FLOWTECH FLUIDPOWER

Annual Report

for the year ended 31 December 2020

Company number: 09010518

FLOWTECH
FLUIDPOWER

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**.

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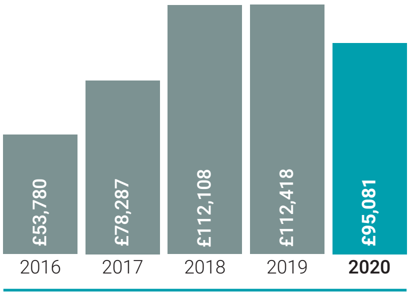
Read more about **our Group** on pages 4 and 5.

Highlights

Financial Highlights

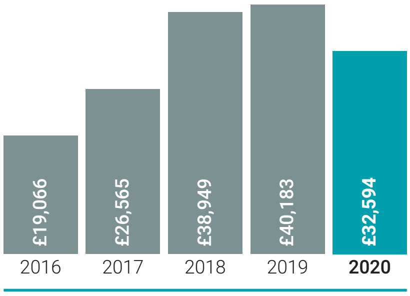
Revenue (*) £000

£95.1m



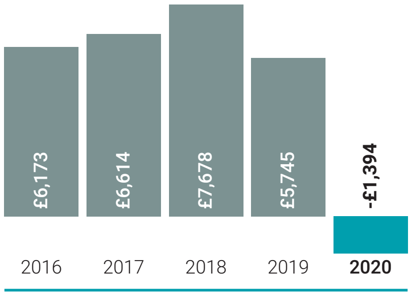
Gross Profit (*) £000

£32.6m



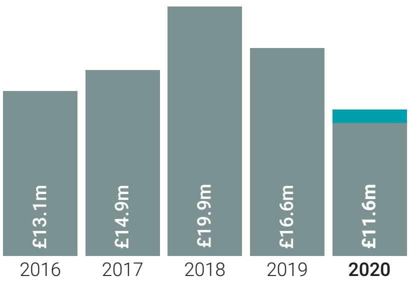
Operating Loss/Profit £000

£(1.4)m



Net Debt £million (†)

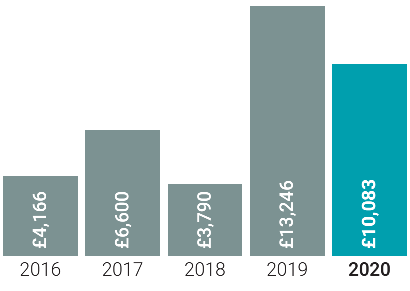
£11.6m



- Bank debt
- HMRC COVID-19 related support

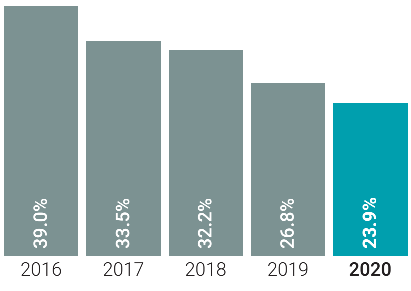
Net Cash from Operating Activities £000

£10.1m



Working Capital as a % of Total Revenue

23.9%



(*) All results relate to continuing operations.
(†) Net debt excludes lease liabilities under IFRS 16.

Financial & Operational Highlights

- Revenue reduction restricted to 15.4% full year, largely caused by COVID-19, with improving trend since April 2020.
- Targeted operational cost savings achieved.
- Generated £10.1m net cash from operating activities driven by effective management of working capital.
- Net Debt reduced by £5.0m.
- Ongoing investment in e-business platform to deliver future organic growth.
- Multi-disciplinary Management Board established.

Emphasis will be on Long-term Growth in Market Share

"What has become clear is that Flowtech Fluidpower is a fundamentally good business, and there is significant opportunity for future growth."

Roger McDowell
Non-Executive Chair

Introduction

My first annual report as Chairman is set against the background of the COVID-19 pandemic which has impacted all our personal lives and businesses in an unprecedented manner. Throughout this time, the Board has prioritised the health and safety of our employees above all else and I'm grateful to everyone who has continued to support the business and work so hard through this difficult period.

Review of Business & Strategy

My normal practice when assuming a new Chairman role would be to perform a full review, including site visits, to assess the relative strengths of the organisation. Notwithstanding the fact that movements were restricted between locations during the peak of the pandemic, I have visited the Group's principal sites, and as soon as practicably possible after the lockdown is relaxed I will seek to complete this process.

What has become clear is that Flowtech Fluidpower is a fundamentally good business, and there is significant opportunity for future growth. The staff are both skilled and enthusiastic, with considerable domain knowledge and good technical capability. I have therefore sought to ensure the Executive team are well supported, as the strong market position and capabilities of the organisation are clear.

As part of the process of building on these strengths, during the latter part of 2020 we completed a full strategy review, to create focus and provide a framework for the future. The main elements of this thinking will be outlined in this report. However, emphasis will be on long-term growth in market share to exploit the clear market opportunities available to us, and further enhance profitability and cash generation. Of particular note is the commitment that the Group is making with its e-business capabilities, and the operational resources to support this initiative. I firmly believe that the investment now being made in this area will prove fruitful over the medium term, enhancing organic sales growth, and be a key differentiator between Flowtech and its competitors.

We will also have input and support from our Non-Executive Director Paul Gedman, who joined us in July, having held senior positions including as Divisional CEO at The Hut Group. Paul has extensive experience in the e-business arena and a wealth of practical knowledge in growing international businesses through leveraging data and digital capabilities.

In addition to commercial matters, we have established improved processes to our governance of health and safety at work, led by the Chief Executive, and enhanced the overall functioning of the various Board subcommittees, with a strong platform built.

Also included in this report is our first consolidated sustainability review, covering all aspects of how Group strategy impacts on our major stakeholders, and with a particular focus on our employees and our environmental footprint. This is clearly the start of a long journey, but it is the Board's intention to set targets for improvement in material areas, ensuring that we are all accountable for affecting positive change through the business.

Banking & Net Debt

It is pleasing to note that the Executive team has continued to manage the debt position carefully, obviating any need to raise new finance to strengthen the balance sheet. This careful management has been reflected in the fact that across the year net debt has reduced by £5.0m, from £16.6m to £11.6m, and the stability that comes from this will stand the business in good stead.

In addition, as a reflection of the faith that our bankers show in the Group, we have successfully renewed our facilities with Barclays for a further three year period to June 2023, without any material change in terms, and with appropriate 'carve out' in covenants to cover the demanding 2020 trading period.

However, in any distribution business, the right inventory is the key to success. Whilst sensible management of the supply chain and availability has to be undertaken, I firmly believe that they should never be at the expense of the upside that comes from being the sector's largest stock holder, particularly when we are seeing some extended lead times as the world's supply lines recover from the disruption of COVID-19. We are highly regarded by our key suppliers and considered a vital link in the supply chain.

Dividend

We recognise that dividends are important to shareholders. However, we believe it is prudent to assess the capital needs of both growing and investing in the business in considering the size and timing of any future distributions. The Board remain keen to reintroduce a final payment for the financial year 2021, and thereafter adopt a balanced approach to dividend policy.

Summary

In the short term, we continue to work hard to finalise the process of cost reduction. Whilst clearly the COVID-19 lockdown position has delayed some of this progress, notwithstanding it is pleasing to note that meaningful results have been achieved. Absolute focus remains on cash and cost management, and a key aspect of the approach will be to ensure that the Executive team, and the Management Board beneath them, remain action orientated, continuing the pace of change throughout 2021 and beyond.

With the relatively high operational gearing that the Group possesses, any significant increase in sales produces magnified growth at the bottom line, albeit naturally reversing some of the reductions seen in working capital. However, with the immediate concerns associated with COVID-19 hopefully now receding, albeit now with the difficulties of adapting to Brexit, the Board is cautiously optimistic that we should see a return to the sales levels seen in 2019 within the medium term.

Finally, I would like to pay thanks to my predecessor Malcolm Diamond, who has clearly supported the business well and provided wise guidance to help create the platform on which we can now move forward. In the handover process, Malcolm emphasised the passion and commitment of everyone he met within the Group, and my own interaction to date has confirmed that this enthusiasm remains in place.

Roger McDowell
Chairman
19 April 2021

"The Board is cautiously optimistic that we should see a return to the sales levels seen in 2019 within the medium term."

Roger McDowell
Chairman

Group Overview

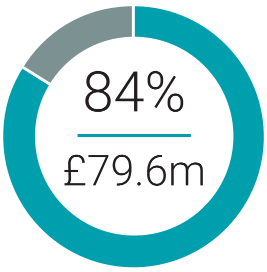
A Vital Partner in the Fluid Power Supply Chain

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.

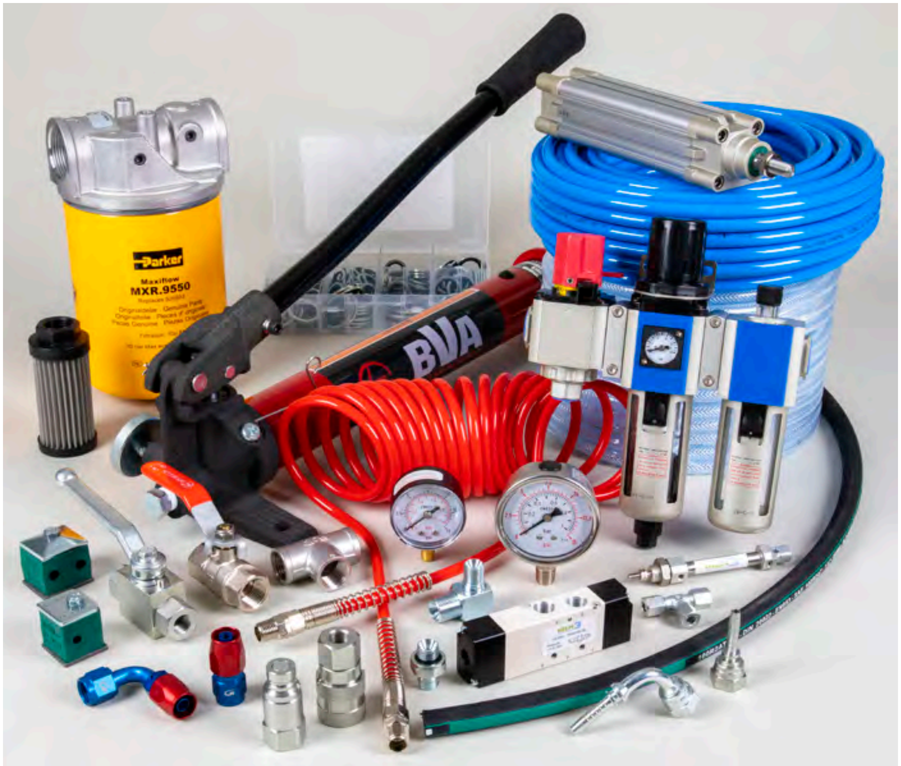
Components

Group Revenue



Employees

455*†



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 47 Central employees.
† Average in 2020.

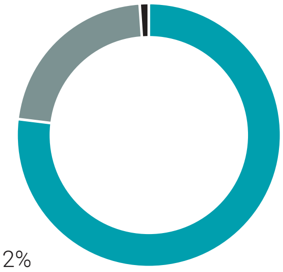
Group Employees†
627

Locations
19

Superior brands
500+

Geographies

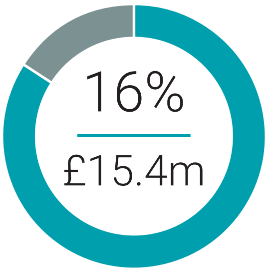
Group Revenue %



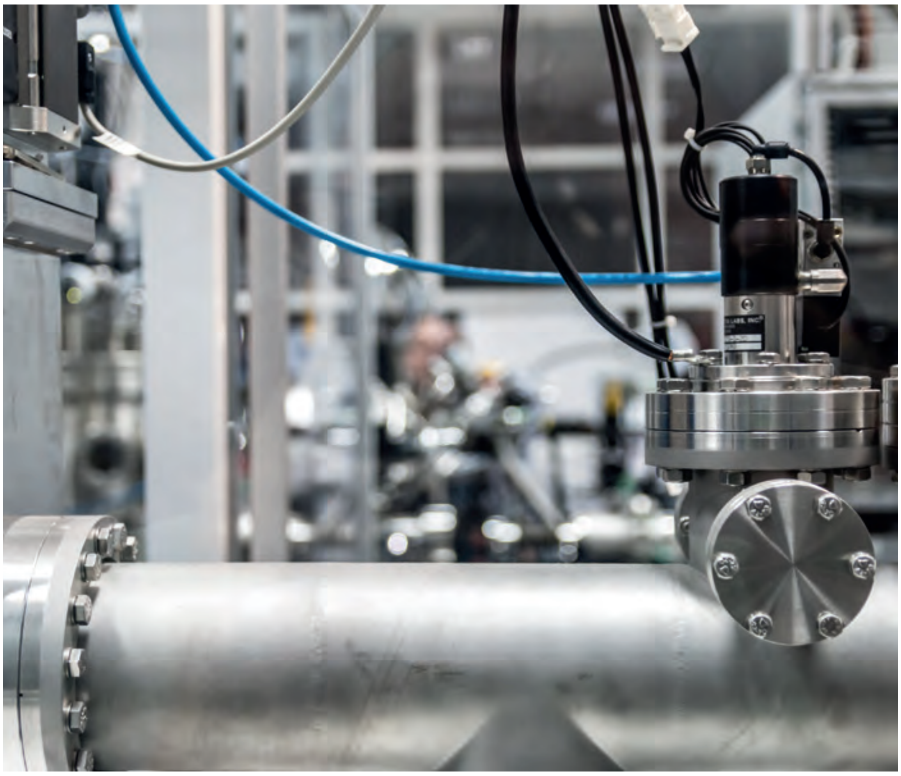
- UK – 77%
- Europe – 21%
- Rest of world – 2%

Services

Group Revenue



Employees
125*†



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 47 Central employees.
† Average in 2020.

Dealing with the Effects of the COVID-19 Pandemic

"We end 2020 having made progress in creating the platform that will ensure our future growth. We have extracted efficiencies and associated cost savings from our network, tightened our working capital position, invested in systems, and strengthened our management skills and bandwidth."

Bryce Brooks
Chief Executive Officer

	2020	2019
Group revenue	**£95.1m**	£112.4m
Operating (loss)/profit	**(£1.4m)**	£5.7m
Net cash generated from operations (pre-tax)	**£10.7m**	£16.3m
Net debt ($)	**£11.6m**	£16.6m

($) Net debt at 31 December 2020 comprises £10.7m bank debt and £0.9m of COVID-19 related HMRC support.

Any review of the year would have to cover the considerable impact that the COVID-19 pandemic had on not just UK economic activity, but also in our other 'home' geographies of the Republic of Ireland and the Benelux.

Our financial performance has been considerably impacted with the significant reduction in Revenue in the middle and latter part of the year having a resultant effect on profitability, and we detail below some of the direct effects.

It is some comfort that data we obtain from the British Fluid Power Association suggests we have achieved a modest increase in market share in 2020, but it has overall been a year of ensuring a pragmatic approach to customer service and supply chain management. However, it is particularly satisfying that with pre-tax cash flow from operating activities of £10.7m during the year (2019: £16.3m) mostly derived from our management of working capital, we have been able to ensure that our balance sheet has been well protected.

Dealing with the Effects of the COVID-19 Pandemic

Prior to the first national lockdown in March 2020, revenue was slightly ahead of our expectations. However, the impact of the pandemic resulted in Q2 of 2020 ending 33% down, H1 overall being 22% down and H2 8% down against comparative 2019 periods.

Unlike other industries where the immediate impact of the lockdown measures were quite clear, in our case we had many variables affecting us as we sought to understand the best course of action in the Spring of 2020. For example, in Northern Ireland, and in particular the centre for the fluid power dependent industries in County Tyrone, the reaction from customers was to effectively close entirely for a number of weeks.

In stark contrast, with many of the health related industries dependent on pneumatic product supply, Flowtechnology UK, Beaumanor and Indequip were able to counteract some of the across-the-board reductions in activity, with clearly identifiable pockets of high demand. The position was best illustrated by the fact that our industry body, the BFPA, quickly lobbied Parliament and the sector was designated as an essential industry, and its workers also identified as such. Overall therefore we worked hard to ensure that we remained 'open for business'.

With the level of demand dropping off at different rates across the Group, we made an early decision to take advantage of the various government furlough schemes. In order to ensure that implementation was immediate, and our workforce remained united, we covered all employees affected by guaranteeing to pay a full salary in April. This ensured there was broad acceptance of the rapid measures that we took, and at its peak we had over 200 employees being supported by the various government schemes, with a reduction in company contribution only applied when the long-term position was becoming clear.

In total, the support we received was £1.2m from a combination of the UK, Irish and Dutch authorities, and this ensured that we were able to protect employment in the short term, as well as ensure that our investment programmes continued throughout the year.

