaged by the Group, which advised on the calculation of the discount rates and methodology used;
- Assessing the competence, capabilities and objectivity of the management expert used by the Group;
- Assessing the accuracy of management's forecasting through a comparison of historical data to actual results and projections for following periods;
- Challenging the appropriateness of management's assumptions, including the growth rate, discount rates and forecasted results;
- Performing sensitivity analysis to understand the impact of any reasonably possible changes in assumptions, and evaluate the headroom available from different outcomes so as to assess whether goodwill could be impaired; and
- Assessing the adequacy of the disclosures in the financial statements for the requirements of IAS 36 'Impairment of Assets'.

The Group's accounting policy on goodwill is shown in note 2.10 to the Group financial statements and related disclosures are included in notes 10 and 11.

Key Observations

We did not identify any material impairment of goodwill from the audit work performed. We concluded that the assumptions used in management's impairment model were appropriate. We consider the disclosures in the financial statements to provide sufficient information regarding management's impairment review of goodwill.

Independent Auditor's Report to the Members of Flowtech Fluidpower plc

Key Audit Matter – Group

Provision for Impairment of Inventories

The Group's trading entities hold material inventory with total inventory at 31 December 2019, of £24,000,000 which is recorded net of a provision of £2,600,000.

The provision for impairment of inventories is based on sales trends for all inventory and management's estimation of recoverability. There is significant measurement uncertainty in management's estimation.

Inventory management is one of the key challenges facing management and one of the main determinants of the Group's underlying performance.

We therefore identified provision for impairment of inventories as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the Matter was Addressed in the Audit – Group

Our audit work included, but was not restricted to:

- Assessing whether the Group's accounting policy for impairment of inventories is in accordance with the financial reporting framework, including IAS 2 'Inventories';
- Considering whether the Group's inventory provisions have been accounted for in accordance with the Group's accounting policies;
- Understanding the design and evaluating implementation of the processes and controls through which the businesses initiate, record, process and report inventory provisions.
- Evaluating the appropriateness of the year on year movement in the provision and any significant charges or releases to the income statement;
- Challenging the appropriateness of the provision percentage applied to excess stock over five years and performed sensitivity analysis on assumptions used;
- Agreeing the integrity of the underlying data used in the calculation of the inventory provisions to in year sales data;
- Comparing of inventory values to sales prices for a sample of inventory lines; and
- Considering the suitability of the inventory provision, including re-performance of the calculation and considering both historical performance and exceptional activity that has occurred in the year in relation to inventories.

The Group's accounting policy on impairment, including impairment of inventories is shown in note 2.11 to the Group financial statement and related disclosures are included in note 15.

Key Observations

The results of our audit testing were satisfactory, and we concur with management that the level of inventory provisioning is materially appropriate.

Key Audit Matter – Group

Prior Year Implementation of IT System & Sufficiency of Reconciliation Procedures

The Group introduced a new IT system into several of its subsidiaries during the prior year. The implementation of the new IT system proved challenging due to difficulties experienced with an IT interface and insufficient reconciliation procedures performed during the year. In particular, this gave rise to concerns regarding the completeness of payables and accruals, and the accuracy of payables cut off. The implementation of the new system also resulted in the requirement to process a higher than expected number of manual transactions and journals, particularly at the prior year end and in the first quarter of 2019.

We therefore identified prior year implementation of IT system and sufficiency of reconciliation procedures as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the Matter was Addressed in the Audit – Group

Our audit work included, but was not restricted to:

- Investigation and agreement of transactions processed post year end, to determine whether liabilities recorded at 31 December 2019 were materially complete;
- Consideration of payables cut off and agreement of transactions processed at the year end, to determine whether liabilities were recorded in the correct period;
- Assessment of payables ledgers and accruals, and investigation of large or unusual balances;
- Agreement of a sample of payables, accruals and supplier statements to underlying records, to assess the accuracy of the information and calculations prepared by management
- Identification and investigation of unusual journals associated with these processes; and
- Assessment of management's reconciliation process and investigation of unusual transactions.

Key Observations

We determined management's response to the challenges presented by the system implementation and reconciliation processes to be appropriate. No material unrecorded liabilities or cut off errors were identified from the audit procedures listed above. Our testing of unusual journals and transactions did not identify any material misstatements.

Key Audit Matter – Parent Company

Recoverability of the Carrying Value of Investments in and Inter-company Receivables Due from Subsidiaries

The parent company statement of financial position includes investments in subsidiaries of £59,002,000 (2018: £58,881,000) and receivables from those subsidiaries of £64,912,000 (2018: £63,223,000).

There is a risk that the carrying value of investments and inter-company receivables may be overstated. The process for assessing whether impairment exist under both IAS 36 'Impairment of Assets' and IFRS 9 'Financial Instruments' is complex

Management have assessed the recoverability with reference to both their fair value valuations and the forecast performance.

The judgements made by management in respect of the impairment review are subject to significant measurement uncertainty. We therefore identified recoverability of the carrying value of investments in and inter-company receivables from subsidiaries as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the Matter was Addressed in the Audit – Parent Company

Our audit work included, but was not restricted to:

- Assessing management's impairment review and comparing management's forecasts with the latest Board-approved budget;
- Assessing the accuracy of management's forecasting through a comparison of historical data to actual results and projections for following periods;
- Understanding the design and evaluating implementation of the processes and controls through which the businesses initiate, record, process and report impairments of investments in subsidiaries.
- Assessing management's impairment review which was informed by an external expert engaged by the company, which advised on the calculation of the discount rates and methodology used;
- Assessing the competence, capabilities and objectivity of the management expert used by the company;
- Challenging the appropriateness of management's assumptions, including the growth rate, discount rate and forecast used by comparing them with historical results;
- Considering any indicators of impairment such as market capitalisation and current financial performance;
- Challenging the appropriateness of assumptions used in management's calculation of the fair value of the business;
- Performing sensitivity analysis to understand the impact of any reasonably possible change in key assumptions; and
- Assessing the adequacy of the disclosures in the financial statements for the requirements of IAS 36 'Impairment of Assets' and IFRS 9 'Financial Instruments'.

The company's accounting policy on impairment of investments and Group balances is shown in note B to the parent company financial statements and related disclosures are included in note J to the parent company financial statements.

Key Observations

Based on our audit testing, we did not identify any material misstatements in respect of the recoverability of the carrying value of investments in and intercompany receivables due from subsidiaries.

Independent Auditor’s Report to the Members of Flowtech Fluidpower plc

Our Application of Materiality

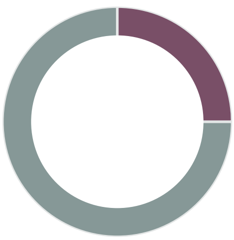
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

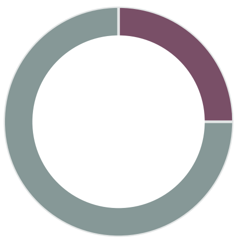
Materiality measure	Group	Parent Company
Financial statements as a whole	£284,000, which is a 3-year average of 5% of the Group’s profit before tax. We consider profit before tax to be an appropriate measure for a listed group and one of the key measures used by the shareholders in assessing the performance of the Group. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2018 to reflect the change in benchmark from 5% of the Group’s profit before tax in the prior year to a 3-year average of 5% of the Group’s profit before tax this year, which was lower and which we determined to be an appropriate reflection of the Group’s trading performance, given the fluctuation of the profitability of the Group this year.	£120,000, which is based on 2% of the parent company’s net assets, capped at a proportion of Group materiality. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2018 to reflect the lower Group materiality and the lower proportion at which it has been capped this year.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We have applied a specific materiality to Directors’ remuneration and related party transactions.	We have applied a specific materiality to Directors’ remuneration and related party transactions.
Communication of misstatements to the audit committee	£14,200 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£6,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall Materiality – Group



Overall Materiality – Parent Company



- Performance materiality – 75%
- Tolerance for potential uncorrected misstatements – 25%

An Overview of the Scope of our Audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile and in particular included:

- Evaluation by the Group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality calculated by considering the component's significance as a percentage of the Group's total assets, inventories, revenues and profit before tax;
- A full scope audit of the financial statements of the parent company, Flowtech Fluidpower plc;
- An evaluation of the Group's internal control environment, including performance of process walkthroughs and documentation of controls relevant to the audit;
- Performance of a full scope audit on the financial information of components representing 93% of the Group's revenue, 70% of the Group's profit before tax and 87% of the Group's total assets. The components on which full scope audit procedures were performed provide an appropriate basis for undertaking audit work to address the Key Audit Matters at Group level identified above;
- Performance of specified audit procedures on specific balances in components which do not require full scope audit procedures for the purposes of the Group audit opinion. Our specified audit procedures cover Flowtechnology Benelux BV and Hydraulics Group BV, and focus on revenue, receivables, inventory and cash. The procedures have been performed in accordance with Group performance materiality;
- Performance of analytical procedures to confirm our conclusion that there was no significant risk of material misstatement of the aggregated financial information of the remaining components not subject to a full scope audit;
- Testing of the consolidation process, including re-performance of management's calculations and
- There were no changes in scope from the prior year.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

Our Opinion on Other Matters Prescribed by the Companies Act 2006 is Unmodified

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

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

Matters on which we are Required to Report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Matters on which we are Required to Report by Exception

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Independent Auditor's Report to the Members of Flowtech Fluidpower plc

Responsibilities of Directors for the Financial Statements

As explained more fully in the statement of Directors' responsibilities set out on page 51, 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 Group's and the parent 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 Group or the parent 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: 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.

Michael Frankish
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester

29 April 2020

Consolidated Income Statement

	Note	2019 £000	2018 £000
Continuing operations			
Revenue (**)	3	**112,418**	112,108
Cost of sales (**)		**(72,235)**	(73,159)
Gross profit		**40,183**	38,949
Distribution expenses (**)		**(4,547)**	(4,561)
Administrative expenses before separately disclosed items:		**(26,179)**	(23,389)
— Separately disclosed items	4	**(3,712)**	(3,321)
Total administrative expenses		**(29,891)**	(26,710)
Operating profit (*)	3, 4	**5,745**	7,678
Financial income	6	**–**	11
Financial expenses (*)	6	**(1,038)**	(766)
Net financing costs		**(1,038)**	(755)
Profit from continuing operations before tax (*)	3	**4,707**	6,923
Taxation	7	**(968)**	(1,992)
Profit from continuing operations		**3,739**	4,931
Profit for the year attributable to:			
Non-controlling interest		**–**	20
Owners of the parent		**3,739**	4,911
		3,739	4,931
Earnings per share	9		
Basic earnings per share – continuing operations		**6.12p**	8.34p
Diluted earnings per share – continuing operations		**6.10p**	8.28p

(*) In the current year, the Company adopted IFRS 16 and applied the modified retrospective approach. The adoption of IFRS 16 for 2019 has led to the elimination of lease payments of £1,833k and the introduction of additional depreciation of £1,701k, £15k gain on exchange movements and finance costs of £282k. The impact of this is an increase in operating profit of £147k and, after taking account of finance costs, a reduction in profit before tax of £135k.

(**) Prior year values have been re-stated as described in Note 2.30.

Consolidated Statement of Comprehensive Income

	2019 £000	2018 £000
Profit for the year	**3,739**	4,931
Other comprehensive income		
— Items that will be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	**(394)**	128
Total comprehensive income for the year	**3,345**	5,059
Total comprehensive income for the year attributable to:		
Non-controlling interest (*)	**–**	**20**
Owners of the parent	**3,345**	**5,039**
	3,345	**5,059**

(*) The Company purchased minority interest in Derek Lane & Co Limited in July 2019. Details of the purchase are given in Note 24.

Consolidated Statement of Financial Position

	Note	2019 £000	2018 £000
Assets			
Non-current assets			
Goodwill	10	**63,014**	63,022
Other intangible assets	11	**6,573**	7,624
Right-of-use assets	22	**8,228**	–
Property, plant and equipment	13	**6,528**	6,735
Total non-current assets		**84,343**	77,381
Current assets			
Inventories	15	**24,000**	28,667
Trade and other receivables	16	**21,377**	25,475
Prepayments		**759**	668
Cash and cash equivalents	17	**3,446**	2,248
Total current assets		**49,582**	57,058
Liabilities			
Current liabilities			
Interest-bearing borrowings	18	**16,055**	18,078
Lease liability	22	**1,635**	–
Trade and other payables	19	**15,510**	18,372
Deferred and contingent consideration	20	**214**	2,240
Tax payable		**298**	2,115
Total current liabilities		**33,712**	40,805
Net current assets		**15,870**	16,253
Non-current liabilities			
Interest-bearing borrowings	18	**4,008**	4,051
Lease liability	22	**6,735**	–
Provisions	21	**417**	399
Deferred tax liabilities	14	**1,519**	1,751
Total non-current liabilities		**12,679**	6,201
Net assets		**87,534**	87,433
Equity directly attributable to owners of the Parent			
Share capital	25	**30,579**	30,460
Share premium		**60,959**	60,793
Other reserves		**187**	187
Shares owned by the Employee Benefit Trust		**(372)**	(413)
Merger reserve		**293**	293
Merger relief reserve		**3,599**	3,575
Currency translation reserve		**244**	664
Retained losses		**(7,955)**	(8,146)
Total equity attributable to the owners of the Parent		**87,534**	87,413
Non-controlling interest		**–**	20
Total equity		**87,534**	87,433

The financial statements on pages 59 to 101 were approved by the Board of Directors on 29 April 2020 and were signed on its behalf by:

Russell Cash
Chief Financial Officer
Company number: 09010518.