At the same time we were able to comply with the Work From Home ('WFH') directives. We have adapted to the use of video communications technology, and now firmly believe that this enforced experiment will be a permanent part of our toolkit. We have kept in good contact throughout with both customers and suppliers alike, albeit the ability to negotiate new pricing and alternative sourcing has had to give way, for the time being, to security of supply.

In terms of the direct effects of the COVID-19 virus on our workforce, our other main focus was on ensuring that our warehousing and engineering facilities had the lowest possible risk of a COVID-19 outbreak; whilst office activities would likely deal well with this issue, any enforced shut down elsewhere would have been significantly detrimental to service and sales. To date, despite office staff on occasion being hard hit, and particularly in our North West of England facilities in October, we have managed to achieve this protection and not a single days' operation has been lost due to a need to isolate staff.

Currently the biggest short term obstacle as we seek to rebound from 2020 is the knock on effects of the past twelve months to the natural balance of global supply chains. Whilst our direct dependence on China has reduced as the Group has expanded over recent years, it is also clear that some of our European partners have outsourced parts of supply to the low cost economies. With the fluid power industry worldwide seeing evidence of a strong rebound as stock levels are replenished, the prioritisation of supply and physical movement of goods via container is currently disrupted. Whilst our own supply chain teams are actively managing the situation as best as possible, our view is that availability will hinder some growth in 2021 and the circumstances behind this are likely to persist for the majority of the year; we do not expect this to impact on the quality of our gross margin. On top of the natural system driven increase to match demand, it is therefore likely there will also be a need to add further elements of buffer to protect against this situation.

Almost all of the Group's key suppliers are based overseas, either in Europe or the Far East, and with the recent travel restrictions this has meant that our trading relationships have by necessity migrated to being online rather than face-to-face. Whilst the status of the Group has ensured that these relationships have remained sound, we will be particularly vigorous in ensuring that close contact is re-established as the sector rebounds from the restrictions of lockdown.

Delivering on Operational Cost Savings

In our previous reports, we outlined a plan to reduce our warehouse operating costs by transferring the majority of pick and ship activities from the network of local facilities in the UK and Ireland to a centrally operated structure based on our centres in Skelmersdale and Leicester. All of the savings indicated have now been achieved, albeit the in-year timing of implementation was effected by the various lockdowns. In total, we have reduced our operational sites by five and warehouse headcount by 43. The cash outlay on the changes implemented in the year was £1.1m with £0.6m relating to costs and the balance investment most predominantly in IT systems and plant. Throughout, there has been a continuous process of 'lessons learned', and we expect this experience to stand us in good stead for future activities in the same vein.

In the last completed change, in December 2020, Nelson Hydraulics in Lisburn, Northern Ireland, and Dublin in the RoI, closed its operations and relocated to an existing site in Dungannon, County Tyrone and the Hi Power site in Dublin – creating a combined Components business, Nelson Hi-Power, covering the whole Island of Ireland. This plan was amended relatively late in the process to take account of the post Brexit trading arrangements implemented from 1 January 2021. Whilst the vast majority of the targeted cost savings were made, no day-to-day warehouse activities were transferred to our central functions, a change to our original intention as we saw a need to ensure that the new business was not immediately impeded by any cross Irish Sea delivery issues.

However, it was necessary to make pragmatic decisions to defer further initiatives, as the need to balance short-term risk to customer service whilst working under lockdown conditions was deemed disproportionately high. Once conditions allow, we will therefore continue to pursue and implement identified operating cost reductions with necessary rigour.

Of particular note is that we have now established an Engineering & Modifications Centre (EMC) in the main logistics hub in Skelmersdale. For the first time at a single key location, the Group has a mix of sector-leading logistics along with engineering and test capabilities. In the short term, this will allow us to reduce operating costs, but in the medium term we can expand the offer for all Group entities, as well as be a key differentiator when our e-business platform starts to drive sales to a wider market. Mixing logistics and engineering with online capabilities is a key requirement for our global supplier partners and a strong base is being built.

Services Division

The Services division entered 2020 with a strong order book and it was initially able to continue at satisfactory levels. However, with around 40% of its normal activities being 'on-site', and by definition subject to much more stringent working environments, principally as a subcontractor, a number of key orders were deferred and the negative effects of COVID-19 became equally as pronounced as elsewhere in the sector. That said, and partly as a result of the cost reduction programme centred on the Components segment creating a clearly defined cost profile, the mechanics of its methods for pricing, cost control and organisation have been exposed and it is now midway through a 'root and branch' review to ensure all areas are improved.

CEO's Year in Review

Developments in Group Strategy & Progress in 2020

Our first consolidated sustainability review forms part of this report. In it, we highlight the most material impacts our business has on its most important stakeholder groups. Suffice it to say, we believe an ongoing process of setting and refining improvement targets in this area will further ensure the success and longevity of our business model. In addition, our strategy has been developed with the following key areas of enhancement:

Branding Style & Organisation

In 2019, we changed our reporting structure to a two segment approach – Components and Services. Much of the cost out initiatives described above had an element of physically separating Components operations from Services, for example Nelson Hi-Power has aggregated its industrial component distribution, whilst Hi-Power Truck is now separately identified. In 2021, this will allow both elements to have a clear delineation of operating resources, and develop strategies to suit their specific characteristics and requirements.

As a next step, we reviewed our trading styles, including branding, as we seek to further co-ordinate our approach. Previously, each Profit Centre has traded under its legacy name and style to ensure a focus on local identity. We firmly believe that with the market moving to a more online led approach, in a way that is now working through many business to business environments, we must adapt to this change. Therefore, from 2021, we will evolve to two branding styles depending on the precise sector in which each Profit Centre operates. The new branding of 'Flowtech' and 'The Fluidpower Group' will eventually create commercial identities that will marry together both offline and online capabilities and ensure the Group maximises the opportunities that are available. As described further in the Financial Review on page 34, from a reporting perspective we will operate three segments from 2021, with Flowtech and Fluidpower Group Solutions forming what is now 'Components', and Fluidpower Group Services the remainder.

E-Business

We have previously outlined how our strategy is to develop a fully-fledged e-business operation, and transition from being essentially a highly efficient customer 'order-portal'. During 2020, a dedicated team has been working on the next stage of this, and identified early in the year a path to redesign our online infrastructure, covering microservices architecture, front-end website capability, and insight from a Customer Data Platform. Behind this, we are creating the most extensive Product Information Management system in the sector. Whilst the initial £0.75m capital outlay necessary to implement this strategy was delayed from Q1 to Q3 due to COVID-19, I am pleased to report that since that date good progress has been made and we expect to have a working platform available to us in the latter part of 2021 for the Flowtech business, with The Fluidpower Group following in 2022.

IT Development

We started the year with a target to reduce our operational IT systems to four by the end of the year. Whilst some progress has been made, and cyber security risk reduced, managing further change whilst under lockdown has meant that we have not achieved this objective. We are also now ensuring that appropriate priority is made in the development of our e-business platform. As such, we have deferred any further IT system implementations until a swift change can be achieved.

In the meantime, we are now examining an eventual move to a single ERP provider. In outline, we believe that a move across the Group to a modern package will provide us with considerable additional functionality, particularly in Warehouse Management, Supply Chain and Management Information. The current investment in our new online platform has been designed to be functional with any standard software platform at relatively modest cost, and we therefore believe the time is now right to start the change process with a view to completing in a timely manner.

Management Board

A further aspect of the strategy review was a bolstering of the senior team's resources.

Having joined the Group with the acquisition of Indequip in 2016, and overseen a more than doubling of sales in the period since, in 2021 Ian Simpson has now stepped up to combine running Flowtechnology UK with leadership of the Flowtech division. At the same time, Nick Fossey has moved from the Chief Operating Officer role to focus entirely on The Fluidpower Group as Divisional Director. Both Ian and Nick are responsible for the commercial development of their respective divisions and are focused on the COVID-19 recovery, re-establishing customer and supplier relationships, and leading the brand transition.

In early 2021, we recruited Stephen Ashton to become Operations Development Director, and Howard Ormesher to Director of Customer Insight. These new roles follow the appointment of Stephen Merrie in 2020 to Product Quality & Engineering Compliance Director. Along with Anne Fogg, Systems Director, the Divisional Directors and the Executive Team, the Management Board now established provides the range of skills necessary to support a sales led organisation, as well as implement any change programme.

Target Markets

Since coming to market in 2014, the Group has been of the view that the commonality of supply across Europe would allow growth away from the legacy home territories of the UK, RoI and the Netherlands. In recent years, European based aggregators, almost exclusively Private Equity owned, have widened their influence in this market place. Therefore, when coupled with the clear opportunities for further growth in our existing operations, we have concluded that a focus at home for at least the medium term is essential. This has been further reinforced by Brexit, with the likelihood of diverging regulatory environments, on top of what we are already experiencing, likely to consume time and resources.

People

The COVID-19 period has required a shift in focus from our normal processes of recruitment, training and improving the skill set across the Group In its place has been a constant review of our Health & Safety at Work procedures, initially identifying all the necessary changes to ensure appropriate physical distancing – a challenging process with many of our facilities 'industrial' in nature and with a wide variety of layouts. More latterly, this has turned to ensuring that the mental well-being of all staff has been at the forefront; our sector has not historically been seen as a leading light in this area. We are therefore proud of the fact that we were the first members of the BFPA to introduce mental health first aiders, and recently we have provided an Employee Assistance Programme to all staff and their immediate families, as well as mental health training for all levels of management in the Group.

Our supportive approach was reflected in the significant upwards move in our overall Employment Engagement Score when tested in October 2020, and confirms the widely held team ethos across all parts of the Group, even under these trying times.

The passion and commitment shown by the many staff members employed across the Group, has been exemplary. On behalf of the Executive team, and the Management Board, I would like to thank everyone for their efforts. Since the onset of the COVID-19 pandemic we have maintained a full service to our customer base, whilst protecting as best we can the health and well-being of our people. We are extremely grateful to all our employees for the resilience they have shown in the face of this adversity, from the office workers who have adapted to WFH at short notice, to the warehouse and engineering teams who have kept all our facilities open on a daily basis, and ensured that our status as an 'essential industry' was not undermined.

Current Trading & Outlook

We have been encouraged by our performance over the past quarter, with both revenue and margins trending slightly above our expectations. The combination of Brexit and COVID-19, and in particular the current challenged nature of global supply chains, continue to make underlying trading difficult to interpret. What is clear is there has been a continued upward trend in our 'resellers' business, and evidence of restocking in our OEM customers. We believe if current patterns continue, we could exit 2021 with a run rate revenue at a similar level to 2019. We are also seeing the benefit of the actions we took to reduce operational costs being reflected in our margins, which has provided support for the significant investment in our online platforms which we expect to begin to provide a meaningful contribution in 2022 and beyond.

Summary

This year has represented a test of our management skills right across the Group. Without question, there has been a considerable learning experience in many areas, not just at Profit Centre and Divisional Director level, but undoubtedly at Executive level. With hindsight, there are areas that we could have improved on, particularly around the pace with which we have been able to extract cost from our order, pick and drop activities, that will be essential to our future success. In addition, some of the deep-rooted inefficiencies in the constituent parts of the Services segment could have been highlighted and improved sooner. However, we end 2020 having made progress in creating the platform that will ensure our future growth. We have extracted efficiencies and associated cost savings from our network, tightened our working capital position, invested in systems, and strengthened our management skills and bandwidth. Most latterly, this has been achieved against the backdrop of a global pandemic, and although in some areas this has slowed our progress, we have been able to refine our strategy and will be rigorous in the pursuit of further efficiency initiatives once the lockdown periods are complete.

With much hard work now behind us, we can now look forward positively. The Group's heritage is essentially as an 'offline' business, but our continued investment in the 'online' world will transition us to a fully-fledged e-business, with an improved customer experience and all the commercial and competitive advantages that come with being a data-driven organisation. Our market position and scale should also not be underestimated, is testimony to the positive changes we have made, and gives us the flexibility to leverage our dominant position in the industry to deliver growth and superior returns for our shareholders.

Bryce Brooks
Chief Executive Officer
19 April 2021

"I am encouraged by the recent momentum in our business, and while mindful that COVID-19 and Brexit might still be disruptive in the medium term, the benefits from the progress we have made, and the dedication of our employees, mean that the longer term outlook is positive."

Bryce Brooks
Chief Executive Officer

How We Demonstrated Resilience During a Worldwide Pandemic

The business took a very proactive approach when COVID-19 impacted the world, realising quickly that it needed to strike a balance between employee safeguarding and remaining operational to support critical industries.

In March, a COVID Committee, was set up with weekly meetings to discuss and devise plans around workplace safety, working from home and IT support, the furlough scheme, customer support, supply chain and the impact on stock levels, etc. As government advice changed, and in many cases with little notice, the business demonstrated an agility to react and adapt quickly, with employee safety being the number one priority. The COVID committee has continued to meet at least every two weeks and has been instrumental in limiting potential damages caused by COVID-19. We have many examples of how we have adapted to protect our business and wider communities.

Developing Safer Working Environments

For teams who needed to work on site during lockdown, the Company quickly appointed Health & Safety officers at each site, responsible for implementing COVID safe measures. In preparation for the safe return of more colleagues, thorough risk assessments were conducted and measures implemented including distance signage, divider screens, PPE (masks, gels, gloves), fogging routines as well as rota-based return, visitor rules and policing employee movement around the building. All employees received return to work questionnaires including a HSE work station checklist, which line managers discussed with each employee to plan their safe return. All our sites were independently audited and certified as 'COVID safe' by our insurance partner Croner. Stricter policies including mandatory mask wearing were implemented to prevent office-wide outbreaks.

Improving Communication

Senior managers embraced social media to maintain communications and morale with colleagues via a WhatsApp Group and regular Zoom calls, an approach which was equally adopted by wider teams across the business. The prolonged COVID-19 situation essentially fast-tracked some of the planned IT projects, including the roll-out of Office 365, giving employees easy access to meet virtually via Microsoft teams without restriction. This was accompanied by training sessions and tools and has proven to be an excellent collaboration tool, increasing efficiency through instant chat/messaging, document sharing, checking colleague availability and an increasing organisation chart across the business.

Assessing Impact on Employees

It was imperative for the business to understand how colleagues felt about the process and a survey was circulated to all employees in October. Results indicated our people felt they were able to work effectively from home if they chose to and appreciated the support offered by the Group in many areas.

Supporting Employee Health & Welfare

The furlough process, remote working, home-schooling have put additional strain on management and colleagues having to adapt to new ways of working. The business recognised these additional pressures and in February rolled out an Employee Assistance Programme. This provides all of our employees with an opportunity to seek confidential support should they feel the need to do so. We have invested in providing training to a number of our staff and done our best to ensure each site has at least one local 'champion' to ensure we are continually considering this important area.

Keeping Vital Industries Going

The business has been involved with many initiatives to support the NHS, as well as help protect the nation, including supply of silicone tube and nitrogen filtering equipment used in breathing apparatus, air receivers, PPE, hospital beds and disinfectant fogging machines. The business was proactive in promoting these remarkable efforts via our individual company social media channels.

Case Study

New Business Selling Own-branded PPE

As a result of COVID-19, Beaumanor saw increased sales of PPE and antibacterial products. They subsequently introduced their own COVID-19 brand and brochure, generating £180k of new business.

Case Study

Misting Technology for COVID-19 Prevention

Indequip supplies nozzles for fogging cannons used in various applications such as dust suppression at quarry sites. During the pandemic, the team considered options for a disinfectant spray and successfully found a supplier in the UK. They launched the FP-500 fogger for use in hospitals, schools, leisure centres, restaurants, dairy farms, warehouses, etc. They generated an additional £400k in sales over the last year.

Supporting Communities

Employees have done their bit locally to support those in need including enlisting as NHS responders, delivering medicines, etc, and those on furlough have aimed to use their time effectively; for example, Hi-Power employee Stevie Evans raised over £11k for the Air Ambulance by taking pictures of agricultural machinery and creating a calendar for sale.

New Engineering Modification Centres to Support Components Division

In some instances, commodity items may need slight modification or assembly to fit a specific requirement. To give customers a greater level of service, the Group is creating two new Engineering Modification Centres (EMCs) to sit within the main logistics hubs at Skelmersdale and Leicester.

The purpose and role of the EMC is to carry out a number of services on behalf of the supplier for main line warehouse distributed products. These services include:

- Product modification – adding or replacing parts of a standard product with another product using genuine manufacturer standard new parts.
- Product assembly – a kit of items bolted together to produce a recognised manufacturers stock product.
- Testing.
- Pump / valve / set up.
- Fault inspection – a product fault reported from a customer within a 12-month warranty period that needs investigating.
- Service and returns for those products held within the Flowtech range.
- Minor repairs on products within our portfolio which fall within the warranty period.
- Warranty adjudication – agreement from a supplier to adjudicate warranty claims and action under supplier licence.

There will be a designated customer service desk and call centre to manage all enquiries, governed by a Service Level Agreement. The facility will be designed as a show piece for the Group and a training centre for engineering, with the production flow of activities based on lean manufacturing practices and governed by a number of quality assurance processes:

- Quality assured management.
- All repair service provided investigated and tested to IAW supplier terms and conditions of reissue.
- EMC quality plan to be adhered to during all engineering processes.
- All work will be carried out by fully trained and certified competent staff for each product task.
- All modification work and testing will be carried out to IAW manufacturers' working instructions and referenced data recorded on work sheet records.
- All product modification to be individually identified with a company date mark on product plate / body. All label module codes to be changed professionally where appropriate.
- All work will be carried out to service level standards
- Product modifications – next day shipped if orders received by 4pm.
- Product assembly – 2 to 3 days.
- Build manuals will be documented to ensure consistency of approach.

Both EMCs will be future-proofed to allow for sufficient space for both current and anticipated volume growth. Where economical, it will utilise the best equipment and operate to all required health and safety standards. Its staff will be highly trained, with multi-disciplined skills.

The EMCs will also be instrumental in adhering to Waste Directives; instead of scrapping products, a product life cycle inspection will take place to assess options to change the product, price, place it is sold, how it is used and promoted, thus prolonging its life and reducing waste disposal.

High Quality Fluid Power Products & Solutions

As the largest and leading player in the UK and Irish market, we aim to provide high-quality fluid power products and solutions, based around the distribution of leading global brands. Our sustainable business model, now enhanced by sector-leading online capabilities, makes fluid power supply convenient and efficient for customers and suppliers, driving 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 £22m 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

- Widest brand choice from a single source, with tailored options, supported by technical expertise, efficient solutions, and reliable added-value services for **customers** (98% on-time delivery for MRO).
- Respected collaborative **supplier** partnerships with the world's leading brands.
- Rewarding and progressive careers for **employees**, through training and incentive schemes.
- Support for our local **communities** through local apprenticeships and charitable work.
- As we emerge from the worst effects of COVID-19, sustained annual growth with strong financial performance and attractive returns for **investors**.

Long Term

- Most cost-efficient provider of a high-quality service in fluid power.
- Sector-leading e-business platform and digital insight capabilities.
- Sustainable long-term growth, through reliable repeat business.
- 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 through offline and online activities, coupled with complementary acquisitions in the UK, Ireland and the Benelux, 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. Whilst progress in many areas has been slowed by COVID-19, we believe that 2021 will allow a resumption of actions in many areas. As referred to in the Chairman's statement during the latter part of 2020, we completed a full strategy review to create focus and provide a framework for future developments, including our ambition to achieve significant growth. On the whole, the KPIs we established in 2019 remain relevant, our comments in each area being provided below:

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.

Clearly COVID-19 has impacted our ability to achieve sales growth in 2020.. A key component of our recent strategy review was to develop our thinking and to commit to the necessary associated improvement in our e-business capabilities which are referred to in both the Chairman's Statement and the CEO's Year in Review sections of this report.

Procurement & Productivity Improvement

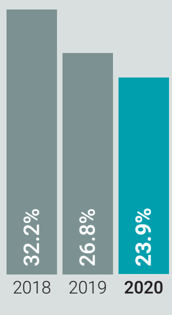
After an extended period of growth driven primarily by acquisition, we look to use our wider resources to both improve purchasing terms with our major supplier partners, as well as improve our operational efficiency.

At individual Profit Centre level, various KPIs are measured to cover service levels including stock availability. However, 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

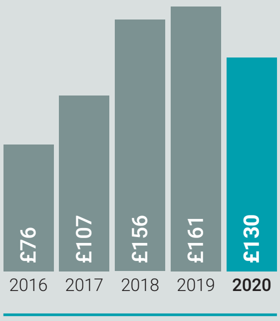
A continued focus on reducing gearing in the balance sheet, and the creation of excess cash positions, will protect the business from any macroeconomic uncertainties.

Working Capital as a % of Total Revenue



FY2021 Plan

Daily Gross Profit £000



Total Value of Sales from Online & EDI £000

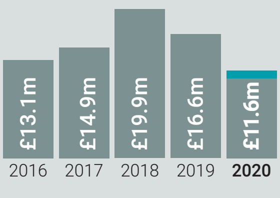
- We will establish a single e-business platform using established resources in this area capable of being available to all business units. In 2020, the new platform was designed and investment made, with a target implementation date of Q4 2021.
- We will now look to grow sales above market by 3% using the significant cross-selling opportunities and customer data now available whilst managing resources carefully.

Group Cost per Pick*	Group Cost per Pick*
£3.32	**£4.32**
2019	2020

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

- Significant progress was made in 2020 and we intend to complete the Group-wide warehouse and logistics plan in 2021. This will significantly reduce cost base in this area, and provide 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.
- In 2020, we closed five warehouse facilities with associated headcount reduction.
- Clearly, the depressed volumes in 2020 affected the cost per pick; we expect 2021 and beyond to result in materially lower cost per pick metrics and continue to target £2.40 per pick in the fullness of time.

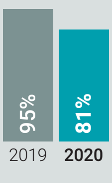
Net Debt £million (†)



- Bank debt
- HMRC COVID-19 related support

(†) Net debt excludes lease liabilities under IFRS 16.

Turn & Earn %



Turn & Earn Index is calculated by multiplying gross margin by stock turn. In 2020, the gross margin achieved was 34.3% and the average stock turn achieved was 2.37, therefore the Turn & Earn index was 81.

- Due to COVID-19, the Group has focussed on short-term trends. In 2021, we will resume our progress with a target to achieve a Turn & Earn KPI of 130% by 2024.
- Inventory levels are continually monitored. Whilst we continue to have targets for improved stock turn in the medium term, we have sought to ensure we have mitigated the supply chain challenges caused by Brexit by increasing in inventory levels in the short term.
- Management of trade debtors is fundamental and we believe we remain alert to the challenges which COVID-19 may ultimately present to certain of our customers/debtors.

Our Strategy for Growth

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

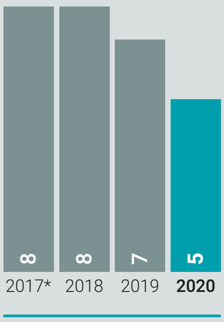
Investing in our management teams and staff brings the benefits of improved retention and talent identification for succession planning. We see training and development of employees as key to our long-term success.

In order to improve leadership skills at management levels from Profit Centre and above, all senior staff will undertake training at Leadership Trust. This process was deferred in 2020 due to COVID-19, but will resume when lockdown restrictions are lifted.

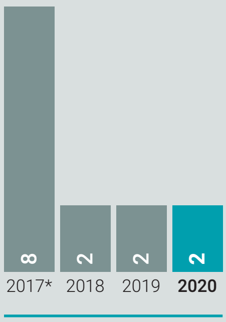
In October 2018, the Group introduced an Employee Engagement Programme operated by Thomas International to measure and strengthen employee satisfaction. Following this, the Group has introduced various activities tailored to each business unit with a view to improve overall employee engagement.

FY2021 Plan

Process Systems



Accounting Systems



- By the end of 2021 two further businesses will have moved from Sage and OGL to the KEA platform, meaning all five businesses with an e-commerce website will use the KEA ERP.
- Our focus in the short term includes the development of IT architecture and the customer data platform to support our e-business strategy and the opportunities we believe this presents.
- In the medium term, we are developing plans to transition to one ERP system.

*Increase due to acquisition activity.

Group Employee Engagement

64%*
2019

Group Employee Engagement

69%
2020

*2019 figure reported in 2019 Report & Accounts at 66% but restated to calculate on a weighted average basis and thereby provide a like for like comparison.

- We had targeted to improve our overall engagement score from 64% to 72%. Whilst this was not achieved, we are extremely pleased with a 5% improvement in the score given the circumstances and challenges presented by COVID-19.
- We will now look to improve again to 75% by December 2021.
- All Profit Centre Directors and above to complete Leadership Trust training by the end of 2021. The impact of COVID-19 meant the original target of 2020 completion did not prove possible.
- Within the sustainability section of this report, we refer to a number of areas we have invested in, notably the mental well-being programme. We believe the manner in which we treated our people during the pandemic conditions has been of huge significance and serves to ensure we have motivated/committed people to assist us in delivering our strategic objectives.

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.

Parker · EATON · Rexroth Bosch Group · Danfoss · NORGREN · SEMPERIT · FB Group · CAMOZZI Automation · SKF · Roquet making moves · HYDAC · CASAPPA Fluid Power Design · walvoil Hydraulic Control Systems · GROENEVELD · INTERPUMP Fluid Solutions · Honeywell · sun hydraulics Corporation · HydraForce Power Forward · PCL · Prisma · JG John Guest · BURNETT & HILLMAN Hydraulic Adaptor UK Manufacturer · itap

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

Market Trends in the UK & Ireland

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 the pandemic led to sharp declines across the Fluid Power sector in Q2 2020, most notably within the hydraulic sector, from August onwards UK manufacturing showed signs of recovery, confirming the initial sudden drop was more a result of enforced restrictions rather than reduced demand.

Prepared in October 2020, and therefore just before the latest series of lockdowns, the BFPA 2021 outlook prepared by Oxford Economics was positive with expected hydraulic sales growth of 21.0% to partly offset the predicted 25.8% decline in 2020, and for the pneumatics sector a predicted return to pre-COVID sales with an expected increase of 6.7% to offset the 6.6% reduction in 2020. Moreover, the BFPA predicted growth to continue in 2022 for both sectors by 6.8% and 4.8% respectively. A full table of their predictions is shown below.

This was predicated on a vaccine for COVID-19 being identified by mid-2021 which has been achieved, but was prepared before the latest series of lockdowns in the UK, Ireland and other western European economies. Our view is that the premise on which it was prepared remains sound but that recovery will be delayed by around six months to a year as a result of the recent events.

In terms of the normal composition of Flowtech Group sales in the UK & Ireland, we believe that we are broadly around 40% Pneumatic and Industrial and 60% Hydraulic overall, with a similar makeup to our sales in the Benelux.

BFPA UK Fluid Power Forecast 2020: % Change (Year-on-Year)

	2018	2019	2020	2021	2022	2023	2024
Hydraulic Equipment Sales	10.7%	-0.8%	-25.8%	21.0%	6.3%	5.7%	4.3%
Pneumatic Equipment Sales	8.4%	0.0%	-6.6%	6.7%	4.8%	3.3%	3.1%
Distribution % market share							
Hydraulic	28.9%	30.8%	38.3%	34.3%	32.3%	31.3%	30.8%
Pneumatic	39.6%	39.9%	34.9%	36.9%	37.8%	38.3%	38.6%

Source: Oxford Economics UK Fluid Power Outlook BFPA Annual Conference – October 2020.

How We Responded to the Brexit Ruling

The UK formally left the EU on 31 January 2020. In preparation for this, we established a Steering Committee to ensure we developed plans to deal with all identified risks, both from a commercial and compliance perspective. As part of our planning, we took account of the research which our industry body, the British Fluid Power Association, had performed and the issues which they had identified as part of this.

Stock availability

We took the decision to invest in building inventory levels in certain areas, a theme which has developed into 2021. Whilst we inevitably encountered certain disruption to our supply chain, the effort we put into planning for circumstances such as this has meant that we have not been as affected as would otherwise have been the case.

Supply chain considerations

We discussed the challenges which Brexit presented with our logistics partners and benefited from the relationships we have developed over a number of years. By working closely together, we have been able to provide the best aggregate solutions and the minimum possible disruption of the flow of our products into, and out of, our logistic centres.

We had to carefully consider the position in the island of Ireland; given complications which would otherwise have arisen and the potential for incremental freight/duty costs, we have taken the decision to retain a degree of stockholding in Ireland rather than rely entirely on distribution from our UK logistic centres – a minor amendment to our restructuring plans but one which we consider to be entirely sensible.

Technical compliance

We are mindful of new requirements in respect of product compliance and markings; we have refreshed initiatives led by our Product & Engineering Compliance Director to ensure we address each issue to the required standards and on time. Amongst other things, this has involved working closely with a number of our suppliers to ensure we secure information regarding changes in CE / UKCA (UK Conformity Assessed) products we purchase for sale in the UK and into the EU. A number of these issues do not need to be in place until 1 January 2022 but work is well progressed to ensure we easily achieve these timescales.

CEO Statement

"2020 has been a tumultuous year for all of us, but one thing it has done is clearly highlight the responsibilities companies such as ourselves have to the wider internal and external communities we operate in and to the ecosystem we are part of."

Bryce Brooks
Chief Executive Officer

I am delighted to introduce you to the Group's first consolidated sustainability report, where we discuss our approach to the most material impact which our corporate strategy has on our sustainability agenda.

2020 has been a tumultuous year for all of us, but one thing it has done is clearly highlight the responsibilities companies such as ourselves have to the wider internal and external communities we operate in and to the ecosystem we are part of. By taking those responsibilities seriously we believe we will build a stronger and more successful business. As such, in the long-term we see no trade-offs between the needs of our shareholders and our other stakeholders; all should benefit equally.

This report focuses on those issues will matter to us, namely:

- Energy management and our impact on the environment;
- Employee health, safety, engagement, diversity, and inclusion;
- The relationships we have with our suppliers and customers;
- Our impact on the local communities in which we operate.

In each area, we aim to clearly articulate our vision for the future, setting targets and timelines for improvement and making us fully accountable for their implementation. Where those targets remain work in progress, we will give clear indications of the direction of travel.

On emissions, we have been working with Carbon Responsible, leading independent emissions management specialists, to audit our current situation and provide a clear base year from which we can track progress. The immediate focus is on Scope 1 and 2 emissions which relate to our own activities, but we acknowledge that the nature of our distribution business also results in significant Scope 3 emissions relating to the activities of third parties which we also need to be capture. This report is a first step to comply with existing reporting requirements, but we will be attempting to integrate full Task Force on Climate-related Financial Disclosures (TCFD) standards in subsequent years.

Ours is an employee-led organisation and I believe that our actions in 2020 clearly highlighted that culture in action. It was unimaginable for us to create two tiers of employees, those on furlough and those at work, so the decision to top the government payments up to a full salary in April was an instinctive one. Preserving a safe environment for those that continued to work from our sites was also of paramount importance and, recognising the strain the pandemic was putting on everyone, we have supplemented our industry-leading healthcare provisions with mental health awareness training for all our line managers.

Finally, it is important that the executive management team is held formally to account by the Board to ensure that all these ambitions turn into positive actions that make a difference.

We view this consolidated report as our first statement of real intent in this area. We recognise that the subject is not black and white but many shades of grey, and best practice is evolving all the time. While the challenges we set for ourselves are our current best efforts, they will develop as our business and the environment we operate in evolves. What is not in doubt is our commitment to aim for the highest standards of execution and transparency.

Bryce Brooks
Chief Executive Officer

Our sustainability agenda focuses on three core areas:

Our Environment

Our People

Our Communities

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 sites to introduce environmentally-friendly practices available for their business.

As a norm we:

- Use low energy, motion-sensored and LED lighting within warehouses and most of our offices.
- Recycle as much as possible (100% paper, oil rags and cardboard bails across all sites)
- 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.
- 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 e-commerce.
- Reduce unnecessary travel by online meeting software.

Some examples of our progress this year include:

- In 2020, we leased 17 vehicles, 71% of which were hybrid. This brings our hybrid vehicle total to 56% across the Group.
- 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.
- Sustainable warehouse automation – in February 2021 we introduced our first warehouse Robot; fully electric, it is designed to reduce the travel time of warehouse operatives in their daily duties by carrying products to and from work cells, allowing greater productivity, accuracy and output. This represents the first part of a range of testing processes we will undertake as we design the automated operation.
- A new fleet of narrow aisle trucks, including all maintenance and a brand new fleet every seven years.
- New Engineering Modification Centre – instead of scrapping products, a product life-cycle inspection will take place to assess options to change the product, price, place its sold, how its used and promoted, thus prolonging its life and reducing waste disposal.

This is our first year of reporting as a Group and we have no prior emissions data to indicate any year-on-year changes. This report was prepared by Carbon Responsible using the GHG (greenhouse gas) Corporate Reporting & Accounting Standard, using UK Government Reporting & Conversion methodology and conversion factors on the 16th of March 2021. It is for the period 1 January 2020 to 31 December 2020.

We have used the financial control approach. Most of the emissions impact comes from our own offices, premises, and staff. It also includes significant impacts from activities that are not owned by us, but over which we exert financial control. We will use FY20 as our baseline year, and revise in line with further improvement in our reporting framework.

We have not set forward reduction targets for our business but will look to set them once we have completed further analysis of our emissions profile and associated plans for the business.

We have chosen revenue and FTE intensity from Scope 1, 2 and 3 emissions, as we think they form the best available intensity measures for our business.