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Other reserve £000	Merger reserve £000	Shares owned by the ebt £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Non-controlling interest £000	Total equity £000
Balance at 1 January 2018	26,409	52,370	187	293	(40)	3,194	536	(8,085)	–	74,864
Profit for the year	–	–	–	–	–	–	–	4,911	20	4,931
Other comprehensive income	–	–	–	–	–	–	128	–	–	128
Total comprehensive income for the year	–	–	–	–	–	–	128	4,911	20	5,059
Transactions with owners										
Issue of share capital	3,450	8,423	–	–	–	381	–	–	–	12,254
Shares owned by the EBT	–	–	–	–	(650)	–	–	–	–	(650)
Issue of shares in exchange for shares in subsidiary undertaking	601	–	–	–	–	–	–	(1,303)	–	(702)
Share-based payment charge	–	–	–	–		–	–	191	–	191
Share options settled	–	–	–	–	277	–	–	(302)	–	(25)
Equity dividends paid (note 8)	–	–	–	–	–	–	–	(3,558)	–	(3,558)
Total transactions with owners	4,051	8,423	–	–	(373)	381	–	(4,972)	–	7,510
Balance at 1 January 2019	**30,460**	**60,793**	**187**	**293**	**(413)**	**3,575**	**664**	**(8,146)**	**20**	**87,433**
Profit for the year	–	–	–	–	–	–	–	3,739	–	3,739
Other comprehensive income	–	–	–	–	–	–	(420)	26	–	(394)
Total comprehensive income for the year	–	–	–	–	–	–	(420)	3,765	–	3,345
Transactions with owners										
Issue of share capital	25	45	–	–	–	–	–	–	–	70
Purchase of minority shares	–	–	–	–	–	–	–	(270)	(20)	(290)
Shares issued as consideration	94	121	–	–	–	24	–	–	–	239
Other movements in share capital	–	–	–	–	–	–	–	133	–	133
Share-based payment charge	–	–	–	–	–	–	–	143	–	143
Share options settled	–	–	–	–	41	–	–	169	–	210
Equity dividends paid (note 8)	–	–	–	–	–	–	–	(3,749)	–	(3,749)
Total transactions with owners	119	166	–	–	41	25	–	(3,575)	(20)	(3,244)
Balance at 31 December 2019	**30,579**	**60,959**	**187**	**293**	**(372)**	**3,599**	**244**	**(7,955)**	**–**	**87,534**

Consolidated Statement of Cash Flows

	Note	2019 £000	2018 £000
Cash flow from operating activities			
Net cash from operating activities (*)	26	**13,246**	3,790
Cash flow from investing activities			
Acquisition of businesses, net of cash acquired	24	**(38)**	(9,703)
Acquisition of property, plant and equipment	13	**(756)**	(1,343)
Proceeds from sale of property, plant and equipment		**39**	64
Payment of deferred and contingent consideration		**(2,635)**	(3,546)
Net cash used in investing activities		**(3,390)**	(14,528)
Cash flows from financing activities			
Net proceeds from issue of share capital		**70**	10,161
Net change in short-term borrowings		**–**	1,000
Repayment of right-of-use lease liabilities (*)		**(1,561)**	–
Repayment of lease liabilities		**(71)**	(343)
Interest on right-of-use leases (*)		**(282)**	–
Other Interest paid		**(756)**	(722)
Proceeds from sale of shares held by the EBT		**47**	276
Share option payments to staff		**(61)**	–
Dividends paid	8	**(3,749)**	(3,558)
Net cash (used in)/generated from financing activities		**(6,363)**	6,813
Net change in cash and cash equivalents		**3,493**	(3,925)
Cash and cash equivalents at start of year		**253**	4,199
Exchange differences on cash and cash equivalents		**(300)**	(21)
Cash and cash equivalents at end of year	17,18	**3,446**	253
Cash and cash equivalents	17	**3,446**	2,248
Bank overdraft	18	**–**	(1,995)
Cash and cash equivalents at end of year		**3,446**	253

(*) Following adoption of IFRS 16, payment of £1,843k of operating lease rentals have been reclassified from operating cash flow to repayment of lease liability under financing activity £1,561k and repayment of interest on right of use lease liability of £282k.

Consolidated Statement of Cash Flows

Reconciliation of Liabilities Arising from Financing Activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Long-term borrowings £000	Short-term borrowings £000	Lease liabilities £000	Right of use lease liabilities £000	Total £000
At 1 January 2018	4,000	15,000	159	–	19,159
Cash flows:					
Repayment	–	–	(343)	–	(343)
Proceeds	–	1,000	–	–	1,000
Non cash:					
Acquisition	–	–	318	–	318
At 31 December 2018	4,000	16,000	134	–	20,134

At 1 January 2019	**4,000**	**16,000**	**134**	**–**	**20,134**
Transition to IFRS 16 as at 1 January 2019	**–**	**–**	**–**	**9,047**	**9,047**
Cash flows:					
Repayment	**–**	**–**	**(71)**	**(1,561)**	**(1,632)**
Proceeds	**–**	**–**	**–**	**–**	**–**
Other movements	**–**	**–**	**–**	**(96)**	**(96)**
Non cash:					
Additions to right-of-use assets in exchange for increased lease liabilities	**–**	**–**	**–**	**980**	**980**
At 31 December 2019	**4,000**	**16,000**	**63**	**8,370**	**28,433**

Notes to the Consolidated Financial Information

1. General Information

The principal activity of Flowtech Fluidpower plc (the 'Company') and its subsidiaries (together, the 'Group') is the distribution of engineering components and assemblies, concentrating on the fluid power industry. The Company is a public limited company, incorporated and domiciled in the United Kingdom. The address of its registered office is Bollin House, Bollin Walk, Wilmslow, SK9 1DP. The registered number is 09010518.

News updates, regulatory news, and financial statements can be viewed and downloaded from the Group's website, www.flowtechfluidpower.com. Copies can also be requested from: The Company Secretary, Flowtech Fluidpower plc, Bollin House, Bollin Walk, Wilmslow, SK9 1DP. Email: info@flowtechfluidpower.com.

2. Accounting Policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS's) as adopted for use in the European Union and IFRIC interpretations issued by the International Accounting Standards Board ('IASB') and the Companies Act 2006. The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced disclosure framework' (FRS 101).

The consolidated financial statements have been prepared on a going concern basis and prepared on the historical cost basis.

The consolidated financial statements are presented in sterling and have been rounded to the nearest thousand (£000). The functional currency of the Company is sterling.

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events ultimately may differ from those estimates.

New standards adopted as at 1 January 2019

IFRS 16 Accounting for leases has become applicable for the current reporting period, and the Group had to change its accounting policies as a result of adopting IFRS 16. The impact of the adoption of the leasing standard and the new accounting policies are disclosed below.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the consolidated financial statements.

2.2 Going concern

The financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the following reasons:

- The Group generated profit before tax of £4.7m in 2019 (2018: £6.9m).
- The Group is financed by revolving credit and non-amortising loan facilities totalling £20m (recently extended to 30 June 2021) and a £5m overdraft facility, repayable on demand.
- At the end of 2019 the Group's Net Debt was £16.6m (£8.4m within the aggregate banking facilities); this position reduced to £15.6m at 31 March 2020 (£9.4m within facilities).

The Directors have prepared forecasts covering the period to December 2021. Naturally these forecasts include a number of key assumptions notably relating, inter alia, to revenue, margins, costs and working capital balances.

In any set of forecasts there are inherent risks relating to each of these assumptions. If future trading performance significantly underperformed expectations, management believe there would be the ability to mitigate the impact of this by careful management of the Group's cost base and working capital and that this would assist in seeking to ensure all bank covenants were complied with and the business continued to operate well within its aggregate £25m banking facility.

Prior to COVID-19, results for the first quarter of 2020 were in line with management expectations.

Whilst the Group's trading and cash flow forecasts have been prepared using current assumptions, the impact of the COVID-19 pandemic present challenges which could not previously have been contemplated. Clearly the ultimate impact of COVID-19 is difficult to predict; as such, the Directors have considered a range of scenarios when stress testing the base financial forecasts for the period to December 2021. The Directors have based their stress testing on an assumption of a very significant reduction in Revenue in Q2 2020 with conditions remaining difficult for a further 9 month period before returning to a normal trading pattern by Q2 2021. In such a set of circumstances, and with the benefit of continued careful working capital management, the Directors believe it is still likely that the business would continue to operate within the aggregate £25m banking facility. However, it is possible that the leverage covenant would be breached; in such a case we would expect to work with the Bank to reset the Bank covenants to respond to the circumstances created by what would have to be a long-standing and significant COVID-19 impacted period. The Directors also note the range of Government and banking support which have been announced for businesses should the need arise.

The Directors have concluded that the potential prolonged impact of the COVID-19 pandemic on the business represents a material uncertainty that may cast significant doubt upon the Group and Parent Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the ordinary course of business. Nevertheless, after making enquiries, and considering the uncertainties described above, the Directors have a reasonable expectation that the Group and Parent Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

The financial statements do not reflect any adjustments which would result from the going concern basis of preparation proving to be inappropriate.

2.3 Changes in accounting policies

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

This note explains the impact of the adoption of IFRS 16 on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019. The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Notes to the Consolidated Financial Information

2. Accounting Policies continued

2.3.1 Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.2%. In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

2.3.2 Impact of transition to IFRS 16

	£000
Operating lease commitments disclosed as at December 2018 (Restated) (*)	**9,209**
Operating lease commitments discounted using the lessee's incremental borrowing rate at the date of initial application	**(1,370)**
(Less): short-term leases recognised on a straight-line basis as expense	**(54)**
(Less): low-value leases recognised on a straight-line basis as expense	**(79)**
Add/(less): adjustments as a result of a different treatment of extension and termination options	**1,253**
Other movements	**88**
Lease liability recognised as at 1 January 2019	**9,047**

(*) Following a detailed review of the lease commitments on transition to IFRS 16, the opening balance of the operating lease commitments in respect of Land and Building disclosed as at 31 December 2018 was corrected.

The associated right-of-use assets for property leases and other assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

	31 December 2019 £000	1 January 2019 £000
Land and property	**7,504**	**8,343**
Motor vehicles	**724**	**704**
Total right-of-use assets	**8,228**	**9,047**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by £9,047k.
- Lease liabilities – increase by £9,047k.

The net impact on retained earnings on 1 January 2019 was nil. For the year ending 31 December 2019, operating lease rentals of £1,833K have been restated as depreciation £1,701k, exchange gain £15k and finance costs £282k. Operating profit has increased by £147k whereas profit before tax has reduced by £135k. As a result, earnings per share for the year ending 31 December 2019 reduced by 0.22 pence per share.

Further analysis of the impact of IFRS 16, along with the associated asset schedule and liability analysis, is provided in Note 22, Right to use Assets and Lease Liabilities.

2.3.3 The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, and motor vehicles. Rental contracts are typically made for fixed periods of up to 12 years but may have extension options as described in (ii) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, operating leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

There are no leases with variable lease payments.

(i) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). No potential future cash outflows have been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

(ii) Residual value guarantees

To optimise lease costs during the contract period, the Group sometimes provides residual value guarantees in relation to equipment leases.

Estimating the amount payable under residual value guarantees

The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period. At the end of reporting period, there is no liability on account of residual value guarantees.

2.4 Basis of consolidation

On 24 April 2014, the Company was incorporated under the name Flowtech Fluidpower Limited. On 7 May 2014, Flowtech Fluidpower Limited acquired the entire issued share capital of Fluidpower Shared Services (formerly Flowtech Holdings Limited) via a share for share exchange with the shareholders of Fluidpower Shared Services Limited. On 7 May 2014, Flowtech Fluidpower Limited was re-registered as a public limited company with the name Flowtech Fluidpower plc. Following the share for share exchange referred to above, Flowtech Fluidpower plc became the ultimate legal parent of the Group.

In the absence of an IFRS which specifically deals with similar transactions, management judge it appropriate to refer to other similar accounting frameworks for guidance in developing an accounting policy that is relevant and reliable. The Directors consider the share for share exchange transaction to be a Group reconstruction rather than a business combination in the context of IFRS 3 (revised), 'Business Combinations', which has been accounted for using merger accounting principles. Therefore, although the share for share exchange did not occur until 7 May 2014, the consolidated financial statements of Flowtech Fluidpower plc are presented as if the Flowtech Group of companies had always been part of the same Group.

Notes to the Consolidated Financial Information

2. Accounting Policies continued

Accordingly, the following accounting treatment was applied in respect of the share for share exchange:

- The assets and liabilities of Fluidpower Shared Services Limited and its subsidiaries were recognised in the consolidated financial statements at the pre-combination carrying amounts, without restatement to fair value.
- The retained losses and other equity balances recognised in the consolidated financial statements for the year ended 31 December 2013 reflect the retained losses and other equity balances of Fluidpower Shared Services Limited and its subsidiaries recorded before the share for share exchange. However, the equity structure (share capital and share premium balances) shown in the consolidated financial statements reflects the equity structure of the legal parent (Flowtech Fluidpower plc), including the equity instruments issued under the share for share exchange. The resulting difference between the parent's capital and the acquired Group's capital has been recognised as a component of equity being the 'merger reserve'.

The Company had no significant assets, liabilities or contingent liabilities of its own at the time of the share for share exchange and no such consideration was paid.

Subsidiaries

The Group's financial statements consolidate those of the Parent Company and all of its subsidiaries as of 31 December 2019. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries, except for those specifically mentioned, have a reporting year ending in December. Flowtechnology CZ Limited, Beaumanor Engineering Limited, PMC Fluidpower Group Limited, and Derek Lane & Co Limited have a reporting year ending in June, whilst BALU Limited has a reporting year ending in July.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-Group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.5 Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

a. they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

b. where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

2.6 Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at the transaction price in accordance with IFRS 15.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the detailed reviews of line level debtor balances, taking into consideration historical loss rates experienced by the business and adjusting these for changes to credit worthiness of the customer (where information is available from third part monitoring services) as also any macroeconomic factors affecting the ability of the customer to settle the receivables.

At each reporting date management assesses whether any events have occurred which have had a detrimental effect on the estimated future cash flows of the asset causing a financial asset to become credit-impaired. If the credit risk is significant a provision is posted based on the recoverable amount the Group is expected to receive per management's assessment. Specific provisions of this nature are excluded from the simplified credit loss calculation using the provision matrix.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances net of bank overdrafts and short-term deposits held with banks by the Group, and are subject to insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement only.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Any change in their value through impairment or reversal of impairment is recognised in profit or loss. Discounting is omitted where the effect is immaterial.

Derecognition of financial liabilities

The Group derecognises a financial liability (or its part) from the statement of financial position when, and only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability (or a part of a financial liability) extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

2.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Until 2018 financial year, leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Depreciation is charged to the income statement over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives and depreciation methods are as follows:

Property	Up to 50 years – straight line
Plant, machinery and equipment	3 to 20 years – straight line
Motor vehicles	4 to 5 years – straight line
Right-of-use property	2 to 12 years – straight line
Right-of-use motor vehicles	2 to 5 years – straight line

Depreciation methods, useful lives and residual values are reviewed at each reporting date. In 2019 the management have reassessed the useful economic life of the aggregate existing IT systems, included within property, plant and equipment, to last for the next 6 years.

The management has also reassessed the useful life of aggregate existing warehousing facilities at Leicester, included within Property, plant and equipment, to last for the next 7 years.

2.8 Leased assets

Finance leases (2018)

For finance leases recognised until 2018 financial year, management apply judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership at the end of the lease term.

See note 2.7 for the depreciation methods and useful lives for assets held under finance leases.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease payments (2018)

An operating lease is defined as a lease in which substantially all of the risks and rewards incidental to ownership remain with the lessor.

2.9 Business combinations

Subject to the transitional relief in IFRS 1 'First time adoption of IFRSs', all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions prior to 1 January 2011 (date of transition to IFRSs)

IFRS 1 grants certain exemptions from the full requirements of adopted IFRSs in the transition period. The Group elected not to restate business combinations that took place prior to 1 January 2011. In respect of acquisitions prior to 1 January 2011, goodwill is included at 1 January 2011 on the basis the amount recorded under UK GAAP.