We have measured our Scope 1, 2 and certain Scope 3 emissions and estimated emissions where we have reasonable supporting data to do so. Where we have not estimated a percentage for exclusions, it is because we have not carried out this estimation yet or an estimation is not possible from the current available data. We expect our reporting capability to improve in future years, increasing the quality and extent of overall measurement.

There are two key omissions to the data which are worthy of note that we will be focusing on for the next reporting period. Firstly, limited data is available for the supply of LPG used in our gas operated forklifts, and so it has not been possible to estimate the full impact of this usage. Secondly, although Scope 3 data reporting is currently optional, we consider the emissions from our distribution suppliers to be material. However, one of those major suppliers is unable to provide that data for 2020 until June 2021 due to a systems failure.

Based on currently available data, CO2e represented in metric tons (tCO2e) and related kWh totals are as follows:

	tCO2e	kWh
Scope 1 (gas consumption)	939.37	4,412,097
Scope 2 (elecricity consumption)	418.21	1,617,471
Scope 3 (other direct emissions)	85.94	NA
Totals	**1443.52**	**6,029,568**

Carbon Intensity	
tCO2e per FTE	2.38
tCO2e per £100,000 revenue	1.52

We have not yet purchased any carbon offsets for the reported period. This is currently under consideration by the Board and our report will be updated in the event of purchase.

Our full emissions report covers all the main emissions sources that are required to be reported under the Streamlined Energy & Carbon Reporting requirements and for which data has been collected. Optional disclosure of Scope 3 impacts has been undertaken as far as practicable to reflect the impact from our core operations.

Our People

Our people and the services they provide are critical to our success as well as driving many initiatives at the heart of the sustainability agenda. 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

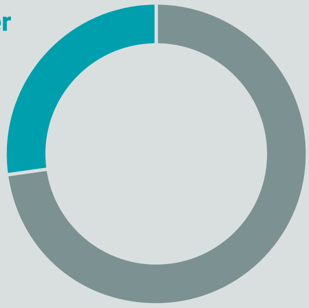
Strong & Supportive Culture

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

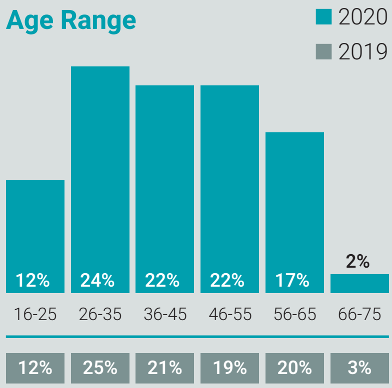
Gender



Male – **73%** Female – **27%**

(2019: – Male 76%, Female 24%)

Age Range



Demographics

Number of Employees*

627

(2019 – 631)

Retention†

83%

(2019 – 83%)

Length of Service**

9.2 years

(2019 – 7.5 years)

*Average in 2020.

**Average number of years.

† (1- leavers [during 2020]/average number of employees).

Attracting, Retaining & Developing Talent

Attracting 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 and General Intelligence Assessment 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 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.

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.

Apprentices

We are keen to attract and retain apprentices and currently employ eleven apprentices across the Group, two in office positions and nine 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 administration apprentice for our supply chain team at Flowtech Fluidpower plc. We also support local students and communities where possible with work experience opportunities.

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 were completed by October 2020, and the engagement score increased from 64% to 69%.

We currently share information via email and noticeboard communications as well as forums, meetings and shared servers or Dropbox.

The pandemic and a shift towards more remote working led us to adopt more virtual means to stay in touch, namely via WhatsApp to boost morale and Teams to collaborate efficiently with colleagues regardless of location.

Sustainability Report

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 Executive Officer, which rewards employees and in many cases offers an additional motivational incentive for future years.

Flowtech Fluidpower plc operates two share based 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.

At 31 December 2020, the total shares in the Company held by the Enterprise Management Incentive Plans were 973,000 representing 1.6% of the issued capital. Further details are provided in note 23 to the consolidated financial statements.

Flowtech Fluidpower plc operates a share based 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 2020, the total shares in the Company held by the Company Share Option Plan was 462,000 representing 0.8% of the issued capital. Further details are provided in note 23 to the consolidated financial statements.

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 27% 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.

The company recognises that the respect for human rights is an integral part of its Health & Safety and social responsibility and that is has a responsibility to take a robust approach to slavery and human trafficking. We understand the requirements of the Modern Slavery Act 2015 are committed to ensuring that no modern slavery takes place within our organisation.

We are committed to preventing workers from being subjected to modern slavery in our supply chains and within the businesses of our partners and affiliates.

We are committed to continuous improvement in relation to our practices to combat slavery and human trafficking.

The respect for human rights in implicit in our employment practices; the rights of every employee is treated with dignity and consideration.

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 will continue to audit supply chains, mitigate risk, monitor and track progress and immediately inform our customers if and when a supplier risk is no longer acceptable and the source of supply has been disengaged. The visits are coordinated by the Commercial Director.

Providing a Healthy Work Environment

The Group remains committed to providing a safe and healthy working environment. The Chief Executive 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 Profit Centre and must be included as part of new employee inductions and new acquisitions.

H&S assessments are carried out annually by Croner. To maintain employee safety throughout the pandemic, every site was audited and awarded a COVID-safe status by October 2020. During mid 2020, a Group H&S committee was established with a Manager responsible for each Division.

Additionally, each business has a H&S representative who liaises closely with their divisional Manager and is 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. In June 2020, we appointed a Product Quality & Compliance Director, Stephen Merrie, to focus on raising awareness and best practice to safeguard employees and, in turn, customers when manufacturing, modifying or advising on product use. Stephen works very closely with both H&S Managers to maintain safe working procedures and create a more structured approach to H&S within the Group. 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.

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.

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 2020 (2019: none) and 11 lost time accidents (2019: one lost time accident). A review of the causes underlying the lost time incidents is undertaken to identify any appropriate corrective action.

We continue to work with Croner to standardise procedures across our UK and Irish sites. Croner regularly visit all our sites to ensure compliance. 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.

New Employee Assistance Programme & Mental Health Ambassadors

This year especially, there has been a greater awareness over mental health, with many of our sites seeking to improve mental well-being also, attending courses and spreading awareness with the aim of reducing stress levels.

In February 2021, the Company introduced an Employee Assistance Programme, provided through AXA insurance, to support employees and their immediate families with a variety of services including lifestyle management, emotional and physical stress, financial advice, etc. The service provides 24/7 support and advice via telephone, face-to-face, as well as access to videos and podcasts. In addition, in April the business appoint official Mental Health Ambassadors, similar to First Aiders, each will attend training over two-and-a-half days and be closely involved in the Group's health and well-being strategy, including identifying signs and symptoms of mental health concerns, providing immediate assistance well as directing employees towards support resources, helping shape the business's Health & Safety policy.

Training & Collaboration

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

Each year we hold an annual Sales Conference for business development individuals from every business across the Group. This assists in developing cross-selling opportunities across the Group.

The last event, over two days in February 2020, 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 Medalist, 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.

While we couldn't host any events over the last 12 months, we hope to resume both events in 2021.

Forecast Meetings

Held bi-annually, 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 presented including 2019 Best Improvement in return on Working Capital, 2019 Best Return on Working Capital, 2019 Best Organic Growth, and 2019 Best Idea/Initiative. We intend to host a similar event in 2021.

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.

Despite the restriction that we all faced during 2020 and as we became more accustomed to the virtual world, 70 of our sales team attended a two-day course on sales excellence with Pareto.

Training Academy

With the objective of creating a framework to help develop our employees' technical competence and improve our support to customers, our training academy has now been firmly established with over 100 employees participating in an in-depth self-appraisal December 2020. As part of this development, the steering committee have joined forces with Fluid Power Design Solutions, headed by Stephen Dilks, a highly experience fluid power training consultant. Together they are committed to developing a robust training framework to help individuals enhance their knowledge base and further support the needs of our customers.

Our Communities

Aligned with our strategy to support and develop our people, we believe it is 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 £8k in total, supporting local charities such as:

- The Birchwood Centre – a charity located in Lancashire providing vital support and accommodation services for vulnerable people at critical points in their lives.
- Rainbow's Hospice – providing care and support to life-limited children and their families.
- Northern Ireland Hospice – a local charity delivering specialist rehabilitation and respite care for children and adults.

Charitable Donations

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

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.

The impact of COVID-19 has affected the plans we had to work more closely with the Princes Trust. We have re-engaged with the team over the last six months and are now making plans to support on work-based learning and skills development projects as well as Group-wide charity events.

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.


DONATION

Section 172 Statement

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

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 2020, 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.
- 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.

Communication with Shareholders

The Group works alongside Investor Relation specialists who are well known and, we believe, highly respected by a number of our key investors. We have, and will continue to, work 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 2021 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.

Close Control Over Cash and Costs Delivering Further Debt Reduction

"Given the enormous challenges which the COVID-19 pandemic placed on the business, the Board is satisfied with the trading result. By controlling all within our control, we have achieved a further significant reduction in our debt position."

Russell Cash
Chief Financial Officer & Company Secretary

Operational Review

	2020	2019	Change
Group revenue (*)	**£95.1m**	£112.4m	-15.4%
Gross profit (*)	**£32.6m**	£40.2m	-18.9%
Gross profit %	**34.3%**	35.7%	-146bps
Group operating (loss)/profit	**-£1.4m**	£5.7m	-£7.1m
Net Debt (**)	**£11.6m**	£16.6m	-£5.0m

(*) All results relate to continuing operations.

(**) Net Debt at 31 December 2020 comprises £10.7m Bank debt and £0.9m of COVID-19 related HMRC support but excludes lease liabilities under IFRS 16.

Revenue

For the year as a whole, Revenue reduced by 15.4%. The year started with us achieving Revenue slightly in excess of our expectations but clearly the onset of the pandemic had a very significant impact. At the height of the first national lockdown in April, our Revenue was 41% down; pleasingly, we have seen a gradual road to recovery since that date with Revenue recovering to a position whereby Q4 saw us only 5% down against the comparative period. This trend has continued into the early part of 2021.

Operating Overheads

Operating overheads in 2020 totalled £34.0m, £0.5m lower than 2019. Investments we have made in certain areas, notably in relation to our e-business strategy and to further develop our infrastructure, have partly offset the £1.2m furlough-related support.

Gross Profit Margins

Our overall gross margin reduced by 146bps. This follows an improving trend over recent years with margin increasing from 33.8% in 2017 to 35.7% in 2019. The reduction is largely explained by the absence of high margin catalogue Revenue in 2020 together with an element of labour costs, which is fixed in nature, forming part of cost of sales. Our underlying margin on product sales remains constant.

We are pleased that we continue to deliver strong margins; sustaining this position remains at the core of our sales ethos. We remain confident that over time we can achieve modest improvements to this already strong gross margin as our businesses increasingly work together to generate improved terms.

Operating (Loss)/Profit

As a result of the above factors, 2020 saw an operating loss of £1.4m compared with an operating profit of £5.7m in 2019.

Results by Division

Revenue	2020 £000	2019 £000
Components	**79,638**	96,348
Services	**15,443**	16,070
Group	**95,081**	112,418

Gross Profit	2020 £000		2019 £000	
Components	**28,279**	**35.5%**	35,167	36.5%
Services	**4,315**	**27.9%**	5,016	31.2%
Group	**32,594**	**34.3%**	40,183	35.7%

Operating Profit/(Loss)	2020 £000		2019 £000	
Components	**5,104**	**6.4%**	12,412	12.9%
Services	**(1,476)**	**-9.6%**	(747)	-4.6%
	3,628		11,985	
Less allocation of central costs	**(5,022)**		(6,240)	
Group	**(1,394)**		5,745	
Separately disclosed items (note 3)	**2,466**		3,712	
Adjustments in respect of IFRS 3 and IFRS 16 in 2019	**–**		150	
Underlying operating profit	**1,072**		9,607	

Revenue

Overall revenues reduced by £17.3m (15.4%) split:

- Components – £16.7m (17.3%) reduction.
- Services – £0.6m (3.9%) reduction.

Financial Review

Gross Profit Margins

The absence of catalogue income and fixed labour costs were the primary contributing factor to the reduction of margins within the Components segment. We remain pleased with our strong underlying margin performance.

Services

As referred to in the CEO's Year in Review section, the second half of 2020 has been a challenging period for the Services division. We are currently mid-way through a 'root and branch' review of all parts of the division.

Central Costs

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

We have made significant investment in these areas since the second half of 2018. Most recently we have invested in bolstering our project management and our e-business/digital infrastructure, recognising both of these areas are crucial for our effective future development. These costs have reached a mature level and will not materially increase in the foreseeable future.

The Board believes we are well placed to capitalise on future growth opportunities, both organic and when the time is right through acquisition activity.

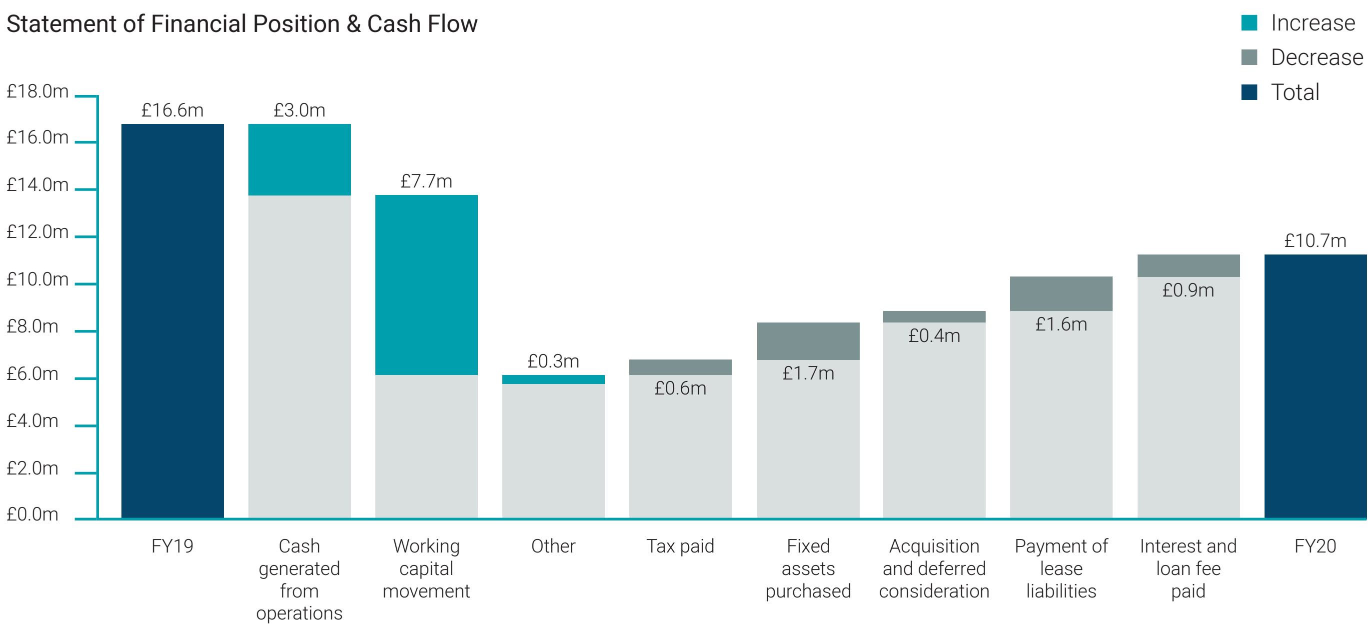
Statement of Financial Position & Cash Flow

In a year in which our ability to generate cash from trading activities was heavily restricted, it is pleasing to see that we achieved a £5.0m reduction in Net Debt. The chart below shows the key components of the cash flow.

The business generated £3.0m (2019: £10.4m) of positive operating cash flow. This was augmented by the effect of the continued focus on management of working capital with an overall benefit of £6.9m in the year (2019: £5.8m) and £0.9m HMRC COVID-related support. The aggregate total of £10.8m enabled the following to be funded:

- Taxation (£0.6m).
- Lease payments and IFR16 related interest (£1.6m).
- Capital expenditure (£1.7m).
- Interest (£0.9m).
- Other items (£0.3m net).
- Reduction in bank debt (£5.9m).

Statement of Financial Position & Cash Flow



Dividends

The Chairman's Statement contains comments on our current view regarding Dividends.

Taxation

The tax charge for the year was £24k (2019 charge: £968k).

2021 Segmentation

In the CEO's Year in Review section, we detail our refreshed approach to our trading styles and branding. As a result, we have concluded that it is appropriate to transition to reporting using three segments in 2021 and beyond. The table below shows the impact on the 2020 result had we been using three segments during this period:

	Flowtech £000	Fluidpower Group Solutions £000	Fluidpower Group Services £000	Interco transactions £000	Central Costs £000	Total continuing operations £000
Total revenue	**48,144**	**34,159**	**16,002**	**(3,224)**	**–**	**95,081**
Underlying operating result	**5,038**	**1,790**	**(1,236)**	**–**	**(4,520)**	**1,072**
Net financing costs	**(146)**	**(104)**	**(6)**	**–**	**(498)**	**(754)**
Separately disclosed items	**(862)**	**(862)**	**(240)**	**–**	**(502)**	**(2,466)**
Profit before tax	**4,030**	**824**	**(1,482)**	**–**	**(5,520)**	**(2,148)**

The aggregate of the Flowtech and Fluidpower Group Solutions figures equate to the Components segment used in the 2020 reporting.

"In a year in which our ability to generate cash from trading activities was heavily restricted, it is pleasing to see that we achieved a £5.0m reduction in Net Debt."

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 look to 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.

In 2019, we worked alongside Marsh, specialist consultants in establishing and developing MSH management frameworks. This resulted in an improved roadmap which we committed to work on in 2020 and which was detailed in our 2019 Report and Accounts.

The impact of COVID-19 has meant that our ability to make significant progress has been hampered. We have focussed heavily on developing an improved culture around all aspects of the health and safety agenda. Our focus on health has been not only on ensuring our work practices provide a suitably safe and compliant environment, but increasingly to developing processes designed to ensure we look after the mental well-being of all our people, in particular recognising the impact of the pandemic in this regard.

Risks

2020 Challenges & New Areas of Focus

2020 saw us faced with the combined challenges of Brexit planning, which we were clearly expecting, alongside the unforeseen and much greater issues which COVID-19 presented.

Brexit

We are pleased with the manner in which we have dealt with the challenges presented by both COVID-19 and Brexit. We planned for the implications of the UK's departure from the European Union and feel we have done all we could have been expected to do ahead of and beyond 1 January 2021. There have been challenges with supply chain disruption in the early part of 2021 and we are working hard to minimise the impact of these issues.

COVID-19

COVID-19 presented what we hope is once-in-a-lifetime challenges for the business. We are proud with the manner in which our organisation and our people within it came together to manage the situation. At the onset of the pandemic we saw our Revenue reduced by 41% in April but are very pleased with the gradual recovery we have seen since that point.

At the outset of the pandemic, we established a COVID working group to focus on all the challenges presented – initially this group of senior management met daily to deal with the impact; over time the frequency of the meetings has reduced to fortnightly with the emphasis recently turning to ensure our staff's wellbeing is an area of focus.

Whilst there clearly remains a risk that there could be further spikes in activity, we feel we have demonstrated the business is capable of taking remedial action and that our markets have a degree of resilience to manage any such situation. It is also pleasing to have renewed our Banking facilities and as part of this our covenants have been re-visited to ensure we have a degree of comfort within them.

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.

Regular on-site IT reviews are carried out including reviews of networks and controls.

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 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, the central services function has invested heavily in 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

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 19.

Competition

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.

Website Offering

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.

Core Risks Identified Prior to Distraction of COVID-19

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.

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 have created 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 Profit 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. Further details are provided in the sustainability section of this report.

Breach of Regulations

Owner: Chief Executive 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.

2020 has seen the Group establish a Health & Safety Steering Committee and the appointment of Senior Managers dedicated to ensure compliance in all areas.

The Strategic Report, as set out on pages 01 to 41, has been approved by the Board.

Bryce Brooks
Chief Executive Officer

19 April 2021

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.

Roger McDowell
Non-Executive Chair

N A R C

Appointed

June 2020 as Independent Director, and Non-Executive Chair from August 2020.

Skills & Experience

Roger is a highly successful businessman and entrepreneur, with a strong record of delivering shareholder value. He was Managing Director of Oliver Ashworth for 18 years before IPO and subsequent sale to Saint-Gobain, and won the Sunday Times AIM Non-Executive Director of the Year award in 2017 for his Chairmanship of Avingtrans plc, a precision engineering business.

External Appointments

- Non-Executive Chair of Hargreaves Services plc, Avingtrans plc and Brand Architekts Group plc.
- Senior Non-Executive Director of Tribal Group plc.
- Non-Executive Director of Proteome Sciences plc, Augean plc and British Smaller Companies VCT II plc.

Board Committees

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

Nigel Richens
Non-Executive Director
& Senior Independent Director

A C R N

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
Trustee of various charities.

Board Committees
- Chair of the Audit, Remuneration and 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 also leads the performance evaluation of the Chairman.

Paul Gedman
Non-Executive Director

N A R C

Appointed
July 2020.

Skills & Experience
Holds a degree in business studies from Leeds Metropolitan University.

Extensive experience in global e-commerce having held positions that include CEO of the Beauty, Wellness and Luxury Divisions of The Hut Group (THG) over an eight-year period. Prior to this he served as Head of Online at Littlewoods Clearance (part of the Shop Direct Group).

External Appointments
None.

Board Committees
Member of all Board Committees.

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

Corporate Governance Report

Chairman's Statement on Corporate Governance

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.

The Company is committed to maintaining high standards of corporate governance and has adopted the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA code"). The Company's' approach in relation to complying with each of the ten principles of the QCA code is set out below.

I am pleased to report that we consider we are compliant with all aspects of the requirements of the QCA Code.

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."

We continue to work with respected external advisors and believe we have made progress in this area over the last 12-18 months. This will be an ongoing area of focus and we are working hard to ensure we achieve a quality delivery of quality and meaningful information on a consistent basis.

The Board is updated on the latest shareholder information and feedback they provide on a regular basis, in particular following our presentations after the announcement of half year and full year results. Prior to the challenges resulting from COVID-19, all Directors were encouraged to attend the Annual General Meeting. Should Investors wish to make contact, details are provided via our website.

Principle 3

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

Our comments in respect of Section 172 of the Companies Act 2006 requirements and in a variety of other areas are provided in our Sustainability report on pages 20-31.

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 39-41 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. 2020 has also seen us make a big investment in our Health & Safety agenda.

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 42-43.

The Board is chaired by Roger McDowell and meets regularly with formal Board meetings taking place in most months of the year. Audit Committee meetings are held regularly around announcement activity and Remuneration Committee and Nomination Committee meetings on an as and when needed basis.

Nigel Richens and Paul Gedman sit alongside the Chairman as Non-Executive Directors. The Non-Executive Directors are considered to be independent of management and from any business relationship which could materially interfere with their independent judgement. The Senior Non-Executive Director is Nigel Richens and is available to shareholders if they have any concerns.

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 42-43. 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.

Principle 7

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

The Board has recently undertaken an internal evaluation of its effectiveness and the intention is for this exercise to be repeated at least annually. This exercise involved each Board/Committee member completing an assessment which provides numeric scoring against specific categories as well as an opportunity for recommendations for improvement to be provided. The areas reviewed include:

- Board/Committee composition (including succession planning)
- Board/external reporting and information flows
- Board processes, internal control and risk management
- Board accountability
- Executive management effectiveness
- Standards of conduct

The review highlighted a limited number of areas to be addressed. An action plan has now been developed to ensure each of these points is progressed.

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.

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 COVID-19 related conditions we have experienced in 2020 have led to us investing heavily in this area with additional, targeted communication, in particular to ensure the well-being of all our people within the business.

The Group has systems in place designed to ensure compliance with all applicable laws and regulations and conformity with all relevant codes of business practice.

Compliance with the Bribery Act 2010 involves the adoption of Standard Practice initiatives with appropriate training being provided.

The Group takes appropriate steps to comply with the provisions of the Market Abuse Regulations and the Modern Slavery Act.

The Group has invested heavily in Health & Safety agenda in 2020 with appointments being made across each of our businesses and initiatives put in place to ensure this is consistently uppermost in our thoughts.

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.

In 2018, the Audit Committee reconsidered the need to establish an internal audit function; this has further developed during 2020 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.

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. 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. This is achieved by:

- Chairing Board meetings, setting agendas in consultation with the Group Chief Executive and encouraging the Directors to participate actively in Board discussions.
- Leading the performance evaluation of the Board, its Committees and individual Directors.
- Promoting high standards of corporate governance.
- Ensuring timely and accurate distribution of information to the Directors.
- Ensuring effective communication with shareholders.
- Periodically holding meetings with fellow Non-Executive Directors without the Executive Directors being present.
- Establishing an effective working relationship with the Group Chief Executive by providing support and advice whilst respecting executive responsibility.

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 49-50. Biographical details of the Directors are included on pages 42-43.

Roger McDowell 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 Remuneration Committees.

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 all Directors will also stand for re-election annually at the AGM.

Meetings of the Board

There were 12 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.

Board Committees

Executive Management

As outlined in the CEO's Year in Review section, we have invested in the recruitment of a number of experienced, extremely capable people into senior roles. They form part of a recently established eight-person Management Board which focusses on all aspects of day-to-day management, including:

- 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.

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

The Nomination Committee

Chaired by Roger McDowell

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. During 2020 members of the Nominations Committee met to oversee the introduction of both Roger McDowell and Paul Gedman to the Board.

The Remuneration Committee

Chaired by Nigel Richens

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 one occasion – 10 September 2020.

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 49-50.

The AIM Compliance & Corporate Governance Committee

Chaired by Nigel Richens

The AIM Compliance & 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 October 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 whistle-blowing.
- 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.
- Considering policies on non-audit engagements for the Company's Auditor.

The Audit Committee met twice during 2020 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 limited number of areas of concern.

Corporate Governance Report

Board Effectiveness

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. Clearly this has proven more difficult than normal given COVID-19 considerations. 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. Again this has proven more difficult than normal given the challenges presented by COVID-19.

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.

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 investors assess and understand the remuneration policy in the light of the strategy for the Group.

The role of the Remuneration Committee is to assist the Board in fulfilling its responsibilities in 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.

The Executive Directors have service contracts which provide for notice periods of twelve months. Each of the Non-Executive Directors has a service contract which provides for a notice period 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.

Recent Developments

During the year the Board, following the recommendations of the Remuneration Committee, agreed to the following actions:

- To replace the Management Incentive Plan with a new long term incentive plan which will provide annual awards of options to the Executive Directors conditional upon the achievement of stretching targets based on total shareholder return and/or earnings per share over a vesting period of three years. The awards will be capped at 100% of salary and be subject to appropriate malus and clawback provisions. It is expected that this plan will be put in place shortly after the publication of this Report and Accounts at which time further details will be reported. Thus, the first awards under the new scheme will vest no sooner than approximately one year after the remaining awards under the previous MIP scheme have vested or expired.
- To establish a cash bonus scheme for the Executive Directors in respect of the financial year 2021, conditional upon the achievement of results significantly above market expectations and capped at 100% of salary. Appropriate malus and clawback provisions will also apply. It is expected that annual bonus plans will be established in respect of future periods although the levels of award and performance conditions may vary as circumstances dictate.
- To grant Russell Cash an option over ordinary shares of 50 pence each in the Company ("Ordinary Shares") pursuant to the rules of the Unapproved Sub-Plan of the Flowtech Fluidpower plc Enterprise Management Incentive Plan. The award will provide for an option to acquire a total of 150,000 Ordinary Shares at an exercise price of £1 per Ordinary Share. The option will be exercisable upon the publication of the Company's accounts for the financial period to 31 December 2022 and is not subject to the achievement of any performance criteria. It is expected that the grant of award will occur shortly after the publication of this Report and Accounts.
- To amend the rules of the Flowtech Fluidpower plc Enterprise Management Incentive Plan to empower the Board to reduce future awards in certain circumstances, including the underlying financial performance of the Company, and to include appropriate malus and clawback provisions.

Long term incentive plans and annual bonus plans will be established, controlled and operated by the Remuneration Committee who have the authority to vary payments from amounts arising from agreed formulae/structures and vary the structure and policy each year. The Remuneration Committee will act fairly and reasonably and in the interests of the Company and shareholders.

Directors' Remuneration Report

Directors' Detailed Remuneration

	Salary and fees £000	Benefits £000	Bonus £000	**Total 2020 £000**	Total 2019 £000
Executives					
Bryce Brooks	224	18	–	**242**	241
Russell Cash	189	3	–	**192**	182
Non-Executives					
Roger McDowell	41	–	–	**41**	–
Nigel Richens	54	–	–	**54**	55
Paul Gedman	19	–	–	**19**	–
Malcolm Diamond MBE	46	–	–	**46**	80
Bill Wilson	31	–	–	**31**	45
	604	21	0	**625**	603

Messrs Brooks, Cash, Richens and Diamond each waived £1,250 of remuneration during the early stages of the pandemic; similar salary sacrifices were made by other senior employees.

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 2020 number of ordinary shares	As at 31 December 2019 number of ordinary shares
Executives		
Bryce Brooks	**299,160**	299,160
Russell Cash	**48,175**	28,570
Non-Executives		
Roger McDowell	**–**	–
Nigel Richens	**73,500**	73,500
Paul Gedman	**–**	–

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 2019	77	3,100	5
As at 31 December 2020	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 2019	Granted	Exercised	Cancelled	**As at 31 December 2020**
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 2020. The Group financial statements have been prepared in accordance with international Accounting standards in conformity with the requirements of the 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).

A review of the Group's trading and an indication of future developments are contained in the Strategic Report on pages 6-17. 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 11 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 2020 are set out in the consolidated income statement on page 63. The Group has reported an operating loss from its continuing activities of £1.4 million (2019: profit of £5.7 million). After accounting for net finance costs, the consolidated income statement shows a loss from continuing operations before taxation of £2.1 million (2019: profit of £4.7 million).

The Chairman's Statement comments on our current thoughts on Dividends.

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 (retired 1 August 2020)
- Nigel Richens
- Bryce Brooks
- Russell Cash
- Bill Wilson (resigned 10 June 2020)
- Roger McDowell (appointed 10 June 2020)
- Paul Gedman (appointed 28 July 2020)

Short biographies of each Director currently in office are provided on pages 42-43.

The interest which the Directors serving at the end of the year, or at the date of this report, had in the ordinary share capital of the Company, and its subsidiaries, at 31 December 2020 is disclosed in the Directors' Remuneration report on page 50.

Details of the Directors' share options are provided in the Directors' Remuneration report on page 50.

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 01 April 2021 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 01 April 2020 (being the last practicable date before the publication of this report):

Shareholder	Number of shares held	% of share capital
Odyssean Capital	9,265,447	15.07
Close Asset Management	5,128,220	8.34
Gresham House	4,805,439	7.81
Chelverton Asset Management	4,100,000	6.67
Downing	3,896,658	6.34
River & Mercantile Asset Management	3,561,702	5.79
Charles Stanley	3,097,851	5.04
Lazard Freres Gestion	2,620,080	4.26
Canaccord Genuity Wealth Management	2,173,099	3.53
Hargreaves Lansdown Asset Management	2,093,115	3.4
BGF	1,896,724	3.08

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 29. It is not the Group's policy to trade in financial instruments.

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 32, under the Corporate Social Responsibility section.

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.

Directors' Report

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 3 June 2021. Shareholders are not permitted to attend. Two Directors will attend as the minimum quorum.

Subsequent Events

In the opinion of the Board, there have been no significant events occurring since the balance sheet date.

Corporate Governance

The Group's statement on corporate governance can be found in the corporate governance report on pages 44 to 48. The corporate governance report forms part of this Directors' report and is incorporated into it by way of this cross reference.

Our Environment

The Group's comments as regards the impact our operations have on the environment, and recent initiatives that have been introduced with regards to streamlined energy and carbon reporting requirements, are referred to in the sustainability section of this report on pages 20 to 31. These comments form part of this Directors' report by way of this cross reference.

Engagement with Employees, Suppliers, Customers and Others

The Group's comments in these areas are included in the sustainability section of this report on pages 20-31.
These comments form part of this Directors' report by way of this cross reference.

Going Concern

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

- Following the challenges presented by COVID-19 and the impact on 2020 performance, the Directors are forecasting a return to profitability in 2021 and beyond;
- Significant debt reduction has been achieved in 2020 and the Group is now operating with Debt of approximately half of the level it had at the end of 2018;
- The Group is financed by revolving credit facilities totalling £20m (recently extended to November 2023) and a £5m overdraft facility, repayable on demand;
- At the end of 2020 the Group's Net Bank Debt was £10.7m (£14.3m within the aggregate banking facilities).

The Directors have prepared forecasts covering the period to December 2022. 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.

We have based our stress testing on Revenue reduction scenarios. This exercise resulted in the Directors believing it is still likely that the business would continue to operate within the aggregate £25m banking facility and satisfy each of the banking covenants.

The Group therefore continues to adopt the going concern basis is preparing its financial statements.

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.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual 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 to prepare the financial statements in accordance with international accounting standard in conformity with the requirements of the Companies Act 2006. 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 international accounting standards in conformity with the Companies Act 2006 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 comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 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.

By order of the Board.

Russell Cash
Chief Financial Officer & Company Secretary
19 April 2021

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 'the Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020, 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 accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the 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 Company's affairs as at 31 December 2020 and of the Group's loss and the Company's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the 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 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

A description of our evaluation of management's assessment of the ability to continue to adopt the going concern basis of accounting, and the key observations arising with respect to that evaluation is included in the Key Audit Matters section of our report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Directors with respect to going concern are described in the 'Responsibilities of Directors for the financial statements' section of this report.