Acquisitions after 1 January 2011

For acquisitions on or after 1 January 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the fair value of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred and included in the separately disclosed 'acquisition costs' as part of administration expenses.

Any contingent consideration payable is recognised at fair value at the acquisition date. Implied interest cost of deferred consideration is accounted as finance cost. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

2.10 Intangible assets

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to operating segments and is not amortised but is tested annually for impairment, or earlier if there is an indication of impairment.

Acquired intangibles

Intangible assets acquired as part of business combinations are capitalised at fair value at the date of acquisition. Following the initial recognition, the carrying amount of an intangible is its cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged on the basis of the estimated useful life on a straight-line basis and the expense is taken to the income statement and included in the separately disclosed 'amortisation of acquired intangibles' as part of administration expenses (note 11).

The Group has recognised customer relationships and brand identity as separately identifiable acquired intangible assets. The useful economic life attributed to each intangible asset is determined at the time of the acquisition and ranges from five to ten years. Impairment reviews are undertaken annually and whenever the Directors consider that there has been a potential indication of impairment.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow-moving items. Cost includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition.

2.12 Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine expected future losses. A financial asset is impaired if the assessment reveals expected future losses based on detailed review of future expected cash flows from the financial asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

2. Accounting Policies continued

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or operating segment is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together by cash generating units. The goodwill acquired in a business combination, for the purpose of impairment testing, is also allocated to the relevant cash generating unit. Goodwill acquired in a business combination is allocated to cash generating units that are expected to benefit from the synergies of the combination and represent the lowest level within the Group at which management monitor the related goodwill.

An impairment loss is recognised if the carrying amount of an asset or its cash generating units exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units, and then to reduce the carrying amounts of the other assets in the cash generating unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.13 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

2.14 Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black–Scholes model.

2.15 Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

2.16 Revenue

Revenue from sale of goods

Revenue from sale of goods is the total amount receivable by the Group for goods supplied, excluding VAT and discounts. Revenue from the sale of goods is recognised in the income statement at a point in time at the point of despatch, when the control passes to the customer.

Revenue for sale of goods includes income from delivery charged to customers, excluding VAT. Delivery income is recognised at the same time as the corresponding revenue for sale of goods and is a single combined performance obligation.

Revenue from services

Service revenues comprise installation and maintenance work at client sites. Revenue from on-site work that is standard and on-going (as opposed to bespoke) is recognised when the performance obligations under the work order are completed and acknowledged by the customer, in accordance with the terms and conditions of the work order. Very occasionally, where routine maintenance work is agreed as part of a contract covering a year or number of years, the performance obligation is considered to be discharged evenly through the term of the contract and revenue is recognised over the life of the contract. Warranties offered to customers are usually on the back of warranties offered by suppliers of spare parts and involve negligible costs to the business.

Revenue form bespoke longer-term services is accounted for in accordance with the policy on Revenue from contracts described below.

Revenue from contracts

Most contracts received by the Group involve shipping goods without customisation or further service, and revenue from these is recognised at a point in time as described above.

Some contracts involve providing an end to end solution, involving design, customisation, installation and commissioning that can last several months or years. The goods and services under such contracts represent a single combined performance obligation over which control is transferred over a period. The combined product is unique to each customer (has no alternative use) and the Group has an enforceable right to payment for the work completed to date. The contracts contain milestones and the Group is entitled to stage payments on completion of the milestones. Revenues from such contracts is recognised based upon its stage of completion. Revenue is measured on an output basis, as the transfer of economic benefit depends on the value transferred relative to the remaining goods and services promised under the contract.

2.17 Cost of sales

Cost of sales includes all costs incurred up to the point of despatch including operating expenses of the warehouse.

2.18 Distribution expenses

Distributions costs are costs directly relating to despatch of goods and indirect costs including advertising and other sales related expenses.

2.19 Operating segments

In the current year, the Group has decided to monitor and report business performance based on two segments, Components and Services:

- Components – supply of both hydraulic and pneumatic consumables, predominantly through distribution for maintenance and repair operations across all industry markets, but supported by supply agreements direct to a broad range of OEMs.

- Services – bespoke design, manufacturing, commissioning, installation and servicing of systems to manufacturers of specialised industrial and mobile hydraulic original equipment manufacturers (OEMs) and additionally a wide range of industrial end users. Capital project-based revenue.

The Board is considered to be the chief operating decision maker (CODM). The CODM manages the business using an underlying profit figure. Only finance income and costs secured on the assets of the operating segment are included in the segment results. Finance income and costs relating to loans held by the Company are not included in the segment result that is assessed by the CODM. Transfer prices between operating segments are on an arm's length basis.

2.20 Financing income and expenses

Financing expenses comprise interest payable, implied interest on deferred consideration and finance costs implied in leases recognised in profit or loss using the effective interest method. Financing income comprises interest receivable on funds invested. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

2.21 Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2.22 Adopted IFRS not yet applied

The following relevant standards and interpretations currently in issue (as at 2 November 2019) but not effective, for accounting periods commencing on 1 January 2019 are:

- Amendments to IAS 1 presentation of financial statement and IAS 8 accounting policies, changes in accounting estimates and errors (effective date 1 January 2020).
- Amendments to IFRS 3 Business combination (effective date 1 January 2020).
- Amendments to references to the conceptual framework in IFRS standards (effective date 1 January 2020).

This is a list of standards that is considered to have a significant impact on the Group. The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future reporting periods.

2.23 Equity, reserves and dividend payments

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares.
- 'Share premium' represents the excess over nominal value of consideration received for equity share net of expenses of the share issue, less any costs associated with the issuing of shares.
- 'Other reserves' relate to the issue of share options for consideration in respect of acquisition of subsidiaries.
- 'Share-based payment reserve' represents the provision made to date for share-based payments as detailed in note 2.13.
- 'Shares owned by the EBT' represents shares in the Group purchased for the Employee Benefit Trust.
- 'Merger reserve' represents the difference between the Parent's capital and the acquired Group's capital retained losses and other equity balances before and after the share for share exchange which created the Group.
- 'Merger relief reserve' represents merger relief arising on the acquisition of subsidiaries for which some or all of the consideration was settled in shares.
- 'Currency translation reserve' comprises all foreign exchange differences arising since 1 January 2011, arising from the translation of foreign operations.
- 'Retained losses' represent retained losses of the Group.
- 'Non-controlling interest' relates to profits attributable to non-material non-controlling interests held in subsidiaries.

All transactions with owners of the Parent are recorded separately within equity.

Dividend distributions payable to equity Shareholders are included in other liabilities when the dividends have been approved in general meeting prior to the reporting date.

2.24 Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in sterling, which is also the functional currency of the Parent Company.

Foreign currency transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are re-translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than sterling are translated into sterling upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

The assets and liabilities of foreign operations are translated to the Group's presentational currency, sterling, at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Notes to the Consolidated Financial Information

2. Accounting Policies continued

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the currency translation reserve. The Group has taken advantage of the relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRSs (1 January 2011). On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

2.25 Significant judgements, key assumptions and estimates

In the process of applying the Group's accounting policies, which are described above, management have made judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. 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.

Significant management judgements

There are no significant judgements affecting the financial position this year (2018: NIL).

Estimation uncertainty

Information about estimations and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Share-based payments

A number of accounting estimates and judgements are incorporated within the calculation of the charge to the income statement in respect of share-based payments. These are described in more detail in note 23.

Impairment of goodwill

The carrying value of goodwill must be assessed for impairment annually. This requires an estimation of the value in use of the operating segments to which goodwill is allocated. Value in use is dependent on estimations of future cash flows from the operating segment and the use of an appropriate discount rate to discount those cash flows to their present value. The carrying value of goodwill as at 31 December 2019 is £63,014,000 (2018: £63,022,000). Refer to note 10 for further detail. There was no impairment charge during the year.

Acquired intangibles

Intangible assets (customer relationships and brand identity) have been acquired as part of the net assets of certain subsidiaries. These intangible assets were capitalised at their fair value at the date of acquisition. Determining the value of acquired intangibles required the calculation of estimated future cash flows expected to arise from the intangible assets at a suitable discount rate in order to calculate their present value. In addition, an estimate of the useful life of the intangible asset has to be made over the period in which the cash flows were expected to be generated. The carrying amount of the acquired intangibles at the reporting date was £6,573,000 (2018: £7,624,000). Refer to note 11 for further detail.

Provision for impairment of inventories

The carrying value of inventories as at 31 December 2019 was £24,000,000 (2018: £28,667,000) and included a provision against the inventories of £2,046,000 (2018: £4,574,000). During the year £3,123,000 (2018: £201,000) of the provision was utilised following the scrapping and sale of obsolete inventory. During the year a further provision of £426,000 was made (2018: provision of £154,000). The provision for impairment of inventories is based on sales trends for all inventory and management's estimation of recoverability. There is a risk that the provision will not match the inventories that ultimately prove to be impaired.

2.26 Separately disclosed items

Separately disclosed items are those significant items which in management's judgement should be highlighted by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

2.27 Investment in own shares

Own shares held by the Group's Employee Benefit Trust (EBT) have been classified as deductions from Shareholders' funds. The costs of purchasing own shares held by the EBT are shown as a deduction within shareholders' equity. The gain from the sale of own shares are recognised in shareholders' equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the income statement.

2.28 Contingent consideration

Where acquisition consideration includes consideration contingent on performance outcomes being met, the consideration is valued at the acquisition date based on performance forecasts available at the time. Those forecasts are reviewed at the reporting date and the consideration revised where materially different.

2.29 Non-controlling interests

The Group attributes total comprehensive income or losses of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

2.30 Restatement of prior year financial statement

Over the years, the Group has evolved its offer of value-added delivery services to its customers, and now holds a sector-leading position with respect to e-commerce trading. In response to the changing emphasis in fulfilment capabilities and the opportunities for enhancement of revenue, the management has reassessed and re-aligned its accounting policies with respect to income from delivery charged to customers and ensured these are applied consistently across the Group. All delivery income, excluding VAT will henceforth be included in revenue from sale of goods and shall no longer be netted off against delivery costs.

The 2018 financial statements presented within this Annual Report have been restated to reflect £1,057k of delivery income in Revenue. These have been re-categorised from cost of sales and distribution costs as shown in the table below. There is no impact of the reclassification on reported profit or EPS for 2018 or on the opening reserves for 2019.

Consolidated income statement for 31 December 2018

	Restated £000	Original £000	Variance £000
Revenue	**112,108**	**111,051**	**1,057**
Cost of sales	**(73,159)**	**(72,447)**	**(712)**
Gross profit	**38,949**	**38,604**	**345**
Distribution expenses	**(4,561)**	**(4,216)**	**(345)**
Operating profit	**7,678**	**7,678**	**–**
Profit from continuing operations	**4,931**	**4,931**	**–**
Gross profit % to revenue	**34.76**	**34.74**	**2bps**

3. Segment Reporting

Management has decided to consolidate the operating segments of the business into two – components and services as explained in note 2.19. These operating segments are monitored by the Group's Chief Operating Decision Maker and strategic decisions are made on the basis of adjusted segment operating results. Inter-segment revenue arises on the sale of goods between Group undertakings.

The Directors believe that the underlying operating profit provides additional useful information on underlying trends to Shareholders. The term 'underlying' is not a defined term under IFRS and may not be comparable with similarly titled profit measurements reported by other companies. A reconciliation of the underlying operating result to operating result from continuing operations is shown below. The principal adjustments made are in respect of the separately disclosed items as detailed in note 4; the Directors consider that these should be reported separately as they do not relate to the performance of the segments.

Central costs relate to the Service Centre team and central activities, Executive Management team, plc costs and finance expenses associated with Group loans as detailed in note 6 and separately disclosed items, as detailed in note 4.

Segment information for the reporting periods are as follows:

For the year ended 31 December 2019

	Components £000	Services £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement – continuing operations:					
Revenue from external customers	**96,348**	**16,070**	**–**	**–**	**112,418**
Inter-segment revenue	**3,199**	**232**	**(3,431)**	**–**	**–**
Total revenue	**99,547**	**16,302**	**(3,431)**	**–**	**112,418**
Underlying operating result (*)	**13,995**	**(59)**	**–**	**(4,329)**	**9,607**
Net financing costs (†)	**(46)**	**(2)**	**–**	**(708)**	**(756)**
Underlying profit before tax	**13,949**	**(61)**	**–**	**(5,037)**	**8,851**
Impact of fair value adjustment to inventory	**(297)**	**–**	**–**	**–**	**(297)**
Impact of re-statement under IFRS 16 on profit before tax	**(126)**	**1**	**–**	**(10)**	**(135)**
Separately disclosed items (see note 4)	**(1,114)**	**(689)**	**–**	**(1,909)**	**(3,712)**
Profit before tax	**12,412**	**(749)**	**–**	**(6,956)**	**4,707**
Specific disclosure items					
Depreciation on owned plant, property and equipment	**763**	**153**	**–**	**–**	**916**
Depreciation on right-of-use assets	**1,503**	**92**	**–**	**106**	**1,701**
Amortisation	**927**	**124**	**–**	**–**	**1,051**
Reconciliation of underlying operating result to operating profit:					
Underlying operating result (*)	**13,995**	**(59)**	**–**	**(4,329)**	**9,607**
Impact of fair value adjustment to inventory	**(297)**	**–**	**–**	**–**	**(297)**
Impact of re-statement under IFRS 16 on operating profit	**143**	**6**	**–**	**(2)**	**147**
Separately disclosed items (see note 4)	**(1,114)**	**(689)**	**–**	**(1,909)**	**(3,712)**
Operating profit/(loss)	**12,727**	**(742)**	**–**	**(6,240)**	**5,745**

(*) Underlying operating result is continuing operations' operating profit before separately disclosed items (note 4), the impact of fair value adjustment to inventory (note 3) and IFRS 16 (note 22). The fair value uplift of inventory acquired through business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement.

(†) Following adoption of IFRS 16, operating lease rentals of £1,833K have been restated as depreciation £1,701k, exchange gain £15k and finance costs £282k. Operating profit increases by £147k whereas profit before tax reduces by £135k.

Notes to the Consolidated Financial Information

3. Segment Reporting continued

Segment information for 2018 has been re-stated following the consolidation of segments into Components and Services.