Grant Thornton

Overview of Our Audit Approach

Overall materiality:

- Group: £332,784, which represents 0.35% of the Group's revenue.
- Company: £218,000, which represents 0.20% of the Company's net assets, capped at a portion of Group materiality.

Key audit matters were identified as:

- Going Concern assumption (new in the year); and
- Revenue recognition (same as previous year)
- Goodwill impairment assessment (same as previous year)
- Provision for impairment of inventories (same as previous year)
- Recoverability of the Carrying Value of Investments in and Inter-company Receivables Due from Subsidiaries (same as previous year)

Our auditor's report for the year ended previous year included one key audit matter that has not been reported as key audit matter in our current year's report. This relates to the prior year implementation of an IT system & sufficiency of reconciliation procedures, the key audit matter has not been reported in the current year as we have noted improvements in the Group's reconciliation procedures.

We have performed audits of the financial information (full scope audits) using component materiality for Company, Flowtech Fluidpower plc and the following subsidiaries; Fluidpower Group UK Limited, Fluidpower Group Services Limited, Flowtech Fluidpower Ireland Limited, Fluidpower Shared Services Limited and Fluidpower MIP Limited.

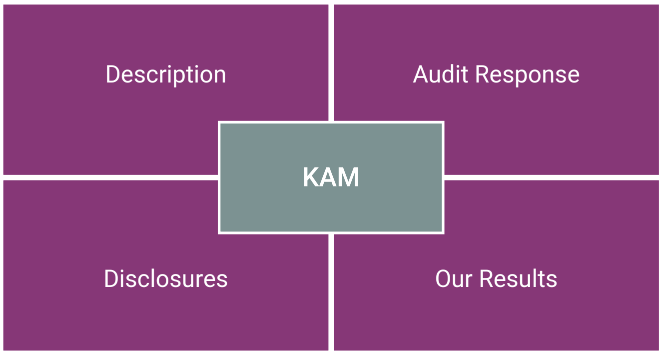
We performed specific audit procedures on Flowtechnology Benelux Limited and Hydroflex Hydraulics Group BV.

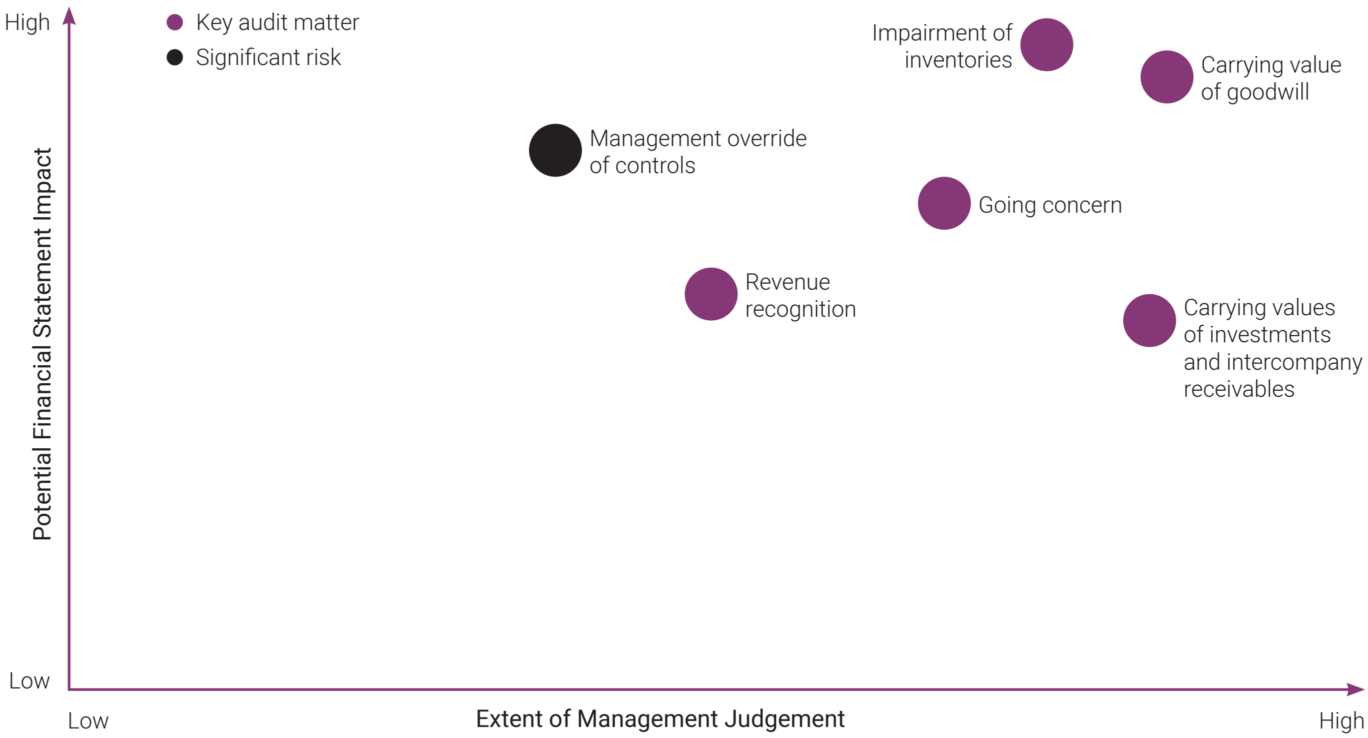
In total our audit procedures covered 100% of the Group's total assets, 98% of the Group's revenue and 93% of the Group's loss before tax.

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 the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.





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

Key Audit Matter – Group

Going Concern

We have identified a key audit matter related to going concern as one of the most significant assessed risks of material misstatement due to fraud and error as a result of the judgement required to conclude whether there is a material uncertainty related to going concern.

COVID-19 is one of the most significant economic events currently faced globally, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the Group.

In undertaking their assessment of going concern for the Group, the Directors considered the impact of COVID-19 related events in their forecast future performance of the Group and anticipated cash flows.

As a result, there is significantly more judgment applied in developing forecasted revenue and profits of the Group.

How Our Scope Addressed the Matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- Obtaining an understanding of the design and implementation of controls over management's going concern assessment;
- Obtaining and assessing management's analysis and assessment of going concern, including the forecasts covering the period to 31 December 2022 and challenging the assumptions used in the cash flow forecasts, as approved by the Board;
- Analysing how the reasonableness of forecasts and related disclosures may be impacted by the inherent risk associated with COVID-19 and how this may affect the Group's and the Company's financial resources or ability to continue operations over the going concern period;
- Corroborating the existence of the Group's loan facilities and related covenant requirements for the period covered by management's forecasts;
- Assessing the impact of the mitigating factors available to management in response to the downside sensitivity applied and the Group's ability to comply with covenant requirements.
- Comparing post year end results achieved to those forecasted to determine if the business is trading in line with forecast; and
- Assessing the adequacy of the going concern disclosures within the Financial statements.

Relevant Disclosures in the Annual Report & Accounts 2020

- The Group's accounting policies on the Going concern assumption are shown in note 2.2, Summary of significant accounting policies
- Additional disclosures are included in the Directors Report on page 52.

Our Results

Based on the work we have performed, we are satisfied that the assumptions made in management's assessment of the use of the going concern assumption in preparation of the financial statements were appropriate. Further, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Key Audit Matter – Group

Improper Revenue Recognition – Sale of Goods

We identified improper revenue recognition as one of the most significant assessed risks of material misstatement due to fraud.

The revenue recognised in respect of Sale of goods totalled £91.1m for the year ended 31 December 2020 (2019: £109.4m).

Revenue generated from the sale of goods is recognised at the point of dispatch and includes delivery charged to customers as a single performance obligation. The inherent risk identified in this revenue stream relates to the potential for manipulation of revenue recognised during the year through the use of non-standard journal entries, that is, journal entries that do not appropriately reflect the substance of an underlying transaction.

How Our Scope Addressed the Matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- Obtaining an understanding of the processes through which the Group initiates, records, processes and report's revenue transactions and determining whether they were implemented as designed;
- Assessing whether revenue has been recognised in accordance with the Group's accounting policies including IFRS 15 'Revenue from Contracts with Customers';
- Utilising data analytics to interrogate and test the revenue populations, including the analysis of revenue postings from inception to cash and identifying non-standard revenue postings. We tested the operating effectiveness of controls over bank reconciliations process to support this testing;
- Utilising journals testing to identify non-standard revenue posting. Where we were unable to utilise data analytics testing a sample of revenue entries for all revenue streams to supporting documentation; and
- Performing cut-off testing to ensure transactions have been recorded within the correct period.

Relevant Disclosures in the Annual Report & Accounts 2020

- The Group's accounting policies on revenue recognition are shown in note 2.15, Summary of significant accounting policies.
- Related disclosures are included in note 3.

Our Results

Based on our audit work we did not identify any material misstatement in the revenue recognised in the year ended 31 December 2020.

Key Audit Matter – Group

Carrying Value of the Group's Goodwill

We identified valuation of goodwill as one of the most significant assessed risks of material misstatement due to error.

The Group carried £63.2m of goodwill in its consolidated statement of financial position as at 31 December 2020 (2019: £63m).

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

These forecasts are subject to estimation uncertainty and significant management judgement is required in forecasting future operating cashflows and determining the appropriate discount rate.

No impairment charge was recognised by management in the year ended 31 December 2020.

How Our Scope Addressed the Matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- Obtaining an understanding of the design of the controls in place over the impairment of goodwill and determining whether they were implemented as designed;
- Assessing the competence, capabilities and objectivity of the management's expert used by the Group;
- Assessing the appropriateness of the methodology and discount rates provided by management's expert and used in management's impairment review;
- Challenging the assumptions included within management's calculation of the value in use, which included gaining an understanding of the key factors and judgements applied in determining future forecast results including the growth rate and discount rates;
- Evaluating management's sensitivity analysis to understand the impact of any reasonable possible changes in assumptions and evaluating the headroom available on the carrying value of goodwill; and
- Assessing the adequacy of disclosures in the financial statements in accordance with IAS 36 'Impairment of Assets'.

Relevant Disclosures in the Annual Report & Accounts 2020

- The Groups accounting policies on goodwill and impairment of intangible assets are shown in note 2.9 summary of significant accounting policies.
- The related disclosures in respect of goodwill impairment are included in note 10.

Our Results

Based on our audit work we have identified that the valuation of goodwill was accounted for in accordance with the Group's accounting policies. We have not identified any material misstatements in the carrying value of goodwill.

Key Audit Matter – Group

Provision for Impairment of Inventories

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

The Group’s total inventory as at 31 December 2020 totals £21,994,000 (2019: £24,000,000), which is recorded net of a provision of £1,716,000 (2019: £2,046,000).

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

The provision for impairment of inventories is calculated based on historical sales trends, and management’s estimation of recoverability of inventory on hand and is therefore subject to estimation uncertainty. Key assumptions made by management include those in relation to expected future sales and levels of excess inventory.

How Our Scope Addressed the Matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- 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 recognised in accordance with the Group’s accounting policies.
- Understanding the design and evaluating the implementation of processes and controls through which the Group initiates, records, processes and reports inventory provisions;
- Considering the reasonableness of the change in management assumptions relating to the period of sales data used to calculate the standard provision, prior to management adjustments;
- Challenging the appropriateness of the provision percentage applied to excess stock over five years and performing sensitivity on the assumptions used in managements adjustments;
- Agreeing the integrity of the underlying data used in the calculation of the inventory provisions to sales data;
- Considering the suitability of the inventory provision, including re-performance of the calculation and considering historical performance relating to inventories.

Relevant Disclosures in the Annual Report & Accounts 2020

- The Group’s accounting policies on inventories are shown in note 2.10 of significant accounting policies.
- The related disclosures in respect on inventories impairment are included in note 15.

Our Results

Based on our audit work we have not identified any material misstatements relating to the provision for inventories.

Key Audit Matter – Company

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

We identified the recoverability of the carrying value of investments in and intercompany receivables from subsidiaries as a significant risk, which was one of the most significant assessed risks of material misstatement.

The Company statement of financial position includes investments in subsidiaries of £59,358,000 (2019: £59,002,000) and receivables from those subsidiaries of £68,621,000 (2019: £64,912,000).

There is a risk that the carrying value of investments and intercompany 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 and there is significant judgement in forecasting future cashflows and therefore assessing the value.

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.

How Our Scope Addressed the Matter – Company

In responding to the key audit matter, we performed the following audit procedures:

- Assessing management's impairment review including 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 the implementation of the processes and controls through which the Company initiates, records, processes and reports impairments of investments in subsidiaries;
- Assessing the competence, capabilities and objectivity of the management expert used by the Company;
- Assessing the appropriateness of the methodology and discount rate provided by management's expert and used in management's impairment review;
- Challenging the assumptions included within management's calculation, which included gaining an understanding of the key factors and judgements applied in determining future forecast results including the growth rate and discount rates;
- Assessing the accuracy of management's forecasts by comparing forecasts to 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 on key assumptions to understand the potential impact on headroom; and
- Assessing the adequacy of the disclosures in the financial statements in accordance with the requirements of IAS 36 'Impairment of Assets'.

Relevant Disclosures in the Annual Report & Accounts 2020

- The Company's accounting policies on impairment of investments and Group balances is shown in note B to the Company financial statements.
- The related disclosures in respect of impairment of investment and Group balances are included in note B to the Company financial statements.

Our Results

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.

Our Application of Materiality

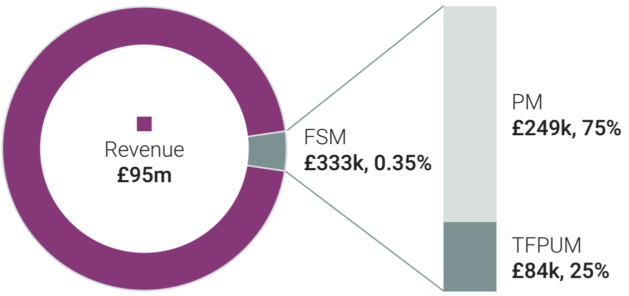
We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

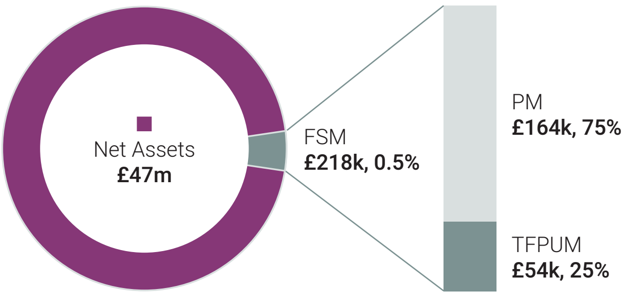
Materiality measure	Group	Company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£332,784 which is 0.35% of revenue.	£218,000 which is 0.20% of net assets, capped at a portion of Group materiality.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: • The selection of an appropriate benchmark • The selection of an appropriate percentage to apply to that benchmark; and • The consideration of qualitative factors We determined that revenue was the most appropriate benchmark for the Group due to it being a key performance indicator for the Group's stakeholders and is less volatile than earnings for the Group following a loss recorded in the year. Materiality for the current year is higher than the level we determined for the year ended 31 December 2019. This is the result of a change in the benchmark used to determine materiality from a three-year average of 5% of the Group's profit before tax. The change in benchmark was determined to be appropriate because of the fluctuation of the Group's earnings.	In determining materiality, we made the following significant judgements: • The selection of an appropriate benchmark Materiality for the current year is higher than the level we determined for the year ended 31 December 2019 to reflect the higher Group materiality. Group materiality is higher as a result of the change in benchmark used to determine materiality.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£249,588, which is 75% of financial statement materiality.	£163,500, which is 75% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgements: • Risk assessment – our risk assessment procedures did not identify any significant changes or additional complexity in the Group's business activities • Our experience with auditing the financial statements of the Group –significant adjustments have not been made to the Group's financial statements in prior years	In determining performance materiality, we made the following significant judgements: • Risk assessment – our risk assessment procedures did not significant changes or additional complexity in the Company's business activities • Our experience with auditing the financial statements of the Company - significant adjustments have not been made to the Company's financial statements in prior years
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality	For both the Group and Company we determined a lower level of specific materiality for related party transactions and Directors' remuneration.	
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£16,650 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10,900 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 – Company



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements.

An Overview of the Scope of our Audit

We performed a risk-based audit that requires an understanding of the Group's and the Company's business and in particular matters related to:

Understanding the Group, its components, and their environments, including Group-wide controls

- The engagement team obtained an understanding of the Group, its environment and risk profile, including Group-wide controls, and assessed the risks of material misstatement at the Group level. We considered the structure of the Group, its processes and controls and the industries in which the components operate.

Identifying significant components

- In order to address the risks identified, the engagement team performed an evaluation of identified components to identify significant components 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, revenue, inventories and profit before taxation.
- We have performed full scope audits using component materiality for Company, Flowtech Fluidpower plc and the subsidiaries Fluidpower Group UK Limited, Fluidpower Group Services Limited, Flowtech Fluidpower Ireland Limited, Fluidpower Shared Services Limited and Fluidpower MIP Limited.
- We performed specific audit procedures over certain balances and transactions on Flowtechnology Benelux Limited and Hydroflex Hydraulics Group BV. Together, the components subject to full scope audits and specified audit procedures were responsible for 98% of the Group's revenue, 93% of the Group's loss before tax, and 100% 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;
- 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.

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

Responsibilities of Directors for the Financial Statements

As explained more fully in the Directors' responsibilities statement, 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 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 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- we obtained an understanding of the legal and regulatory frameworks applicable to the Group and the industry in which it operates. We determined that the following laws and regulations were most significant; IFRS, Companies Act 2006, Quoted Companies Alliance (QCA) Corporate Governance Code and taxation laws.
- We obtained an understanding of how the Company and the Group are complying with those legal and regulatory frameworks by making inquiries of management, those responsible for legal and compliance procedures and the company secretary. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Company's and Group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the Group engagement team included:
  - Assessing the design and implementation of controls management has in place to prevent and detect fraud;
  - Obtaining an understanding of how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - Challenging assumptions and judgments made by management in its significant accounting estimates;
- Identifying and testing journal entries, in particular journal entries determined to be large or relating to unusual transactions.
- Making inquiries, in respect of fraud, of those outside the finance team, including key management and the internal process audit team.
- The assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's knowledge of the industry in which the client operates, and the understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation; and
- The engagement team's discussions in respect of potential non-compliance with laws and regulations and fraud included the risk of fraud in revenue recognition. We identified improper revenue recognition as a key audit matter. The key audit matters section of our audit report explains the matter in more detail and also describes the specific procedures we performed in response to the key audit matter.

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

19 April 2021

Consolidated Income Statement

	Note	2020 £000	2019 £000
Continuing operations			
Revenue	3	**95,081**	112,418
Cost of sales		**(62,487)**	(72,235)
Gross profit		**32,594**	40,183
Distribution expenses		**(4,286)**	(4,547)
Administrative expenses before separately disclosed items:		**(27,236)**	(26,179)
— Separately disclosed items	3	**(2,466)**	(3,712)
Total administrative expenses		**(29,702)**	(29,891)
Operating (loss)/profit	4	**(1,394)**	5,745
Financial expenses	6	**(754)**	(1,038)
Net financing costs		**(754)**	(1,038)
(Loss)/Profit from continuing operations before tax	3	**(2,148)**	4,707
Taxation	7	**(24)**	(968)
(Loss)/Profit from continuing operations		**(2,172)**	3,739
(Loss)/Profit for the year attributable to:			
Owners of the parent		**(2,172)**	3,739
		(2,172)	3,739
Earnings per share			
Basic earnings per share – continuing operations	9	**(3.54p)**	6.12p
Diluted earnings per share – continuing operations		**(3.54p)**	6.10p

Consolidated Statement of Comprehensive Income

	2020 £000	2019 £000
(Loss)/Profit for the year	(2,172)	3,739
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
– Exchange differences on translating foreign operations	289	(394)
Total comprehensive (loss)/income for the year	(1,883)	3,345
Total comprehensive (loss)/income for the year attributable to:		
Owners of the parent	(1,883)	**3,345**
	(1,883)	**3,345**

Consolidated Statement of Financial Position

	Note	2020 £000	2019 £000
Assets			
Non-current assets			
Goodwill	10	**63,164**	63,014
Other intangible assets	11	**5,483**	6,573
Right-of-use assets	22	**7,490**	8,228
Property, plant and equipment	13	**6,747**	6,528
Total non-current assets		**82,884**	84,343
Current assets			
Inventories	15	**21,994**	24,000
Trade and other receivables	16	**18,415**	21,377
Prepayments		**477**	759
Tax receivable		**257**	–
Cash and cash equivalents	17	**9,235**	3,446
Total current assets		**50,378**	49,582
Liabilities			
Current liabilities			
Interest-bearing borrowings		**–**	16,055
Lease liability	18, 22	**1,459**	1,635
Trade and other payables	19	**17,805**	15,510
Deferred and contingent consideration	20	**–**	214
Tax payable		**–**	298
Total current liabilities		**19,264**	33,712
Net current assets		**31,114**	15,870
Non-current liabilities			
Interest-bearing borrowings	18	**19,887**	4,008
Lease liability	18, 22	**6,278**	6,735
Provisions	21	**367**	417
Deferred tax liabilities	14	**1,459**	1,519
Total non-current liabilities		**27,991**	12,679
Net assets		**86,007**	87,534
Equity directly attributable to owners of the Parent			
Share capital	25	**30,746**	30,579
Share premium		**60,959**	60,959
Other reserves		**187**	187
Shares owned by the Employee Benefit Trust		**(372)**	(372)
Merger reserve		**293**	293
Merger relief reserve		**3,646**	3,599
Currency translation reserve		**343**	244
Retained losses		**(9,795)**	(7,955)
Total equity attributable to the owners of the Parent		**86,007**	87,534

The financial statements on pages 63-105 were approved by the Board of Directors on 19 April 2021 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 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
Issue of shares in exchange for shares in subsidiary undertaking										
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	24	–	(3,574)	(20)	(3,244)
Balance at 1 January 2020	**30,579**	**60,959**	**187**	**293**	**(372)**	**3,599**	**244**	**(7,955)**	**–**	**87,534**
(Loss) for the year	–	–	–	–	–	–	–	(2,172)	–	(2,172)
Other comprehensive income	–	–	–	–	–	–	381	(92)	–	289
Total comprehensive income for the year	–	–	–	–	–	–	381	(2,264)	–	(1,883)
Transactions with owners										
Shares issued as consideration	167	–	–	–	–	47	–	–	–	214
Exchange reserve realised	–	–	–	–	–	–	(282)	282	–	–
Share-based payment charge	–	–	–	–	–	–	–	142	–	142
Total transactions with owners	167	–	–	–	–	47	(282)	424	–	356
Balance at 31 December 2020	**30,746**	**60,959**	**187**	**293**	**(372)**	**3,646**	**343**	**(9,795)**	**–**	**86,007**

Consolidated Statement of Cash Flows

	Note	2020 £000	2019 £000
Cash flow from operating activities			
Net cash from operating activities	26	**10,083**	13,246
Cash flow from investing activities			
Acquisition of subsidiary, net of cash acquired	24	**(164)**	(38)
Acquisition of property, plant and equipment	13	**(1,652)**	(756)
Proceeds from sale of property, plant and equipment		**105**	39
Payment of deferred and contingent consideration		**(219)**	(2,635)
Net cash used in investing activities		**(1,930)**	(3,390)
Cash flows from financing activities			
Net proceeds from issue of share capital		**–**	70
Repayment of right-of-use lease liabilities	22	**(1,550)**	(1,561)
Repayment of lease liabilities		**–**	(71)
Interest on right-of-use leases		**(264)**	(282)
Other interest and loan arrangement fee		**(603)**	(756)
Proceeds from sale of shares held by the EBT		**–**	47
Share option payments to staff		**–**	(61)
Dividends paid	8	**–**	(3,749)
Net cash used in financing activities		**(2,417)**	(6,363)
Net change in cash and cash equivalents		**5,736**	3,493
Cash and cash equivalents at start of year		**3,446**	253
Exchange differences on cash and cash equivalents		**53**	(300)
Cash and cash equivalents at end of year	17, 18	**9,235**	3,446

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 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

At 1 January 2020	**4,000**	**16,000**	**63**	**8,370**	**28,433**
Recategorisation of lease liability			**(63)**	**63**	**–**
Cash flows:					
Repayment	**–**	**–**	**–**	**(1,550)**	**(1,550)**
Proceeds	**–**	**–**	**–**	**–**	**–**
Transfer between facilities (note 18)	**16,000**	**(16,000)**	**–**	**–**	**–**
Other movements	**(113)**	**–**	**–**	**(116)**	**(229)**
Non cash:					
Additions	**–**	**–**	**–**	**970**	**970**
At 31 December 2020	**19,887**	**–**	**–**	**7,737**	**27,624**

Net bank debt at 31 December is £10.6m, being £19.9m RCF less cash balance £9.2m available to offset loan balance.

Net debt at 31 December 2020 comprises £10.7m bank debt and £0.9m of COVID-19 related HMRC support.

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 Accounting standards in conformity with the requirements of the 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.

Accounting standards issued but not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these is are as follows, which are all effective for the period beginning 1 January 2021:

- References to the Conceptual Framework.
- Proceeds before Intended Use (Amendments to IAS 16).
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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:

- Following the challenges presented by COVID-19 and the impact on 2020 performance, the Directors are forecasting a return to profitability in 2021 and beyond;
- Significant debt reduction has been achieved in both 2019 and 2020 and the Group is now operating with Debt of approximately half of the level it had at the end of 2018;
- The Group is financed by revolving credit facilities totalling £20m (recently extended to November 2023) and a £5m overdraft facility, repayable on demand;
- At the end of 2020 the Group's Net Bank Debt was £10.7m (£14.3m within the aggregate banking facilities).

The Directors have prepared forecasts covering the period to December 2022. 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.

The Directors have based their stress tests on Revenue reduction scenarios. This exercise resulted in the Directors believing it is still likely that the business would continue to operate within the aggregate £25m banking facility whilst seeking to ensure all bank covenants were complied with.

The Group therefore continues to adopt the going concern basis in preparing its financial statements.

2.3 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.

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 2020. 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. Beaumanor Engineering Limited and PMC Fluidpower Group Limited have a reporting year ending in June, whilst BALU Limited and Derek Lane & Co Limited have 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.

2.4 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 (i) 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.

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.

2.5 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 is defined as cash in hand and on demand deposits. Cash and equivalents are defined as short term highly liquid investments with original maturities of three months or less.

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. Following the various restructuring initiatives, management assessed the assets no longer used by the Group for impairment and provided £112k as restructuring costs in the year.

Notes to the Consolidated Financial Information

2. Accounting Policies continued

2.8 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 at the amount recorded.

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.

2.9 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.

2.10 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.

2.11 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.

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.

2.12 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.

2.13 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.

2.14 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.

2.15 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 on-site 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.

2.16 Cost of sales

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

2.17 Distribution expenses

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

2.18 Operating segments

The Group monitors and reports 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.
- During 2021, the Board has decided to review business performance relating to Components in greater detail, split into two further segments called Flowtech and Fluidpower Group Solutions. This follows adoption of two branding styles depending on the precise sector in which the business operates. The three segments will be:
  - Flowtech: catalogue-based businesses supplying both hydraulic and pneumatic consumables, transitioning to an e-commerce-centric model
  - Fluipdower Group Solutions: businesses supplying both hydraulic and pneumatic consumables primarily through off-line channels to a range of OEMs
  - Fluidpower Group Services: will mirror the erstwhile Services segment.

The impact of segment reporting on the new segments is disclosed in the Financial Review.

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.

2.19 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. Accounting Policies continued

2.20 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.

2.21 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.

2.22 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.

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.

2.23 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 (2019: 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 2020 is £63,164,000 (2019: £63,014,000). 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 £5,483,000 (2019: £6,573,000). Refer to note 11 for further detail.

Provision for impairment of inventories

The carrying value of inventories as at 31 December 2020 was £21,994,000 (2019: £24,000,000) and included a provision against the inventories of £1,710,000 (2019: £2,046,000). The provision for impairment of inventories is based on sales trends for all inventory and management's estimation of recoverability. Where appropriate, the provision contains an uplift to reflect the slower rate of sale due to the impact of COVID-19. As always, there is a risk that the provision will not match the inventories that ultimately prove to be impaired.

2.24 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.

2.25 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.

2.26 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.

Notes to the Consolidated Financial Information

3. Segment Reporting

Management reviews the operations of the business based on two segments – Components and Services, as explained in note 2.18. 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 later in this note; the Directors consider that these should be reported separately as they do not relate to the performance of the segments.

Segment information for the reporting periods are as follows:

For the year ended 31 December 2020

	Components £000	Services £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement – continuing operations:					
Revenue from external customers	**79,638**	**15,443**	–	–	**95,081**
Inter-segment revenue	**2,665**	**559**	(3,224)	–	–
Total revenue	**82,303**	**16,002**	(3,224)	–	**95,081**
Underlying operating result (*)	**6,828**	**(1,236)**	–	(4,520)	**1,072**
Net financing costs	**(250)**	**(6)**	–	(498)	**(754)**
Underlying segment result	**6,578**	**(1,242)**	–	(5,018)	**318**
Separately disclosed items	**(1,724)**	**(240)**	–	(502)	**(2,466)**
Profit/(loss) before tax	**4,854**	**(1,482)**	–	(5,520)	**(2,148)**
Specific disclosure items					
Depreciation and impairment on owned plant, property and equipment	**861**	**309**	–	–	**1,170**
Depreciation on right of use assets	**1,417**	**66**	–	124	**1,607**
Amortisation	**966**	**124**	–	–	**1,090**
Reconciliation of underlying operating result					
Underlying operating result (*)	**6,828**	**(1,236)**	–	(4,520)	**1,072**
Separately disclosed items	**(1,724)**	**(240)**	–	(502)	**(2,466)**
Operating profit/(loss)	**5,104**	**(1,476)**	–	(5,022)	**(1,394)**

(*) Underlying operating result is continuing operations' operating profit before separately disclosed items detailed later in this note.

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	(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	(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, IFRS 16 (note 22) and 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.

3. Segment Reporting continued

	2020 £000	2019 £000
Separately disclosed items		
Separately disclosed items within administration expenses:		
– Acquisition costs	**94**	183
– Amortisation of acquired intangibles (note 11)	**1,090**	1,051
– Share-based payment costs (note 23)	**142**	143
– Restructuring	**921**	1,739
– Changes in amounts accrued for contingent consideration (note 29.1)	**219**	596
Total separately disclosed items	**2,466**	3,712

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 and, in 2019, includes provision for stock in respect of businesses moving to integrated warehousing facilities, employee redundancies and IT integration.

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 2020

	Sale of goods £000	Contracts £000	On-site services £000	Total revenue £000	Non-current assets £000
United Kingdom	**69,238**	**1,687**	**2,308**	**73,233**	**78,208**
Europe	**20,424**	**–**	**–**	**20,424**	**4,676**
Rest of the World	**1,424**	**–**	**–**	**1,424**	**–**
Total	**91,086**	**1,687**	**2,308**	**95,081**	**82,884**

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

Revenue from contracts relate to contracts completed during the year and there are no assets or liabilities relating to contracts at the year end. No new long-term contracts were entered into during the year.

No customers of the Group account for 10% or more of the Group's revenue for either of the years ended 31 December 2020 or 2019. Non-current assets are allocated based on their physical location.

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 earlier in this note.

Revenue recognised at a point in time was £93,394k (2019: £111,674k) and revenue recognised over time was £1,687k (2019: 744k).

Notes to the Consolidated Financial Information

4. Operating Profit/(Loss)

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

	2020 £000	2019 £000
Depreciation of property, plant and equipment under right-of-use assets (note 22)	**1,607**	1,701
Depreciation and impairment of tangible assets (note 13)	**1,170**	879
Depreciation of owned property, plant and equipment held under leases (note 13)	**–**	37
Amortisation of intangible assets (note 11)	**1,090**	1,051
Changes in amounts accrued for contingent consideration (note 29.1)	**219**	596
Impairment loss/(gain) on trade receivables and prepayments	**152**	(133)
Loss/(gain) on foreign currency transactions	**240**	(20)
Repairs and maintenance expenditure on plant and equipment	**100**	136

Services provided by the Group's Auditor

	2020 £000	2019 £000
Audit of the statutory consolidated and Company financial statements of Flowtech Fluidpower plc	**92**	60
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	**171**	115

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

5. Directors & Employees

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

	Number 2020	Number 2019
Assembly and distribution	262	272
Administration	365	359
Total	**627**	631

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	18,925	18,573
Social security costs	2,040	1,824
Contributions to defined contribution pension plans	630	752
Share-based payments (note 23)	142	143
Total	**21,737**	21,292

COVID subsidy netted off against payroll costs during the year: (*)

	2020 £000	2019 £000
Wages and salaries	1,148	–
Social security costs	17	–
Contributions to defined contribution pension plans	37	–
Total	**1,202**	–

Payroll costs, net of COVID subsidy, charged to Income statement:

	2020 £000	2019 £000
Wages and salaries	17,777	18,573
Social security costs	2,023	1,824
Contributions to defined contribution pension plans	593	752
Share based payments (note 23)	142	143
Total	**20,535**	21,292

(*) COVID subsidy credit relates to contribution to payroll costs received from governments in UK, Republic of Ireland and the Netherlands under the respective local COVID support schemes.