For the year ended 31 December 2018 (re-stated)	Components £000	Services £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement – continuing operations:					
Revenue from external customers (†)	94,581	17,527	–	–	112,108
Inter-segment revenue	2,894	60	(2,954)	–	–
Total revenue	97,475	17,587	(2,954)	–	112,108
Underlying operating result	14,254	314	–	(3,187)	11,381
Net financing (costs)/income	(127)	1	–	(629)	(755)
Underlying profit before tax	14,127	315	–	(3,816)	10,626
Impact of fair value adjustment to inventory	(382)	–	–	–	(382)
Separately disclosed items (see note 4)	(2,015)	162	–	(1,468)	(3,321)
Profit before tax	11,730	477	–	(5,284)	6,923
Specific disclosure items					
Depreciation	842	99	–	–	941
Amortisation	916	124	–	–	1,040
Reconciliation of underlying operating result to operating profit:					
Underlying operating result (*)	14,254	314	–	(3,187)	11,381
Impact of fair value adjustment to inventory	(382)	–	–	–	(382)
Separately disclosed items (see note 4)	(2,015)	162	–	(1,468)	(3,321)
Operating profit/(loss)	11,857	476	–	(4,655)	7,678

(*) Underlying operating result is continuing operations' operating profit before separately disclosed items (note 4) and the impact of fair value adjustment to inventory (note 3). The fair value uplift of inventory acquired through business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement.

(†) Prior year valves have been restated as described in note 2.30.

Geographical and category analysis of revenue

The Group operates primarily in the UK, The Netherlands, Belgium and Republic of Ireland. Revenue generated from distribution of hydraulic and pneumatic consumables, bespoke manufacture, commissioning and installation of equipment are categorised as sale of goods. Income from on-site services and revenue arising from contracts is disclosed separately.

31 December 2019

	Sale of goods £000	Contracts £000	Services £000	Total revenue £000	Non-current assets £000
United Kingdom	**86,757**	**744**	**2,274**	**89,775**	**79,318**
Europe	**21,589**	**–**	**–**	**21,589**	**5,025**
Rest of the World	**1,054**	**–**	**–**	**1,054**	**–**
Total	**109,400**	**744**	**2,274**	**112,418**	**84,343**

31 December 2018

	Sale of Goods (*) £000	Contracts £000	Services £000	Total Revenue £000	Non-current Assets £000
United Kingdom	84,943	732	1,916	87,591	75,701
Europe	22,606	–	–	22,606	1,680
Rest of the World	1,911	–	–	1,911	–
Total	109,460	732	1,916	112,108	77,381

(*) Prior year values have been re-stated as described in Note 2.30.

Revenue from contracts that cross over into 2020 are accounted for in accordance with IFRS 15.

No customers of the Group account for 10% or more of the Group's revenue for either of the years ended 31 December 2019 or 2018. Non-current assets are allocated based on their physical location.

Notes to the Consolidated Financial Information

4. Operating Profit

The following items have been included in arriving at the operating profit for continuing operations:

	2019 £000	2018 £000
Depreciation of property, plant and equipment under right-of-use assets (*) (see note 22)	**1,701**	–
Operating lease rentals:		
– Land and buildings (*)	**–**	1,369
– Other (*)	**–**	482
Depreciation of owned property, plant and equipment	**879**	899
Depreciation of property, plant and equipment held under leases	**37**	42
Amortisation of intangible assets (see note 11)	**1,051**	1,040
Changes in amounts accrued for contingent consideration (see note 30.1)	**596**	264
Impairment (Gain)/loss on trade receivables and prepayments	**(133)**	64
(Gain)/loss on foreign currency transactions	**(20)**	(262)
Impairment (Gain)/loss on inventory	**426**	154
Loss/(profit) on sale of plant and equipment	**6**	**9**
Repairs and maintenance expenditure on plant and equipment	**136**	203

(*) Following implementation of IFRS 16, assets under qualifying operating leases have been capitalised as 'Right-of-use Assets'. Lease rental cost is now replaced by depreciation charge and implied interest calculated on each qualifying lease.

Services provided by the Group's Auditor	2019 £000	2018 £000
Audit of the statutory consolidated and Company financial statements of Flowtech Fluidpower plc (*)	**60**	20
Disclosure below based on amounts receivable in respect of other services to the Company and its subsidiaries		
Amounts receivable by the Company's Auditor and its associates in respect of: Audit of financial statements of subsidiaries of the Company (*)	**115**	149

(*) The allocation of audit fees between the Company and its subsidiaries was reviewed following the restructure of subsidiaries during 2019..

Services are provided by other professional advisers as deemed appropriate by the Board.

Separately disclosed items	2019 £000	2018 £000
Separately disclosed items within administration expenses:		
– Acquisition costs	**183**	824
– Amortisation of acquired intangibles (note 11)	**1,051**	1,040
– Share-based payment costs (note 23)	**143**	191
– Restructuring	**1,739**	1,002
– Changes in amounts accrued for contingent consideration (note 30.1)	**596**	264
Total separately disclosed items	**3,712**	3,321

- Acquisition costs relate to stamp duty, due diligence, legal fees, finance fees and other professional costs incurred in the acquisition of businesses.
- Share-based payment costs relate to charges made in accordance with IFRS 2 'Share-based payment' following the issue of share options to employees.
- Restructuring costs relate to restructuring activities of an operational nature following acquisition of business units and other restructuring activities in established businesses. Costs include consultancy for operational cost reviews, provision for stock in respect of businesses moving to integrated warehousing facilities, employee redundancies and IT integration.

5. Directors & Employees

The average number of persons employed by the Group (including Directors) during each year, analysed by category, was as follows:

	Number 2019	Number 2018
Assembly and distribution	**272**	258
Administration	**359**	315
	631	573

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	**18,573**	17,806
Social security costs	**1,824**	1,815
Contributions to defined contribution pension plans	**752**	475
Share-based payments (note 23)	**143**	191
	21,292	20,287

Key management compensation

The remuneration of the Directors and the Chairman, who are all statutory Directors and are the key management of the Group, is set out below in aggregate for each of the key categories specified in IAS 24 'Related Party Disclosures'.

	2019 £000	2018 £000
Remuneration	**587**	704
Notice pay	**–**	188
Social security costs	**75**	78
Benefits in kind	**16**	11
	678	981

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2019 £000	2018 £000
Highest paid Director's remuneration (*)		
Remuneration (†)	**225**	352
Notice pay (†)	**–**	188
Social security costs	**30**	34
Benefits in kind	**16**	2
Total highest paid Director's remuneration	**271**	576

(*) 2019 remuneration paid to Bryce Brooks, present CEO. 2018 remuneration paid to Sean Fennon, previous CEO.
(†) Remuneration in 2018 includes £90,000 in respect of compensation for loss of office. Notice pay of £188,000 in 2018 relates to compensation for loss of office paid to Sean Fennon, previous CEO.

Notes to the Consolidated Financial Information

6. Financial Income & Expenses

Finance income for the year consists of the following:

	2019 £000	2018 £000
Finance income arising from:		
Fair value gains on forward exchange contracts held for trading	–	11
Total finance income	–	11

Finance expenses for the year consist of the following:

	2019 £000	2018 £000
Finance expense arising from:		
Interest on invoice discounting and stock loan facilities	–	20
Interest on revolving credit facility and bank overdraft	591	454
Lease interest	19	21
Right-of-use liability interest under IFRS 16 (*)	282	–
Bank loans	117	191
Other credit related interest	1	17
Total bank and other credit interest	1,010	703
Imputed interest on deferred and contingent consideration	28	63
Total non-credit related interest	28	63
Total finance expense	1,038	766

(*) Following implementation of IFRS 16, assets under qualifying operating leases have been capitalised as 'Right-of-use Assets'.
Lease rental cost is now replaced by depreciation charge and implied interest calculated on each qualifying lease.

7. Taxation

Recognised in the income statement

Continuing operations:	2019 £000	2018 £000
Current tax expense		
Current year charge	**888**	1,623
Overseas tax	**324**	164
Adjustment in respect of prior periods	**(12)**	202
Current tax expense	**1,200**	1,989
Deferred tax		
Origination and reversal of temporary differences	**(169)**	(24)
Adjustment in respect of prior periods	**(63)**	27
Change in tax rate	**–**	–
Deferred tax (credit)/charge	**(232)**	3
Total tax expense – continuing operations	**968**	1,992

Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit for the year	**3,739**	4,931
Total tax expense	**968**	1,992
Profit excluding taxation	**4,707**	6,923
Tax using the UK corporation tax rate of 19.00% (2018: 19.00%)	**894**	1,315
Deferred tax movements not recognised	**26**	(40)
Effect of share option exercises	**–**	(38)
Effect of tax rates in foreign jurisdictions	**(34)**	(47)
Impact of change in tax rate on deferred tax balances	**(5)**	(4)
Deferred tax arising on acquisition	**–**	(6)
Income not taxable	**(25)**	(314)
Amounts not deductible	**187**	897
Adjustment in respect of prior periods	**(75)**	229
Total tax expense in the income statement – continuing operations	**968**	1,992

Change in corporation tax rate

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate.

In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This change was substantively enacted post year end and therefore the deferred taxes at the balance sheet date continue to be measured at the enacted tax rate of 17%.

Notes to the Consolidated Financial Information

8. Dividends Paid

	2019 £000	2018 £000
Final dividend of 4.04p (2018: 3.85p) per share	**2,453**	2,330
Interim dividend of 2.13p (2018: 2.03p) per share	**1,296**	1228
Total dividends	**3,749**	3,558

In the light of the economic uncertainty due to COVID-19, the Directors have suspended all dividend payments in order to retain as much cash in the business as possible. Therefore, no further dividend will be paid in respect of the financial year ended 31 December 2019 (2018: 4.04p).

9. Earnings per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary Shareholders by the weighted average number of ordinary shares during the year.

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

	Year ended 31 December 2019			Year ended 31 December 2018		
	Earnings £000	**Weighted average number of shares**	**Earnings per share Pence**	Earnings £000	Weighted average number of shares	Earnings per share Pence
Basic earnings per share						
Continuing operations	**3,739**	**61,067**	**6.12**	4,911	58,889	8.34
Diluted earnings per share						
Continuing operations	**3,739**	**61,286**	**6.10**	4,911	59,278	8.28

	2019 £000	2018 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	**61,067**	58,889
Impact of share options	**219**	389
Weighted average number of ordinary shares for diluted earnings per share	**61,286**	59,278

10. Goodwill

	2019 £000	2018 £000
Cost		
Balance at 1 January	**63,022**	57,938
Fair value amendment relating to prior year acquisitions	**–**	399
Acquired through business combinations	**–**	4,685
Other movements	**(8)**	–
Balance at 31 December	**63,014**	63,022
Impairment		
At 1 January	**–**	–
Impairment charge	**–**	–
At 31 December	**–**	–
Carrying amount at 31 December	**63,014**	63,022

Background

The Group uses trading activity as the basis for determining reporting segments. The Group's two reporting segments are Components and Services. Goodwill has been allocated for impairment testing purposes to 15 cash-generating units across these two segments. These cash-generating units represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

Cash-generating units were identified by grouping Profit Centres within individual statutory entities which together represent sets of independent cash flows. There has been no change in the identification of cash-generating units or the allocation of goodwill to those units since the prior period.

The carrying amounts of goodwill allocated to these cash-generating units are as follows:

	2019 £000
Cash-generating unit	
FTUK	**41,677**
Beaumanor Engineering	**4,395**
Orange County	**2,793**
Primary Fluid Power	**2,480**
HTL	**2,447**
HES	**2,125**
Hydroflex Hydraulics, Oud	**2,050**
Flowtechnology Benelux, BV	**1,015**
Nelson Hydraulics, Lisburn & Dungannon	**989**
Hydravalve	**954**
Indequip	**632**
Hi-Power Hydraulics, Cork, Dublin & Belfast	**579**
Nelson Hydraulics, Dublin	**424**
Derek Lane	**300**
TSL	**154**
Total at 31 December	**63,014**

Sensitivity to changes in key assumptions

Management has carried out sensitivity analyses on the key assumptions used in recoverable amount calculations. Management does not believe that there are any reasonably possible changes in the assumptions used in the value in use calculations which would result in the carrying amount of any cash-generating unit exceeding its recoverable amount.

The table below presents the changes required to eliminate the excess of the recoverable amount over the carrying amount of the CGUs.

		Change required to eliminate headroom		
	Excess of recoverable amount over carrying value of CGU £000	Reduction of forecast annual revenue p.a. %	Reduction in EBITDA margin %	Increase in discount rate %
Cash-generating unit				
FTUK	32,120	10.0%	8.6%	5.6%
Beaumanor Engineering	10,158	20.0%	9.4%	14.6%
Orange County	3,207	12.6%	7.2%	7.8%
Primary Fluid Power	4,661	11.4%	3.8%	6.7%
HES	9,958	21.3%	5.5%	13.7%
Hydroflex-Hydraulics Oud	4,367	15.3%	4.8%	8.8%
All other CGUs	–	> 25%	> 6%	>15%

10. Goodwill continued

Impairment testing

During the year ended 31 December 2019, the Group determines that there is no impairment of any of its cash-generating units containing goodwill. The carrying amount of each cash-generating unit was determined by calculating the sum of the carrying amounts of all intangible assets (including goodwill) and tangible assets attributable to that unit.

The recoverable amounts (i.e. higher of value in use and fair value less costs of disposal) of those units are determined on the basis of value in use calculations. Management has prepared forecasts for each cash-generating unit for the financial years ending 31 December 2020 and 2021, which have been approved by the Board, and extended these projections for a further three years.

Cash flows beyond this five-year period have been extrapolated at an expected long-term growth rate of 2%. This growth rate does not exceed the long-term average growth rate for the market in which the Group operates.

Key assumptions used in value in use calculations

The Group has determined that the recoverable amount calculations are most sensitive to changes in the following assumptions: revenue growth rates, gross margins and discount rates.

The revenue growth rates used in the calculations reflect the average growth rate for the industry as a whole experienced by the Group. Revenue is expected to grow by 2.5% p.a. (2018: 2.5%) in the initial two-year forecast period, with this growth rate tapering downward to the expected long-term growth rate over the next three years. The potential impact of Brexit is difficult to assess, but more information will become available as the UK moves through the transition period and details of the future relationship begin to crystallise. The Group operates across an extensive range of industry sectors and expect there to be a number of positive trends that the Group can capitalise on. Equally, the Group is taking measures to safeguard the business from any risks in this process. These risks and opportunities are outlined in the section on Marketplace under Future Outlook.

Management has considered a range of forecasts while stress testing the impact of COVID-19 on the business and continue to monitor developments. However, these scenarios are not considered for adjustment in the impairment testing of goodwill since COVID-19 is a non-adjusting event.

The gross margins used in the calculations reflect the average gross margins of each cash-generating unit in the period immediately before the forecast period, adjusted for expected future changes in selling prices and direct costs due to market conditions.

The pre-tax discount rates used in the calculations ranged from 8% to 11% (2018: 9%). This discount rate has been derived from the Group's weighted average post-tax cost of capital.

11. Other Intangible Assets

	Customer relationships		Brands		Total	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Gross carrying value						
Balance at 1 January 2019	**9,371**	9,214	**1,173**	96	**10,544**	9,310
Acquired through business combinations – brands	**–**	–	**–**	1,077	**–**	1,077
Acquired through business combinations – customer relationships (note 24)	**–**	157	**–**	–	**–**	157
Balance at 31 December 2019	**9,371**	9,371	**1,173**	1,173	**10,544**	10,544
Amortisation and impairment						
Balance at 1 January 2019	**2,786**	1,845	**134**	35	**2,920**	1,880
Amortisation	**943**	941	**108**	99	**1,051**	1,040
Balance at 31 December 2019	**3,729**	2,786	**242**	134	**3,971**	2,920
Carrying amount at 31 December 2019	**5,642**	6,585	**931**	1,039	**6,573**	7,624

The amortisation of customer relationships and brands is charged to administration costs in the Consolidated Income Statement and is referred to as the amortisation of acquired intangibles.

12. Subsidiary Undertakings

	Country of incorporation	Principal activity	Ownership
Fluidpower Group UK Limited (formerly Fluidpower Limited)	UK	Distributors of engineering components	100%
Fluidpower Group Services UK Limited (formerly PMC Fluidpower Limited)	UK	Assembly and distribution of engineering components	100%
Flowtech Fluidpower Ireland Limited (formerly Hi-Power Limited)	ROI	Assembly and distribution of engineering components	100%
Derek Lane & Co Limited	UK	Assembly and distribution of engineering components	100%
Nelson Hydraulics Limited	UK	Assembly and distribution of engineering components	100%
Process Fluidpower Group Limited	UK	Assembly and distribution of engineering components	100%
Group HES Limited	UK	Assembly and distribution of engineering components	100%
Beaumanor Limited	UK	Distributors of engineering components	100%
Process Fluidpower Limited	UK	Distributors of engineering components	100%
Flowtech Europe Limited	UK	Holding company	100%
Flowtechnology Asia Limited	UK	Holding company	100%
Fluidpower Shared Services Limited	UK	Holding company	100%
Fluidpower Holdings Limited (formerly Fluidpower Group Limited)	UK	Holding company	100%
PMC Fluidpower Group Limited (formerly PMC Fluidpower Limited)	UK	Holding company	100%
Balu Limited	UK	Holding company	100%
Fluidpower MIP Limited	UK	Holding company	100%
Flowtechnology Benelux BV	Netherlands	Distributors of engineering components	100%
The Hydraulic Group BV	Netherlands	Holding company	100%
Hydroflex-Hydraulics BV	Netherlands	Assembly and distribution of engineering components	100%
Hydroflex-Hydraulics Rotterdam BV	Netherlands	Assembly and distribution of engineering components	100%
Hydroflex-Hydraulics Belgium NV	Belgium	Assembly and distribution of engineering components	100%
Flowtech Mid-Co Limited	UK	Dormant	100%
Vitassem Limited	UK	Dormant	100%
IPL Fluidpower Limited	UK	Dormant	100%
Flowtechnology CZ Limited	UK	Dormant	100%
Fluidpower Properties Limited	UK	Dormant	100%
Indequip Limited	UK	Dormant	100%
Onsite Fluidpower Limited	UK	Dormant	100%
KR Couplings Limited	UK	Dormant	100%
Betabite Hydraulics Limited	UK	Dormant	100%
Titan Fluid Power Limited	UK	Dormant	100%
Hydraulics (Ireland) Limited	UK	Dormant	100%
Haitima Flow Control UK Limited	UK	Dormant	100%
HUK Valves Limited	UK	Dormant	100%
Hydravalve UK Limited	UK	Dormant	100%
Hydraulic Equipment Supermarkets Limited	UK	Dormant	100%
Branch Hydraulic Systems Limited	UK	Dormant	100%
HES Tractec Limited	UK	Dormant	100%
HES Lubemec Limited	UK	Dormant	100%
HES Automatec Limited	UK	Dormant	100%
Derek Lane (Contracts) Limited	UK	Dormant	100%
Derek Lane & Co (South West) Limited	UK	Dormant	100%
DLC Defence Ltd	UK	Dormant	100%
Flowtechnology HK Limited	Hong Kong	Dormant	100%

For all the subsidiaries above the class of shares held are ordinary shares and all subsidiaries, except Fluidpower MIP Limited, are indirect subsidiaries of Flowtech Fluidpower plc.

On 29 July 2019, the Group acquired 10% minority shareholding in Derek Lane & Co Limited.

Notes to the Consolidated Financial Information

13. Property, Plant & Equipment

	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2018	1,131	10,485	465	12,081
Additions	–	1,248	95	1,343
Disposals	–	–	(82)	(82)
Acquisitions through business combinations	–	359	266	625
Fair value amendment relating to prior years acquisitions	–	(312)	–	(312)
Effect of movements in foreign exchange	–	4	–	4
Balance at 31 December 2018 and 1 January 2019	1,131	11,784	744	13,659
Additions	53	627	76	756
Disposals	–	–	(56)	(56)
Balance at 31 December 2019	1,184	12,411	764	14,359
Depreciation and amortisation				
Balance at 1 January 2018	88	5,810	113	6,011
Depreciation charge for the year	29	779	133	941
Disposals	–	–	(28)	(28)
Effect of movements in foreign exchange	–	–	–	–
Balance at 31 December 2018 and 1 January 2019	117	6,589	218	6,924
Depreciation charge for the year	40	735	141	916
Disposals	–	–	(9)	(9)
Effect of movements in foreign exchange	–	–	–	–
Balance at 31 December 2019	157	7,324	350	7,831
Net book value				
At 31 December 2019	1,027	5,087	414	6,528
At 1 January 2019	1,014	5,195	526	6,735
At 1 January 2018	1,043	4,675	352	6,070

At year end, the net book value of leased plant, machinery and equipment was £191,000 (2018: £229,000). Included in land and property is land at a cost of £145,000 which is not depreciated (2018: £145,000).

14. Deferred Tax Assets & Liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Intangible assets	**–**	–	**(1,315)**	(1,513)
Property, plant and equipment	**–**	–	**(342)**	(315)
Provisions	**95**	51	**–**	–
Employee share-based payments	**43**	26	**–**	–
Tax assets/(liabilities)	**138**	77	**(1,657)**	(1,828)
Net deferred tax liability			**(1,519)**	(1,751)

A deferred tax asset of £142,000 (2018: £77,000) in respect of cumulative share-based payments of £748,000 (2018: £405,000) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

Movement in deferred tax during the year ended 31 December 2019

	1 January 2019 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2019 £000**
Intangible assets (note 24)	(1,513)	198	–	**(1,315)**
Property, plant and equipment	(315)	(27)	–	**(342)**
Provisions	51	44	–	**95**
Employee share-based payments	26	17	–	**43**
	(1,751)	232	–	**(1,519)**

	1 January 2018 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2018 £000**
Intangible assets	(1,418)	115	(210)	**(1,513)**
Property, plant and equipment	(248)	(8)	(59)	**(315)**
Provisions	37	11	3	**(51)**
Employee share-based payments	69	(43)	–	**(26)**
	(1,560)	75	(266)	**(1,751)**

15. Inventories

	2019 £000	2018 £000
Finished goods and goods for resale	**24,000**	28,667

Charges for finished goods recognised as cost of sales in the year amounted to £65,417,000 (2018: £63,683,000). The write-down of inventories to net realisable value amounted to £426,000 (2018: write-down of £154,000). The write-downs and reversals are included in cost of sales. The provision made against inventories at the year end was £2,046,000 (2018: £4,574,000).

Estimates are made of the net realisable value of inventory at the year end. In some circumstances, inventory is subsequently sold in excess of the net realisable value determined, which results in a reversal of the write-down.

Notes to the Consolidated Financial Information

16. Trade & Other Receivables

	2019 £000	2018 £000
Trade receivables	**21,058**	24,805
Other receivables	**319**	670
Trade and other receivables	**21,377**	25,475

The ageing of trade receivables at the balance sheet date was:

	Gross 2019 £000	Impairment 2019 £000	Gross 2018 £000	Impairment 2018 £000
Not past due	**18,458**	**28**	22,949	240
Past due 0-30 days	**1,656**	**8**	1,317	36
More than 30 days	**1,253**	**273**	1,124	309
	21,367	**309**	25,390	585

The movement in the allowance of impairment in respect of trade receivables during each year was as follows:

	2019 £000	2018 £000
Balance at 1 January	**585**	468
Net change due to acquisitions and disposals of subsidiaries	**–**	146
Provision utilised	**(143)**	(94)
(Decrease)/increase in provision	**(133)**	65
Balance at 31 December	**309**	585

17. Cash & Cash Equivalents

	2019 £000	2018 £000
Cash and cash equivalents:		
Sterling	**2,263**	1,606
Euro	**1,122**	371
Dollar	**61**	271
Total cash and cash equivalents	**3,446**	2,248

18. Interest-bearing Loans & Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 30.

	2019 £000	2018 £000
Non-current liabilities		
Secured bank loans	**4,000**	4,000
Lease liabilities	**8**	51
Right-of-use liabilities	**6,735**	–
Total non-current liabilities	**10,743**	4,051
Current liabilities		
Bank overdraft	**–**	1,994
Revolving credit facility	**16,000**	16,000
Lease liabilities	**55**	84
Right-of-use liabilities	**1,635**	–
Total current liabilities	**17,690**	18,078
Total	**28,433**	22,129

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Carrying value 2019 £000	Carrying value 2018 £000
Secured bank loan	GBP	BoE + 2.1%	2021	**4,000**	4,000
Secured revolving credit facility	GBP	BoE + 2.1%	2021	**16,000**	16,000
Finance lease liabilities	GBP	Various	2020 to 2021	**63**	135
Right-of-use liabilities	GBP	Various	2020 to 2031	**6,926**	–
Right-of-use liabilities	EUR	Various	2020 to 2027	**1,444**	–
				28,433	20,135

The revolving credit facility is up to £16,000,000 and is subject to a non-utilisation fee of 0.7%. The bank loans and revolving credit facility are secured by legal charges over certain of the Group's assets which include trade receivables and stock and are due for renewal in 2021. Group bank accounts are in a netting-off facility and overdrafts are not subject to interest. The Group also has a £5,000,000 overdraft facility which expires on 31 July 2020.

Lease liabilities

Lease liabilities are payable as follows:

	Minimum lease payments 2019 £000	Interest 2019 £000	Principal 2019 £000	Minimum lease payments 2018 £000	Interest 2018 £000	Principal 2018 £000
Less than one year	**60**	**5**	**55**	100	16	84
Between one and five years	**10**	**2**	**8**	63	12	51
	70	**7**	**63**	163	28	135

Notes to the Consolidated Financial Information

19. Trade & Other Payables

	2019 £000	2018 £000
Current liabilities		
Trade payables	**10,356**	10,853
Accrued expenses	**3,073**	4,776
Social security and other taxes	**2,081**	2,743
	15,510	18,372

20. Contingent Consideration

	2019 £000	2018 £000
Non-current liabilities		
Contingent consideration	**–**	–
Total non-current liabilities	**–**	–
Current liabilities		
Contingent consideration	**214**	2,240
Total current liabilities	**214**	2,240
Total	**214**	2,240

The contingent consideration is payable to the former owners of Derek Lane in the 1st half of 2020, following purchase of 10% minority interest in Derek Lane & Co Limited on 29th July 2019.

21. Provisions

	2019 £000	2018 £000
Balance at 1 January 2019	**399**	341
Acquisitions through business combinations	**–**	35
Amount provided in the year	**18**	23
Balance at 31 December 2019	**417**	399

Provisions have been analysed between current and non-current as follows:

	2019 £000	2018 £000
Current	**–**	–
Non-current	**417**	399
Total	**417**	399

The dilapidation provision is held in respect of leasehold properties held by the Group and represents management's best estimate of the amount which is expected to be settled in respect of dilapidation costs for the relevant sites.

22. Right-of-use Assets & Lease Liabilities

In the current year, the Company adopted IFRS 16 and applied the modified retrospective approach. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Right-of-use assets

	Land and property £000	Motor vehicles £000	Total £000
Cost			
Balance at 1 January 2019	–	–	–
Adjustment on transition to IFRS 16 on 1 January 2019	8,343	704	9,047
Additions	512	468	980
Disposals	–	–	–
Balance at 31 December 2019	8,855	1,172	10,027
Depreciation and amortisation			
Balance at 1 January 2019	–	–	–
Adjustment on transition to IFRS 16 on 1 January 2019	–	–	–
Depreciation charge for the year	(1,263)	(438)	(1,701)
Disposals	–	–	–
Effect of movements in foreign exchange	(88)	(10)	(98)
Balance at 31 December 2019	(1,351)	(448)	(1,799)
Net book value			
At 31 December 2019	**7,504**	**724**	**8,228**

The associated right-of-use assets for property leases and other assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

Right-of-use lease liabilities

The statement of profit or loss shows the following amounts relating to right-of-use assets:

	2019 £000	2018 £000
Depreciation of charge of right-of-use assets		
Land and property	**1,263**	–
Motor Vehicles	**438**	–
Interest expenses (included in finance cost)	**282**	–
Exchange movements in income statement	**(15)**	–
Total expense in the income statement relating to Right to use Assets	**1,968**	–

Notes to the Consolidated Financial Information

22. Right-of-use Assets & Lease Liabilities continued

Right-of-use lease liabilities

	2019 £000	2018 £000
At 1 January	**9,047**	–
Repayment	**(1,561)**	–
Additions to right-of-use assets in exchange for increased lease liabilities	**980**	–
Other lease movements	**(96)**	–
At 31 December	**8,370**	–

Analysis by length of liability

	As at 31 December 2019			As at 31 December 2018		
	Land and property £000	**Motor vehicles £000**	**Total £000**	Land and property £000	Motor vehicles £000	Total £000
Current	**1,250**	**385**	**1,635**	–	–	–
Non-current	**6,408**	**327**	**6,735**	–	–	–
Total	**7,658**	**712**	**8,370**	–	–	–

The table below describes the nature of the Group's leasing activities by type of right-of-use assets recognised on the balance sheet.

	Land and property	Motor vehicles
Number of right-of-use assets leased	32	85
Range of remaining term	1-12 years	1-3 years
No. of leases with extension options	7	–
No. of leases with options to purchase	1	–
No. of leases with termination options	1	–
Lease termination options recognised as part of lease Liability £'000	300	–

23. Employee Benefits

23.1 Pension plans

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans was £752,000 (2018: £475,000).

23.2 Share-based employee remuneration

As at 31 December 2019, the Group maintained four share-based payment schemes for employee remuneration: the Management Incentive Plan; the Enterprise Management Incentive Plan, which has two sub plans, Approved and Unapproved; and the Company Share Option Plan.

Management Incentive Plan

The Management Incentive Plan ('MIP') is part of the remuneration package of the Group's senior management. Shares held in Fluidpower MIP Limited under this plan may be sold if certain conditions, as defined in the Articles of Association of Fluidpower MIP Limited, are met. It is based on the growth of Flowtech Fluidpower plc's share value within a specified holding period. In addition, participants in this scheme must be employed by the Group until the end of the agreed holding period. At the end of the holding period the holder may sell their shares to the Company for either cash or shares at a value determined by the growth of Flowtech Fluidpower plc's share value within the specified holding period. The Plan is classified as an equity-settled scheme as there is no present obligation to settle in cash.

The number of shares in Fluidpower MIP Limited subject to options and the exercise price are:

Date of grant	Exercise period	2019 number	2018 number
21 May 2014	11 April 2017 to 10 August 2024	**77**	77
1 June 2016	1 June 2019 to 31 May 2021	**3,010**	3,010

The fair values of the options granted were determined using a variation of the Black–Scholes model that takes into account factors specific to share incentive plans, such as the vesting period. The following principal assumptions were used in the valuation:

	MIP scheme £000	MIP scheme £000
Grant date	21 May 2014	1 June 2016
Vesting period ends	3 April 2017	31 May 2019
Share price at date of grant	£1.00	£1.45
Volatility	30.7%	31.6%
Option life	6.25 years	5 years
Dividend yield	5.15%	5.3%
Risk-free investment rate	2.11%	1.29%
Fair value at grant date	£1.00	£1.99
Exercise price at date of grant	£1.30	£1.51
Exercisable from/to	4 April 2017 to 20 May 2021	1 June 2019 to 31 May 2023
Weighted average remaining contractual life	4 years	2 years

The underlying expected volatility was determined by reference to historical share data of a group of the Company's peers over the past six years in accordance with the expected exercise period of the schemes.

Enterprise Management Incentive Plan

The Enterprise Management Incentive Plan (EMI) is part of the remuneration package of certain employees, the majority of options being issued on the date the Company was admitted to the London Stock Exchange. The sub plans are named Approved and Unapproved by virtue of whether the plans qualify for HMRC approval, the Unapproved Plan being mainly related to non-UK resident employees. Options under this scheme will vest if the participant remains employed for the agreed vesting period. Upon vesting each option allows the holder to purchase one ordinary share.

The number of shares subject to options and the exercise price are:

Date of grant	Exercise price	Exercise period	2019 number £000	2018 number £000
Approved plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**610**	645
8 August 2014	£1.26	4 April 2017 to 7 August 2024	**12**	12
			622	657
Unapproved plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**37**	37
11 August 2015	£1.32	4 April 2018 to 10 August 2025	**130**	**130**
1 July 2016	£1.00	4 April 2019 to 30 June 2026	**45**	**45**
1 January 2019	£1.13	5 May 2022 to 1 September 2025	**9**	–
25 October 2019	£0.50	5 May 2022 to 28 January 2026	**150**	–
			371	212
			993	869

Notes to the Consolidated Financial Information

23. Employee Benefits continued

Share options and weighted average exercise prices are as follows for the reporting periods presented:

	Enterprise Management Incentive Plan				
	Approved scheme		Unapproved scheme		
	Number of shares 000	Weighted average exercise price per share	Number of shares 000	Weighted average exercise price per share	Total number of shares 000
Outstanding at 1 January 2019	**657**	**1.01**	**212**	**1.20**	**869**
Granted	**–**	**–**	**159**	**0.53**	**159**
Lapsed	**–**	**–**	**–**	**–**	**–**
Forfeited	**–**	**–**	**–**	**–**	**–**
Exercised	**(35)**	**1.00**	**–**	**–**	**(35)**
Outstanding at 31 December 2019	**622**	**1.01**	**371**	**0.91**	**993**
Exercisable at 31 December 2019	**622**	**1.01**	**212**	**0.84**	**834**
Exercisable at 31 December 2018	657	1.01	167	0.80	824

The fair values of the options granted were determined using a variation of the Black-Scholes model that takes into account factors specific to share incentive plans, such as the vesting period. The following principal assumptions were used in the valuation:

	Unapproved EMI scheme	Unapproved EMI scheme	Unapproved EMI scheme	Unapproved EMI scheme	Approved EMI scheme	EMI scheme unapproved and approved
Grant date	1 July 2016	1 Jan 2019	25 Oct 2019	11 Aug 2015	8 Aug 2014	21 May 2014
Vesting period ends	3 April 2019	5 May 2022	5 May 2022	10 Aug 2018	3 April 2017	3 April 2017
Share price at date of grant	£1.00	£1.15	£1.15	£1.44	£1.26	£1.00
Volatility	31.60%	37.00%	39.00%	36.60%	36.60%	36.60%
Option life	6.5 years	10 years	10 years	6.5 years	6.25 years	6.25 years
Dividend yield	5.30%	5.50%	6.00%	5.00%	5.00%	5.00%
Risk-free investment rate	2.11%	0.93%	0.45%	1.50%	1.5%	1.5%
Fair value at grant date	£1.05	£0.27	£0.57	£1.46	£1.11	£1.11
Exercise price at date of grant	£1.00	£1.13	£0.50	£1.32	£1.26	£1.00
Exercisable from/to	4 April 2019 to 20 May 2026	5 May 2022 to 31 Dec 2029	5 May 2022 to 24 Oct 2029	11 Aug 2018 to 10 Aug 2025	4 April 2017 to 20 May 2024	4 April 2017 to 20 May 2024
Weighted average remaining contractual life	6 years	9 years	9.8 years	5 years	4 years	4 years

The underlying expected volatility was determined by reference to historical share data of a group of the Company's peers over the past six years in accordance with the expected exercise period of the schemes.

Company Share Option Plan

The Company Share Option Plan ('CSOP') is part of the remuneration package of certain employees. Options under this scheme will vest if the participant remains employed for the agreed vesting period. Upon vesting each option allows the holder to purchase one ordinary share.

The number of shares subject to options and the exercise price are:

	Exercise price	Exercise period	2019 number 000	2018 number 000
11 August 2015	£1.43	11 August 2018 to 10 August 2025	**110**	110
1 July 2016	£1.00	4 April 2019 to 30 June 2026	**365**	440
1 January 2019	£1.13	5 May 2022 to 02 Sep 2025	**27**	–
			502	550

Share options and weighted average exercise prices are as follows for the reporting periods presented:

	Number of shares	Weighted average exercise price per share
Outstanding at 1 January 2019	550	1.09
Granted	27	1.13
Exercised	(50)	1.00
Forfeited	(25)	1.00
Outstanding at 31 December 2019	**502**	**1.10**

Exercisable at 31 December 2019	**475**	**1.10**
Exercisable at 31 December 2018	110	1.43

The fair values of the options granted were determined using a variation of the Black–Scholes model that takes into account factors specific to share incentive plans, such as the vesting period. The following principal assumptions were used in the valuation:

	CSOP scheme 2019	CSOP scheme 2017	CSOP scheme 2016
Grant date	01-Jan-19	01-Jul-16	11-Aug-15
Vesting period ends	05-May-22	03-Apr-19	10-Aug-18
Share price at date of grant	£1.15	£1.00	£1.44
Volatility	37.00%	31.60%	36.60%
Option life	10 years	6.5 years	6.5 years
Dividend yield	6.00%	5.30%	5.00%
Risk-free investment rate	0.93%	2.11%	1.50%
Fair value at grant date	£0.27	£1.05	£1.46
Exercise price at date of grant	£1.13	£1.00	£1.43
Exercisable from/to	5 May 2022 to 31-Dec-29	4 April 2019 to 20-May-26	11 April 2018 to 20-May-25
Weighted average remaining contractual life	9 years	6 years	5 years

The underlying expected volatility was determined by reference to historical share data of a group of the Company's peers over the past six years in accordance with the expected exercise period of the schemes.

In total, £143,000 (2018: £191,000) of employee remuneration expenses, all of which related to equity-settled share-based payment transactions, has been included in the Consolidated Income Statement.

Notes to the Consolidated Financial Information

24. Acquisitions & Disposals

Acquisition of minority interest in Derek Lane & Co Limited

The Company entered into an agreement to purchase the minority shareholding of Derek Lane & Co. Limited for a total maximum consideration of £300,000, including initial consideration of £38,250 in Consideration Shares and £38,250 in cash. The remaining consideration is deferred and is subject to performance criteria ('Contingent Consideration'). The contingent consideration will become payable in 2020.

On 29 July 2019, the Company issued 28,760 ordinary shares of 50 pence each in the Company ('Consideration Shares') at a price of £1.33 per share in part settlement of the initial consideration for the minority shareholding in Derek Lane & Co. Limited. It also made a cash payment of £38,250 to the minority shareholders as part settlement of the purchase consideration. Based on the performance of the underlying business, the Accounts contain an accrual of £213,877 towards settlement of the contingent consideration. The liability will be discharged by issuing number of ordinary shares in Flowtech Fluidpower Plc.

The total investment value of £290,377 has been accounted for as a charge to retained earnings.

25. Equity

The share capital of the Company consists only of fully paid ordinary shares with a nominal value of 50p per share. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at Shareholders' meetings of the Company.

	Number	£000
Allotted and fully paid ordinary shares of 50p each at 31 December 2019	61,157,124	30,579
Shares authorised for share-based payments	6,666,667	3,333
Total shares authorised at 31 December 2019	**67,823,791**	**33,912**

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At 1 January 2019	60,920,383	30,460
Shares issued in respect of exercise of employee share options	50,000	25
Shares issued in respect of settlement of contingent consideration	157,981	80
Shares issued in respect of acquisition of minority interest (note 24)	28,760	14
At 31 December 2019	**61,157,124**	**30,579**

On 16 May 2019, 157,981 ordinary shares of 50p each were issued at 126.6 pence each to Vendors of Hydraulics and Transmissions Limited to settle contingent consideration owed to the vendors.

On 13 June 2019, 50,000 ordinary shares of 50p each were issued at 140 pence each on exercise of share options by an employee.

On 29 July 2019, the Company issued 28,760 ordinary shares of 50 pence each in the Company ('Consideration Shares') at a price of £1.33 per share in part settlement of the initial consideration for the minority shareholding in Derek Lane & Co. Limited.

26. Net Cash from Operating Activities

	2019 £000	2018 £000
Reconciliation of profit before taxation to net cash flows from operations		
Profit from continuing operations before tax	**4,707**	6,923
Depreciation on property, plant and equipment	**916**	941
Depreciation on right-of-use assets (IFRS 16)	**1,701**	–
Financial income	**–**	(11)
Financial expense	**756**	766
Finance cost on right-of-use assets (IFRS 16)	**282**	–
Loss/(Profit) on sale of plant and equipment	**6**	(9)
Amortisation of intangible assets	**1,051**	1,040
Profit on sale of shares	**140**	–
Cash-settled share options	**–**	(23)
Equity-settled share-based payment charge	**143**	191
Change in amounts accrued for contingent consideration	**596**	264
Other financial items	**123**	–
Fair value adjustment to stock	**12**	–
Operating cash inflow before changes in working capital and provisions	**10,433**	10,082
Change in trade and other receivables	**4,006**	(1,509)
Change in stocks	**4,667**	(844)
Change in trade and other payables	**(2,862)**	(2,843)
Change in provisions	**18**	(23)
Cash generated from operations	**16,262**	4,863
Tax paid	**(3,016)**	(1,073)
Net cash generated from operating activities	**13,246**	3,790

27. Operating Leases

Non-cancellable operating lease rentals are payable as follows: (*)

	2019 £000	2018 £000
Less than one year	**–**	1,666
Between one and five years	**–**	3,787
More than five years	**–**	3,756
	–	9,209

(*) Following a detailed review of the lease commitments on transition to IFRS 16, the opening balance of the operating lease commitments in respect of Land and Building disclosed as at 31 December 2018 is corrected.

Following the application of IFRS 16, qualifying operating leases have been capitalised as right to use assets. Refer Note 22 Right-of-use Assets and Lease Liabilities for further details.

28. Contingent Liabilities & Commitments

The Group had capital expenditure of £274,000 contracted for but not provided at 31 December 2019 (2018: £105,000).

29. Related Party Transactions

Transactions between the Company, its Employee Benefit Trust and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management includes Executive and Non-Executive Directors.

Dividends paid to Directors of the plc were as follows:

	2019 £000	2018 £000
Bryce Brooks	**18**	17
Malcolm Diamond MBE	**4**	3
Bill Wilson	**2**	–
Nigel Richens	**5**	**4**
Russell Cash	**1**	–
	30	24

Other than the transactions set out above, the Group has not entered into any transactions with any related parties who are not members of the Group.

30. Financial Instruments

30.1 Fair values of financial instruments

Fair values

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

	Carrying amount 2019 £000	Fair value 2019 £000	Level 3 2019 £000	Carrying amount 2018 £000	Fair value 2018 £000	Level 3 2018 £000
Contingent consideration (note 20)	**(214)**	**(214)**	**(214)**	(2,240)	(2,240)	(2,240)
Total financial liabilities at fair value through profit or loss	**(214)**	**(214)**	**(214)**	(2,240)	(2,240)	(2,240)

There have been no transfers in either direction during the years ended 31 December 2019 and 31 December 2018.

The reconciliation of the carrying amounts of financial instruments classified within level 3 is as follows:

	2019 £000	2018 £000
Balance at 1 January	**2,240**	5,571
Arising on business combinations	**214**	–
Payment of contingent consideration	**(2,836)**	(3,595)
Changes in amounts accrued for contingent consideration	**596**	264
Balance at 31 December	**214**	2,240

Contingent consideration reflects liability on purchase of minority interest in Derek Lane. The liability is based on a multiple of agreed operating profit for the business and shall be settled by issue of equivalent value of equity shares.

The valuation was agreed and settled on 16th April 2020 with no change to the provided amount.

Changes in amounts accrued for contingent consideration relates to the calculation of the contingent consideration as follows:

Overprovided consideration:

- £596,000 in final settlement for the acquisition of Orange County Limited acquired in 2017. The consideration was based on net profit targets.

The Group is exposed to various risks in relation to financial instruments. Each of these is disclosed in the table below.

	Carrying amount 2019 000	Fair value 2019 £000	Level 3 2019 £000	Carrying amount 2018 £000	Fair value 2018 £000	Level 3 2018 £000
Loans and receivables						
Cash and cash equivalents (note 17) (*)	**3,446**	**3,446**		2,248	2,248	
Trade and other receivables (note 16) (*)	**21,377**	**21,377**		25,475	25,475	
Total financial assets measured at amortised costs	**24,823**	**24,823**		27,723	27,723	
Total financial assets at fair value	**–**	**–**		–	–	
Financial assets	**24,823**	**24,823**		27,723	27,723	
Financial liabilities measured at amortised cost						
Other interest-bearing loans and borrowings (note 18)	**(20,063)**	**(20,063)**		(22,129)	(22,129)	
Trade payables and accruals (note 19) (*)	**(13,429)**	**(13,429)**		(15,629)	(15,629)	
Total financial liabilities measured at amortised cost	**(33,492)**	**(33,492)**		(37,758)	(37,758)	
Financial liabilities at fair value						
Forward exchange contracts	**–**	**–**	**–**	–	–	–
Contingent consideration (note 20)	**(214)**	**(214)**	**(214)**	(2,240)	(2,240)	(2,240)
Total financial liabilities at fair value	**(214)**	**(214)**	**(214)**	(2,240)	(2,240)	(2,240)
Total financial liabilities	**(33,706)**	**(33,706)**		(39,998)	(39,998)	
Total financial instruments	**(8,883)**	**(8,883)**		(12,275)	(12,275)	

(*) The Group has not disclosed the fair value for financial instruments such as short-term trade receivables and payables, interest bearing loans and borrowings, and cash and cash equivalents, because their carrying amounts are a reasonable approximation of fair values.

Financial instruments measured at fair value	Valuation technique
Forward exchange contracts	The Group utilises natural hedges available as a result of its trading activities. The net exposure is settled on maturity by purchasing the required currency on spot basis.
Contingent consideration	The fair value of contingent consideration at 31 December 2019 relates to the acquisition of minority interest in Derek Lane & Co Limited in 2019. It is estimated using a present value technique. The £214,000 fair value is measured by reference to the future cash outflows. The cash outflows reflect management's best estimate of the amount payable.
Bank loans and other interest-bearing borrowings	Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Notes to the Consolidated Financial Information

30. Financial Instruments continued

30.2 Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management also consider the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country in which the customers operate. The credit status of each new customer is reviewed before credit is advanced. This includes external evaluations where possible. Outstanding balances are reviewed regularly by management.

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

The Group establishes an allowance for impairment that represents its estimate of expected losses in respect of trade receivables, see note 16. The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

	2019 £000	2018 £000
UK	**17,811**	20,319
Europe	**2,858**	4,017
Rest of the World	**389**	469
	21,058	24,805

30.3 Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial commitments as they fall due or that it fails to satisfy the requirements of its banking covenants. Management prepares robust annual and monthly cash flow forecasts which are fully integrated with the core assumptions underpinning forecast profitability and balance sheet movements; in addition, a rolling 13 week cash flow forecast is continually updated to provide visibility as regards likely quarter end Net Debt positions.

As a result, the business has all the requisite monitoring capability to assess the impact which any adverse trading conditions may present. The business is as focused on managing its working capital base as it is its profitability, a combination which the Board views as key in continually managing this risk..

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Year ended 31 December 2019	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
Non-derivative financial liabilities					
Secured bank loan	**4,000**	**4,141**	**94**	**4,047**	**–**
Liabilities relating to right-of-use assets	**8,370**	**8,370**	**1,635**	**1,162**	**2,049**
Lease liabilities	**63**	**70**	**60**	**10**	**–**
Revolving credit facility	**16,000**	**16,376**	**16,376**	**–**	**–**
Trade payables	**10,356**	**10,356**	**10,356**	**–**	**–**
	38,789	**39,313**	**28,521**	**5,219**	**2,049**

Year ended 31 December 2018	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
Non-derivative financial liabilities					
Secured bank loan	4,000	4,348	116	116	4,116
Finance lease liabilities	135	161	99	62	—
Revolving credit facility	16,000	16,464	16,464	—	—
Trade payables	10,823	10,823	10,823	—	—
	30,958	31,796	27,502	178	4,116

There are no contractual maturities over five years, save for liabilities relating to right-of-use assets.

30.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments.

Market risk — foreign currency risk

The main currency related risk to the Group comes from forward purchasing of inventories and from its foreign operations. The Group utilises natural hedges available as a result of its trading activites. The net exposure is settled on maturity by purchasing the required currency on spot basis.

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

31 December 2019	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	**2,263**	**1,122**	**61**	**3,446**
Trade and other receivables	**18,434**	**2,750**	**193**	**21,377**
Secured bank loans	**(4,000)**	**–**	**–**	**(4,000)**
Revolving credit facility	**(16,000)**	**–**	**–**	**(16,000)**
Liabilities relating to right-of-use assets	**(6,915)**	**(1,455)**	**–**	**(8,370)**
Lease liabilities	**(63)**	**–**	**–**	**(63)**
Trade payables	**(5,229)**	**(5,101)**	**(26)**	**(10,356)**
Net exposure	**(11,510)**	**(2,684)**	**228**	**(13,966)**

31 December 2018	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	1,606	371	271	2,248
Trade and other receivables	21,544	3,870	61	25,475
Secured bank loans	(4,000)	–	–	(4,000)
Revolving credit facility	(16,000)	–	–	(16,000)
Finance lease liabilities	(96)	(39)	–	(135)
Trade payables	(5,084)	(4,744)	(1,025)	(10,853)
Net exposure	(2,030)	(542)	(693)	(3,265)

Sensitivity analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2019 would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

The analysis is performed on the same basis for the year ended 31 December 2018.

	Profit or loss and equity	
	2019 £000	2018 £000
€	**244**	(10)
$	**(21)**	73

A 10% strengthening of the following currencies against the pound sterling at 31 December 2019 would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

The analysis is performed on the same basis for the year ended 31 December 2018.

	Profit or loss and equity	
	2019 £000	2018 £000
€	**(298)**	12
$	**25**	(90)

Notes to the Consolidated Financial Information

30. Financial Instruments continued

Market risk – interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2019 £000	2018 £000
Fixed rate instruments		
Financial liabilities	**63**	135
Variable rate instruments		
Financial liabilities (carrying value)	**20,000**	21,995

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for the year ended 31 December 2018.

	2019 £000	2018 £000
Equity		
Increase of 100 basis points	**(200)**	(220)
Decrease of 100 basis points	**200**	220
Profit or loss		
Increase of 100 basis points	**(200)**	(220)
Decrease of 100 basis points	**200**	220

30.5 Capital management

The capital structure of the Group is presented in the statement of financial position and includes equity, cash and borrowings. The statement of changes in equity provides details of equity and note 18 provides details of loans and overdrafts. Funding requirements are provided by a combination of revolving credit (£20m) and overdraft (£5m) facilities. The Group's objectives when managing capital is to safeguard its ability to continue as a going concern and to have access to adequate funding for business opportunities, so that it can provide returns for Shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may issue new shares or draw down debt. The Group is not subject to externally imposed regulatory capital requirements and there are no specific ratios used by the Group in assessing its management of capital levels.

The Group is subject to covenants in respect of its bank facilities and remains covenant compliant. Whilst the challenges presented by COVID-19 may put pressure on the ability to remain compliant the Directors are confident that the Bank will work with the business and if necessary, redefine covenants which would otherwise be breached. There were no changes in the Group's approach to capital management during each year.

The Group maintains sufficient cash levels to enable it to meet its liabilities as they fall due. Management review cash flow forecasts on a regular basis to determine whether the Group has sufficient cash reserves to meet future working capital requirements, financing obligations and to take advantage of business opportunities. In reviewing cash flows and identifying the need for further funds, management consider the nature of cash flow requirements and take appropriate action.

31. Subsequent Events

On 21 April 2020, the Group released a trading update statement dealing with trading for the financial year to date, the net debt position, restructuring activities and an outlook statement with specific reference to the latest situation regarding the impact of the COVID-19 pandemic. That statement is reproduced below. There have been no significant changes to the matters set out in the statement since 21 April 2020.

Results for 3 months to 31 March 2020	Period 2020 Unaudited £m	Period 2019 Unaudited £m	Change
Revenue by division:			
Components	**22.9**	26.0	(11.9%)
Services	**4.0**	4.0	0.0%
Total Group revenue for the period	**26.9**	30.0	(10.3%)
Net debt (†)	**15.6**	20.5	

(†) Net debt excludes IFRS 16 lease debt.

Trading

Prior to the COVID-19 lockdown, Q1 performance was in line with our expectations: down on the buoyant conditions seen in early 2019, but with a return to growth in customer order patterns and outlook. However, the final few weeks of the Period created an altogether different position going into Q2. Many of our suppliers and customers suspended operations, although recent indications suggest that some have either already reopened or are planning to reopen in May, albeit with reduced capacity.

The most marked effect of the current situation has been in our Components segment, which are those Profit Centres where most sales are directly into OEMs. The Services segment had a good order book coming into the year, and whilst it was also affected by the downturn in late March, revenue for the quarter remained flat year on year.

While there are no first quarter industry statistics currently available from the BFPDA* or BFPA**, the Board believes that the Group has generally traded in line with the sector during the period.

Net debt/cash flow

Net debt at 31 March 2020 was £15.6m, a £1m reduction from the position at 31 December 2019 and well within our aggregate banking facilities of £25m. Net cash flow in April has been as expected, and whilst we have not entered the end of month collection period, we expect receipts to be received in full albeit with some slight delays in timing. We believe this should not create any significant disruption to the overall cash flow cycle.

Restructuring activities

In February 2020, we announced a major restructuring programme to transition warehousing and picking operations to more efficient centres. In the UK, we are currently closing four warehousing facilities, the annualised savings from which are estimated to be £1.6m, with a £0.8m impact/benefit in 2020. The cash cost of this restructuring is estimated at £1.8m, of which £0.5m was incurred in 2019. We are pleased to confirm that this complex and tightly managed project is on time and within budget.

Since safe working guidance was introduced last month, costs have been reduced by a combination of internal actions and the utilisation of ‘furlough’ or equivalent schemes introduced in the UK, Republic of Ireland, and the Netherlands. We estimate that our cost base has fallen by around 25%, with further savings still to come from our restructuring activities. We will continue to pursue our rationalisation and cost reduction programmes, creating operational efficiencies in our procurement, logistics, sales and back office activities.

*British Fluid Power Distributors Association.
**British Fluid Power Association.

Outlook

Whilst the full impact of the COVID-19 lockdown remains unclear, it is not possible to make any accurate predictions for the remainder of the year. A significant part of our sales depends on the manufacturing and construction sectors, both of which have seen large scale shut-downs. It is possible that these sectors will begin to reopen during early May, and our current plan is to ensure that we continue to support/service our customers and react as quickly and effectively as possible if this were to happen. However, if there is a need to undertake further cost reductions should the lockdown extend further into the year, we must ensure that we are in a position to initiate change without detriment to our future business and our customers. This being said, the work undertaken as part of our restructuring activities over the past twelve months is helping our planning enormously in this regard.

We also thank all our people for the commitment to the business and the support of colleagues in these times. Overall, we remain confident that, despite the disruption, our business should generate positive cash flow through 2020 and 2021, helping to further reduce net debt and create a solid platform for growth when things return to a more normal situation.

The most significant negative impact of the events since the balance sheet date is the economic disruption caused by the COVID-19 pandemic and, should this disruption continue for a prolonged period, the creation of a material uncertainty as to the ability of the Group to continue as a going concern and realise its assets and discharge its liabilities in the ordinary course of business.

Note 2.2 sets out the rationale underpinning the Directors’ expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Directors have also considered the possibility that any tangible assets, intangible assets and goodwill should be impaired and, based on the projections described in note 2.2, have determined that no impairment is necessary. The developing situation regarding the pandemic is kept under constant review.

The situation at 31 December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019 and it is therefore a non-adjusting event. Accordingly, the financial position and results of operations as of, and for the year ended 31 December 2019 have not been adjusted. The financial position and results of the Group for future periods will be adjusted as and when sufficient information on the medium to long-term impact of COVID-19 becomes available and the prospects of the Company are determined to have deteriorated to such an extent that necessitates an impairment provision or other adjustment.

Company Income Statement

	Note	2019 £000	2018 £000
Continuing operations			
Administrative expenses		**(943)**	(929)
Operating loss	C	**(943)**	(929)
Financial income	F	**4,350**	4,890
Financial expenses	F	**(708)**	(628)
Net financing income		**3,642**	4,262
Profit from continuing operations before tax		**2,699**	3,333
Taxation	G	**–**	–
Profit for the year attributable to the owners of the parent		**2,699**	3,333

Company Statement of Financial Position

	Note	2019 £000	2018 £000
Fixed assets			
Investments	J	**59,002**	58,881
Total fixed assets		**59,002**	58,881
Current assets			
Trade and other debtors	K	**65,292**	63,715
Total current assets		**65,292**	63,715
Creditors: amounts falling due within one year			
Interest-bearing loans and borrowings	M	**16,000**	16,000
Trade and other creditors	N	**5,819**	3,611
Total creditors: amounts falling due within one year		**21,819**	19,611
Net current assets		**43,473**	44,104
Total assets less current liabilities		**102,475**	102,985
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	M	**4,000**	4,000
Total creditors: amounts falling due after more than one year		**4,000**	4,000
Net assets		**98,475**	98,985
Capital and reserves			
Called up share capital	P	**30,579**	30,460
Share premium account		**60,959**	60,793
Share-based payment reserve		**192**	109
Other reserves		**187**	187
Merger relief reserve		**406**	382
Retained earnings		**6,152**	7,054
Total equity		**98,475**	98,985

The financial statements on pages 102 to 111 were approved by the Board of Directors on 29 April 2020 and were signed on its behalf by:

Russell Cash
Chief Financial Officer

Company Registration Number: 09010518

Company Statement of Changes in Equity

	Share capital £000	Share premium £000	Other reserve £000	Merger relief reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018	26,409	52,370	187	–	7,953	86,919
Profit for the year	–	–	–	–	3,333	3,333
Total comprehensive income for the year	–	–	–	–	3,333	3,333
Transactions with owners						
Issue of share capital	4,051	8,423	–	–	–	12,473
Merger relief arising on shares issued in consideration for acquisition of an indirect subsidiary	–	–	–	382	–	382
Share options – granted to subsidiary employees	–	–	–	–	(564)	(564)
Equity dividends paid (note H)	–	–	–	–	(3,558)	(3,558)
Total transactions with owners	4,051	8,423	–	382	(4,122)	8,733
Balance at 1 January 2019	30,460	60,793	187	382	7,163	98,985
Profit for the year	–	–	–	–	2,699	2,699
Total comprehensive income for the year	–	–	–	–	2,699	2,699
Transactions with owners						
Issue of share capital	119	166	–	24	–	309
Share options settled in cash	–	–	–	–	(11)	(11)
Share options – granted to subsidiary employees	–	–	–	–	102	102
Profit on sale of shares	–	–	–	–	140	–
Equity dividends paid (note H)	–	–	–	–	(3,749)	(3,749)
Total transactions with owners	119	166	-	24	(3,518)	(3,209)
Balance at 31 December 2019	30,579	60,959	187	406	6,343	98,475

Notes to the Company Financial Information

A. Authorisation of Financial Statements & Statement of Compliance with FRS 101

The financial statements of Flowtech Fluidpower plc for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 29 April 2020 and the Statement of Financial Position was signed on the Board's behalf by Russell Cash. Flowtech Fluidpower plc is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The Company's financial statements are presented in sterling.

These financial statements have been prepared on a going concern basis and on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

The principal accounting policies adopted by the Company are set out in note B.

B. Accounting Policies

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a. the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

i. paragraph 79(a)(iv) of IAS 1;

ii. paragraph 73(e) of IAS 16 'Property, Plant and Equipment';

b. the requirements of paragraphs 10(d), and 134-136 of IAS 1 'Presentation of Financial Statements' and the requirements of IAS 7 'Statement of Cash Flows';

c. the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';

d. the requirements of paragraph 17 of IAS 24 'Related Party Disclosures';

e. the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

f. disclosure requirements of IFRS 7 'Financial Instruments'.

Investments

All investments are initially recorded at cost, being the fair value of consideration given including the acquisition costs associated with the investment. Subsequently, they are reviewed for impairment on an individual basis if events or changes in circumstances indicate the carrying value may not be fully recoverable.

Financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances net of bank overdrafts and short-term deposits held with banks by the Company, and are subject to insignificant risk of changes in value.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Any change in their value through impairment or reversal of impairment is recognised in profit or loss. Discounting is omitted were the effect is immaterial.

Derivative financial instruments

Derivative financial instruments held by the Company include forward foreign currency contracts and are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Derecognition of financial liabilities

The Company derecognises a financial liability (or its part) from the statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability (or a part of a financial liability) extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Share-based payments

The fair value of employee share plans is calculated using a variation of the Black–Scholes model. In accordance with IFRS 2 'Share-based payment', the resulting cost is charged to the profit and loss account over the vesting period of the plans.

Where the individuals are employed by the Parent Company, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. Where the individuals are employed by a subsidiary undertaking, the fair value of options to purchase shares in the Company that have been issued to employees of subsidiary companies is recognised as an additional cost of investment by the Parent Company. An equal amount is credited to other equity reserves.

Financing income and expenses

Financing expenses comprise interest payable and finance charges on finance leases recognised in profit or loss using the effective interest method. Financing income comprises interest receivable on funds invested. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based

Notes to the Company Financial Information

on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Dividends

Dividend distributions payable to equity Shareholders are included in other liabilities when the dividends have been approved in general meeting prior to the reporting date.

Pensions

Company employees are members of defined contribution pension schemes where the obligations of the Company are charged to the profit and loss account as they are incurred.

Significant judgements, key assumptions and estimates

In the process of applying the Company's accounting policies, which are described above, management have made judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. 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.

Significant management estimates

The following estimates have the most significant effect on the financial statements.

Impairment of investments

The carrying value of investments are assessed for impairment. This requires an estimation of the value in use of the operations underpinning the investments.

The value in use of the investment is calculated from cash flow projections for the relevant entity based on financial projections covering a period of 5 years plus a terminal value, assumed growth rates and discount rates relevant to the individual entity.

The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected cash flows. Changes in revenues and expenditure are based on past experience and expectations of future growth.

The pre-tax discount rate applied in the impairment review ranged from 8% to 11% (2018: 9%). This discount rate is derived from the Group's weighted average post-tax cost of capital.

The carrying value of the investments at 31 December 2019 is £59,002,000 (2018: £58,881,000). The value in use of investment in subsidiaries was estimated at £210m, indicating a headroom of £151m. Consequently, there was no impairment charge during the year.

Impairment of Group balances

The carrying value of Group balances are assessed for impairment based expected credit loss model. At each reporting date, the management assesses whether any events have occurred which have had a detrimental affect on the ability of each of the Group companies to repay the amounts due.

The amounts owed by subsidiary undertakings were £64,912,000 (2018: £63,715,000). There was no impairment charge during the year.

C. Operating Loss

The following items have been included in arriving at the operating loss for continuing operations:

	2019 £000	2018 £000
Acquisition costs	**35**	135
Share-based payment costs (note 23)	**–**	–
Restructuring	**69**	422

- Acquisition costs relate to stamp duty, due diligence, legal fees, finance fees and other professional costs incurred in the acquisition of businesses.
- Share-based payment costs relate to the provision made in accordance with IFRS 2 'Share-based payment' following the issue of share options to employees.
- Restructuring costs relate to restructuring activities of an operational nature such as employee redundancies, consultancy and IT integration.

D. Services Provided by the Company's Auditor

During the period the Company obtained the following services provided by the Company's Auditor at the costs detailed below:

	2019 £000	2018 £000
Audit of the statutory financial statements of Flowtech Fluidpower plc (*)	**60**	20

(*) The allocation of audit fees between the Company and its subsidiaries was renewed following the restructure of subsidiaries during 2019.

E. Directors & Employees

Details of Directors and employees are shown in note 5 to the consolidated financial statements.

The average number of persons employed by the Company (including Directors) during each year was as follows:

	2019 £000	2018 £000
Administration	**4**	4

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Remuneration (*)	**587**	704
Notice pay (*)	**–**	188
Social security costs	**75**	78
Benefits in kind	**16**	11
	678	981

(*) Remuneration in 2018 includes £90,000 in respect of compensation for loss of office. Notice pay of £188,000 also relates to compensation for loss of office.

The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2019 £000	2018 £000
Highest paid Director's remuneration (†)		
Remuneration (*)	**225**	352
Notice pay (*)	**–**	188
Social security costs	**30**	34
Benefits in kind	**16**	2
Total highest paid Director's remuneration	**271**	576

(*) 2019 remuneration paid to Bryce Brooks, present CEO. 2018 remuneration paid to Sean Fennon, previous CEO.

(†) Remuneration in 2018 includes £90,000 in respect of compensation for loss of office. Notice pay of £188,000 in 2018 relates to compensation for loss of office paid to Sean Fennon, previous CEO.

F. Financial Income & Expense

Finance income for the year consists of the following:

	2019 £000	2018 £000
Finance income arising from:		
Dividends received from Group undertakings	**4,350**	4,890
Total finance income	**4,350**	4,890

Finance expenses for the year consist of the following:

	2019 £000	2018 £000
Finance expense arising from:		
Bank loans and revolving credit facility	**708**	628
Total finance income	**708**	628

Notes to the Company Financial Information

G. Taxation

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2019 or 2018.

Reconciliation of effective tax rate	2019 £000	2018 £000
Profit for the year	**2,699**	3,335
Total tax expense	**–**	–
Profit excluding taxation	**2,699**	3,335
Tax using the UK corporation tax rate of 19.00% (2018: 19%)	**513**	634
Deferred tax movements not recognised	**–**	(40)
Group relief	**310**	351
Effect of share option exercises	**–**	(42)
Income not taxable	**(827)**	(929)
Amounts not deductible	**4**	26
Total tax expense in the income statement	**–**	–

Change in corporation tax rate

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This change was substantively enacted post year end and therefore the deferred taxes at the balance sheet date continue to be measured at the enacted tax rate of 17%.

H. Dividends Paid

	2019 £000	2018 £000
Final dividend of 4.04p (2018: 3.85p) per share	**2,453**	2,330
Interim dividend of 2.13p (2018: 2.03p) per share	**1,296**	1,228
	3,749	3,558

In the light of the economic uncertainty due to COVID-19, the Directors have suspended all dividend payments in order to retain as much cash in the business as possible. They are therefore not proposing a final dividend for year ended 31 December 2019.

I. Share-based Payments

Details of share-based payments are shown in note 23 to the consolidated financial statements.

J. Investments

Cost and net book value	Investments in subsidiaries' unlisted shares £000	Subsidiaries' share-based payment reserves £000	Total £000
At 1 January 2018	56,919	448	57,367
Increase in holding in direct subsidiary	1,303	–	1,303
Shares issued in consideration for acquisition of indirect subsidiaries	550	–	550
Additions net of exercise of options in the year	–	(339)	(339)
At 31 December 2018	**58,772**	**109**	**58,881**
At 1 January 2019	**58,772**	**109**	**58,881**
Increase in holding in direct subsidiary	**–**	**–**	**–**
Shares issued in consideration for acquisition of minority interest	**38**	**–**	**38**
Additions net of exercise of options in the year	**–**	**83**	**83**
At 31 December 2019	**58,810**	**192**	**59,002**

The principal subsidiaries of the Company are listed below:

	Country of incorporation	Principal activity	Ownership
Fluidpower Group UK Limited (formerly Fluidpower Limited)	UK	Distributors of engineering components	100%
Fluidpower Group Services UK Limited (formerly PMC Fluidpower Limited)	UK	Assembly and distribution of engineering components	100%
Flowtech Fluidpower Ireland Limited (formerly Hi-Power Limited)	ROI	Assembly and distribution of engineering components	100%
Derek Lane & Co Limited	UK	Assembly and distribution of engineering components	100%
Nelson Hydraulics Limited	UK	Assembly and distribution of engineering components	100%
Process Fluidpower Group Limited	UK	Assembly and distribution of engineering components	100%
Group HES Limited	UK	Assembly and distribution of engineering components	100%
Beaumanor Limited	UK	Distributors of engineering components	100%
Process Fluidpower Limited	UK	Distributors of engineering components	100%
Flowtech Europe Limited	UK	Holding company	100%
Flowtechnology Asia Limited	UK	Holding company	100%
Fluidpower Shared Services Limited	UK	Holding company	100%
Fluidpower Holdings Limited (formerly Fluidpower Group Limited)	UK	Holding company	100%
PMC Fluidpower Group Limited (formerly PMC Fluidpower Limited)	UK	Holding company	100%
Balu Limited	UK	Holding company	100%
Fluidpower MIP Limited	UK	Holding company	100%
Flowtechnology Benelux BV	Netherlands	Distributors of engineering components	100%
The Hydraulic Group BV	Netherlands	Holding company	100%
Hydroflex-Hydraulics BV	Netherlands	Assembly and distribution of engineering components	100%
Hydroflex-Hydraulics Rotterdam BV	Netherlands	Assembly and distribution of engineering components	100%
Hydroflex-Hydraulics Belgium NV	Belgium	Assembly and distribution of engineering components	100%
Flowtech Mid-Co Limited	UK	Dormant	100%
Vitassem Limited	UK	Dormant	100%
IPL Fluidpower Limited	UK	Dormant	100%
Flowtechnology CZ Limited	UK	Dormant	100%
Fluidpower Properties Limited	UK	Dormant	100%
Indequip Limited	UK	Dormant	100%
Onsite Fluidpower Limited	UK	Dormant	100%
KR Couplings Limited	UK	Dormant	100%
Betabite Hydraulics Limited	UK	Dormant	100%
Titan Fluid Power Limited	UK	Dormant	100%
Hydraulics (Ireland) Limited	UK	Dormant	100%
Haitima Flow Control UK Limited	UK	Dormant	100%
HUK Valves Limited	UK	Dormant	100%
Hydravalve UK Limited	UK	Dormant	100%
Hydraulic Equipment Supermarkets Limited	UK	Dormant	100%
Branch Hydraulic Systems Limited	UK	Dormant	100%
HES Tractec Limited	UK	Dormant	100%
HES Lubemec Limited	UK	Dormant	100%
HES Automatec Limited	UK	Dormant	100%
Derek Lane (Contracts) Limited	UK	Dormant	100%
Derek Lane & Co (South West) Limited	UK	Dormant	100%
DLC Defence Ltd	UK	Dormant	100%
Flowtechnology HK Limited	Hong Kong	Dormant	100%

For all the subsidiaries above the class of shares held are ordinary shares and all subsidiaries, except Fluidpower MIP Limited, are indirect subsidiaries of Flowtech Fluidpower plc.

On 29 July 2019, the Group acquired 10% minority shareholding in Derek Lane & Co Limited.

Notes to the Company Financial Information

K. Trade & Other Debtors

	2019 £000	2018 £000
Current:		
Prepayments and accrued income	**380**	492
Amounts owed by Group undertakings	**64,912**	63,223
Total trade and other debtors	**65,292**	63,715

L. Cash & Cash Equivalents

	2019 £000	2018 £000
Sterling	–	–
Total cash and cash equivalents	–	–

M. Interest-bearing Loans & Borrowings

	2019 £000	2018 £000
Non-current liabilities:		
Secured bank loans	**4,000**	4,000
Total non-current liabilities	**4,000**	4,000
Current liabilities:		
Revolving credit facility	**16,000**	16,000
Total current liabilities	**16,000**	16,000
Total interest bearing loans and borrowings	**20,000**	20,000

The secured bank loan is repayable on 30 June 2021 and is secured by legal charges over certain assets of the Flowtech Group which include trade receivables and stock.

The revolving credit facility is up to £16,000,000 and is subject to a non-utilisation fee of 0.7% and is due for renewal in June 2021.

A further £5,000,000 is available to draw down under an overdraft facility which expires on 31 July 2020. The bank loans and revolving credit facility are secured by legal charges over certain of the Group's assets which include trade receivables and stock.

N. Trade & Other Creditors

	2019 £000	2018 £000
Social security and other taxes	**83**	42
Accruals and deferred income	**113**	525
Amounts owed to other Group undertakings	**5,623**	3,044
Total trade and other creditors	**5,819**	3,611

O. Deferred Taxation

Deferred tax assets comprise:

	2019 £000	2018 £000
Provisions	–	–
Total deferred tax	–	–
At start of year	–	–
Deferred tax credit in profit and loss account for the year	–	–
At end of year	–	–

A deferred tax asset of £12,000 (2019: £4,000) in respect of cumulative share-based payments of £58,000 (2018: £22,000) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

P. Share Capital

Allotted, called up and fully paid:

	Number	£000
At 1 January 2019	**60,920,386**	**30,460**
Shares issued in respect of exercise of employee share options	**50,000**	**25**
Shares issued in respect of settlement of deferred consideration	**157,981**	**80**
Shares issued in respect of acquisition (note 24.1)	**28,760**	**14**
At 31 December 2019	**61,157,127**	**30,579**

Potential issue of shares

Details of the potential issue of shares relating to employee share-based payment schemes are shown in note 23 to the consolidated financial statements.

Q. Contingent liabilities & Commitments

The Company has capital expenditure of £274,000 contracted for but not provided as at 31 December 2019 (2018: £105,000).

R. Related Party Transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with entities that are wholly owned subsidiaries of the Flowtech Fluidpower plc Group. Repayments from Flowtech Fluidpower Benefit Trust of £40,000 were received and; £372,000 remains outstanding. There are no other related party transactions other than those relating to Directors that have been disclosed in note 30 to the consolidated financial statements.

S. Ultimate Controlling Party

The Directors consider that there is no ultimate controlling party.

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