Notes to the Consolidated Financial Information

5. Directors & Employees continued

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'.

	2020 £000	2019 £000
Remuneration	**604**	587
Social security costs	**76**	75
Benefits in kind	**21**	16
Total	**701**	678

Directors waived remuneration totalling £5k during the months of May-June 2020 as part of steps taken by the Group in order to mitigate the impact of COVID-19 on the business. As part of this initiative, the wider management waived a further £15.4k of remuneration. The amounts set out above include remuneration in respect of the highest paid Director as follows:

	2020 £000	2019 £000
Highest paid Director's remuneration		
Remuneration	**224**	225
Social security costs	**30**	30
Benefits in kind	**18**	16
Total highest paid Director's remuneration	**272**	271

6. Financial Expenses

Finance expenses for the year consist of the following:

	2020 £000	2019 £000
Finance expense arising from:		
Interest on revolving credit facility (*)	**384**	591
Bank loans	**104**	117
Other credit related interest	**–**	1
Total bank interest	**488**	709
Lease interest	**2**	19
Right-of-use liability interest under IFRS 16	**264**	282
Total lease interest	**266**	301
Imputed interest on deferred and contingent consideration	**–**	28
Total non-credit related interest	**–**	28
Total finance expense	**754**	1,038

(*) Interest on revolving credit facility includes amortisation charge of loan fee £7k.

7. Taxation

Recognised in the income statement

Continuing operations:	2020 £000	2019 £000
Current tax expense		
Current year (credit)/charge	**(73)**	888
Overseas tax	**146**	324
Adjustment in respect of prior periods	**17**	(12)
Current tax expense	**90**	1,200
Deferred tax		
Origination and reversal of temporary differences	**(80)**	(169)
Adjustment in respect of prior periods	**(16)**	(63)
Change in tax rate	**30**	–
Deferred tax (credit)	**(66)**	(232)
Total tax (credit)/expense – continuing operations	**(24)**	968

Reconciliation of effective tax rate

	2020 £000	2019 £000
(Loss)/(profit) for the year	**(2,172)**	3,739
Total tax (credit)/expense	**24**	968
(Loss)/profit excluding taxation	**(2,148)**	4,707
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	**(400)**	894
Deferred tax movements not recognised	**149**	26
Effect of tax rates in foreign jurisdictions	**–**	(34)
Impact of change in tax rate on deferred tax balances	**31**	(5)
Income not taxable	**(6)**	(25)
Amounts not deductible	**233**	187
Adjustment in respect of prior periods	**1**	(75)
Other tax reliefs and transfers	**16**	–
Total tax (credit)/expense in the income statement – continuing operations	**24**	968

Change in corporation tax rate

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25% for companies with profits of £250,000 or greater. For companies with profits of £50,000 or less, the corporation tax rate will remain at 19%. A tapered rate will be introduced for companies with profits greater than £50,000 and less than £250,000. Since the proposal to increase the corporation tax rates had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

Notes to the Consolidated Financial Information

8. Dividends Paid

	2020 £000	2019 £000
Final dividend NIL (2019: 4.04p) per share	–	2,453
Interim dividend NIL (2019: 2.13p) per share	–	1,296
Total	–	3,749

During 2020, due to the uncertainty of COVID-19, the Directors suspended all dividend payments in order to retain as much cash in the business as possible.

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 2020			Year ended 31 December 2019		
	Loss after tax £000	Weighted average number of shares	Loss per share Pence	Earnings £000	Weighted average number of shares	Earnings per share Pence
Basic earnings per share						
Continuing operations	(2,172)	61,424	(3.54)	3,739	61,067	6.12
Diluted earnings per share						
Continuing operations	(2,172)	61,488	(3.54)	3,739	61,286	6.10

	2020 £000	2019 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	61,424	61,067
Impact of share options	64	219
Weighted average number of ordinary shares for diluted earnings per share	61,488	61,286

10. Goodwill

	2020 £000	2019 £000
Cost		
Balance at 1 January	63,014	63,022
Acquired through business combinations (note 24)	195	–
Other movements	(45)	(8)
Balance at 31 December	63,164	63,014
Impairment		
At 1 January	–	–
Impairment charge	–	–
At 31 December	–	–
Carrying amount at 31 December	63,164	63,014

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 14 cash-generating units across these two segments (2019: 15 cash-generating units). These cash-generating units represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

Cash-generating units (CGU) were identified by grouping profit centres within individual statutory entities which together represent sets of independent cash flows. The following changes have been made in the current period in the identification of cash-generating units or the allocation of goodwill to those units since the prior period.

1. During 2020, the Group purchased outright one of its customers, Weltac Limited, ensuring forward integration of lines being distributed by this online business. The business of Weltac has since been fully incorporated into Beaumanor Engineering.
2. In May 2020, the business announced the merger of the Nelson and Hi Power brands to create a one stop shop for Components and hose assembly business across the Island of Ireland, which also delivered supply chain savings to the Group. Hi Power business was split between 'Industrial' (Components) and 'Transport' (Services) in Cork, Dublin and Belfast, and the 'Industrial' business merged with the Nelson business at Cork, Dublin and Dungannon to create a single joined up consumer facing business. The merger became fully operational on 1 February 2021. Goodwill identified to the Hi Power business is allocated between 'Industrial' and 'Transport' based on the operating profit for 2020.
3. Primary Components business was carved out of Knowsley and moved to Skelmersdale. The logistics, purchasing and supply chain functions for Primary Components is now absorbed into Skelmersdale's logistics centre and Flowtech's purchasing system. The sales team for Primary Components operates out of Skelmersdale. Goodwill identified to the Primary business is allocated between Components and Systems based on the Gross profit. Gross profit has been used as a metric since Systems has an operating loss for 2020.
4. TSL business has merged with Primary Systems and is no longer reported as a separate CGU.

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

Cash-generating unit	£000
FTUK	41,677
Beaumanor Engineering	4,687
Orange County	2,793
Primary Fluid Power – Components	1,883
Primary Fluid Power – Systems	751
HTL	2,447
HES	2,073
Hydroflex Hydraulics Oud	2,050
Flowtechnology Benelux BV	1,015
Nelson Hi-Power Components & Hose Assembly	1,804
Hydravalve	954
Indequip	632
Hi-Power Transport	174
Derek Lane	224
Total at 31 December	63,164

10. Goodwill continued

Impairment tests

During the year ended 31 December 2020, the Group determined that there was 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 2021 and in some cases, further updated the assumptions for 2022, based on those 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, adjusted for circumstances specific to the individual CGUs. For the majority of CGUs, revenue is assumed is expected to grow by 7.1% p.a. (2019: 2.5%) in the initial two-year forecast period. For certain CGUs, growth rates of between 10.0% and 15% were assumed where post-COVID recovery was expected to occur faster. Beyond the initial forecast period, the growth rates for all the CGUs taper downward to the expected long-term growth rate over the next three years.

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 7.4% to 11.9% (2019: 11.0%). This discount rate has been derived from the Group's weighted average post-tax cost of capital and taking into account external market factors.

Sensitivity to changes in key assumptions

Other than is noted hereinafter, 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. Orange County's goodwill is the most sensitive to changes in the assumption given its modest level of headroom. Whilst management do not believe there to be an impairment, for illustrative purposes only a reduction in trading of over 1.0% in revenue or an increase in the discount rate to 13.8% would result in an impairment.

11. Other Intangible Assets

	Customer relationships		Brands		Total	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Gross carrying value						
Balance at 1 January 2020	**9,371**	9,371	**1,173**	1,173	**10,544**	10,544
Balance at 31 December 2019	**9,371**	9,371	**1,173**	1,173	**10,544**	10,544
Amortisation and impairment						
Balance at 1 January 2020	**3,729**	2,786	**242**	134	**3,971**	2,920
Amortisation	**982**	943	**108**	108	**1,090**	1,051
Balance at 31 December 2020	**4,711**	3,729	**350**	242	**5,061**	3,971
Carrying amount at 31 December 2020	**4,660**	5,642	**823**	931	**5,483**	6,573

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	UK	Distributors of engineering components	100%
Fluidpower Group Services UK Limited	UK	Assembly and distribution of engineering components	100%
Flowtech Fluidpower Ireland Limited	ROI	Assembly and distribution of engineering components	100%
Derek Lane & Co Limited	UK	Dormant	100%
Process Fluidpower Group Limited	UK	Dormant	100%
Group HES Limited	UK	Dormant	100%
Beaumanor Limited	UK	Dormant	100%
Process Fluidpower Limited	UK	Dormant	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	UK	Holding company	100%
PMC Fluidpower Group Limited	UK	Holding company	100%
Balu Limited	UK	Dormant	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%
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%
Weltac Limited	UK	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.

13. Property, Plant & Equipment

	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2019	1,131	11,784	744	13,659
Additions	53	627	76	756
Disposals	–	–	(56)	(56)
Balance at 31 December 2019 and 1 January 2020	1,184	12,411	764	14,359
Additions	23	1,419	212	1,654
Disposals	–	(398)	(87)	(485)
Effect of movements in foreign exchange	–	58	9	67
Balance at 31 December 2020	1,207	13,490	898	15,595
Depreciation and impairment				
Balance at 1 January 2019	117	6,589	218	6,924
Depreciation charge for the year	40	735	141	916
Disposals	–	–	(9)	(9)
Balance at 31 December 2019 and 1 January 2020	157	7,324	350	7,831
Depreciation charge for the year	50	856	152	1,058
Impairment	–	50	62	112
Disposals	–	(137)	(59)	(196)
Effect of movements in foreign exchange	–	41	2	43
Balance at 31 December 2020	207	8,134	507	8,848
Net book value				
At 31 December 2020	1,000	5,356	391	6,747
At 1 January 2020	1,027	5,087	414	6,528
At 1 January 2019	1,014	5,195	526	6,735

Included in land and property is land at a cost of £145,000 which is not depreciated (2019: £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	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Intangible assets	**–**	–	**(1,117)**	(1,315)
Property, plant and equipment	**–**	–	**(463)**	(342)
Provisions	**84**	95	**–**	–
Employee share-based payments	**–**	43	**–**	–
Losses and other deductions	**37**	–	**–**	–
Tax assets/(liabilities)	**121**	138	**(1,580)**	(1,657)
Net deferred tax liability			**(1,459)**	(1,519)

A deferred tax asset of £Nil (2019: £142,000) in respect of cumulative share-based payments of £Nil (2019: £748,000) 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 2020

	1 January 2020 £000	Recognised in profit or loss £000	**31 December 2020 £000**
Intangible assets	(1,315)	198	**(1,117)**
Property, plant and equipment	(342)	(121)	**(463)**
Provisions	95	(11)	**84**
Employee share-based payments	43	(43)	**–**
Losses and other deductibles	–	37	**37**
	(1,519)	60	**(1,459)**

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	(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)**

15. Inventories

	2020 £000	2019 £000
Finished goods and goods for resale	**21,994**	24,000

Charges for finished goods recognised as cost of sales in the year amounted to £54,974,000 (2019: £65,417,000). The write-downs and reversals are included in cost of sales. The provision made against inventories at the year end was £1,710,000 (2019: £2,046,000).

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

	2020 £000	2019 £000
Trade receivables	**17,872**	21,058
Other receivables	**543**	319
Trade and other receivables	**18,415**	21,377

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

	Gross 2020 £000	Impairment 2020 £000	Gross 2019 £000	Impairment 2019 £000
Not past due	**16,574**	**30**	18,458	28
Past due 0-30 days	**1,151**	**10**	1,656	8
More than 30 days	**480**	**293**	1,253	273
	18,205	**333**	21,367	309

The overall expected credit loss rate is 1.6% (2019: 1.4%).

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

	2020 £000	2019 £000
Balance at 1 January	**309**	585
Provision utilised	**(128)**	(143)
Increase/(decrease) in provision	**152**	(133)
Balance at 31 December	**333**	309

17. Cash & Cash Equivalents

	2020 £000	2019 £000
Cash and cash equivalents:		
Sterling	**7,980**	2,263
Euro	**1,226**	1,122
Dollar	**29**	61
Total cash and cash equivalents	**9,235**	3,446

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 29.

	2020 £000	2019 £000
Non-current liabilities		
Secured bank loans	–	4,000
Revolving credit facility ($)	**19,887**	–
Lease liabilities	–	8
Right-of-use liabilities	**6,278**	6,735
Total non-current liabilities	**26,165**	10,743
Current liabilities		
Revolving credit facility	–	16,000
Lease liabilities	–	55
Right-of-use liabilities	**1,459**	1,635
Total current liabilities	**1,459**	17,690
Total	**27,624**	28,433

($) RCF loan arrangement fee of £120k was paid in Nov 2020. The loan arrangement fee is amortised over the life of the loan (36 months). Accordingly, £7k amortisation charge is charged to the income statement during 2020. The unamortised value of the loan fee as at 31 December 2020 of £113k is netted off against the RCF Facility of £20,000k.

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Carrying value 2020 £000	Carrying value 2019 £000
Secured bank loan	GBP	BoE + 2.1%	2021	–	4,000
Secured revolving credit facility	GBP	BoE + 2.1%	2021	–	16,000
Finance lease liabilities	GBP	Various	2020 to 2021	–	63
Secured revolving credit facility	GBP	Libor + 2.65%	2023	**20,000**	–
Right-of-use liabilities	GBP	Various	2020 to 2031	**6,548**	6,926
Right-of-use liabilities	EUR	Various	2020 to 2027	**1,189**	1,444
				27,737	28,433

Under terms agreed in November 2020, the secured bank loan of £4,000,000 was ceased and the revolving credit facility was increased to £20,000,000. The revolving credit facility is subject to a non-utilisation fee of 0.9275% and is due for renewal in 2023. The facility is secured by legal charges over certain of the Group's assets which include trade receivables and stock. The Group also has a £5,000,000 overdraft facility which is subject to annual review, next such review due on 31 July 2021.

Notes to the Consolidated Financial Information

19. Trade & Other Payables

	2020 £000	2019 £000
Current liabilities		
Trade payables	**10,792**	10,356
Accrued expenses	**3,088**	3,073
Social security and other taxes (*)	**3,925**	2,081
	17,805	15,510

(*) Social security and other taxes include VAT liability of £1,418k relating to Q1 2020 VAT deferred under the COVID support scheme offered by HMRC.

20. Deferred & Contingent Consideration

	2020 £000	2019 £000
Non-current liabilities		
Contingent consideration	**–**	–
Total non-current liabilities	**–**	–
Contingent consideration	**–**	214
Total current liabilities	**–**	214
Total	**–**	214

On 16 April 2020, the contingent consideration payable following purchase of 10% minority interest in Derek Lane & Co Limited was settled by issue of 335,546 ordinary shares in Flowtech Fluidpower plc at 63.74 pence each.

21. Provisions

	2020 £000	2019 £000
Balance at 1 January 2020	**417**	399
Amount utilised during the year	**(74)**	–
Amount provided in the year	**24**	18
Balance at 31 December 2020	**367**	417

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

	2020 £000	2019 £000
Current	**–**	–
Non-current	**367**	417
Total	**367**	417

Provisions comprise dilapidation provisions 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

Right-of-use assets

	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2020	8,855	–	1,172	10,027
Additions	168	399	404	971
Disposals	(210)	–	(332)	(542)
Effect of movement in foreign exchange	94	–	15	109
Other lease movements	(149)	–	–	(149)
Balance at 31 December 2020	8,758	399	1,259	10,416
Depreciation and amortisation				
Balance at 1 January 2020	1,351	–	448	1,799
Depreciation charge for the year	1,163	19	425	1,607
Disposals	(210)	–	(299)	(509)
Effect of movements in foreign exchange	23	–	6	29
Balance at 31 December 2020	2,327	19	580	2,926
Net book value				
At 31 December 2020	**6,431**	**380**	**679**	**7,490**
At 31 December 2019	7,504	–	724	8,228

Other lease movements is an adjustment for the reduction in value of right-of-use assets of £149,000 following the exercise of an early termination clause for two property leases.

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

	2020 £000	2019 £000
Depreciation charge of right-of-use assets		
Land and property	**1,163**	1,263
Plant, machinery and equipment	**19**	–
Motor vehicles	**425**	438
Interest expenses (included in finance cost)	**264**	282
Exchange movements in income statement	**(3)**	(15)
Total expense in the income statement relating to right-of-use assets	**1,868**	1,968

Notes to the Consolidated Financial Information

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

Right-of-use lease liabilities

	2020 £000	2019 £000
At 1 January	**8,370**	9,047
Recategorisation of lease liability	**63**	–
Repayment	**(1,550)**	(1,561)
Additions to right-of-use assets in exchange for increased lease liabilities	**970**	980
Disposals	**(48)**	–
Other lease movements	**(68)**	(96)
At 31 December	**7,737**	8,370

Within other lease movements is an adjustment for the reduction in liability totalling £149,000 following the exercise of an early termination clause in relation to two property leases.

Analysis by length of liability

	As at 31 December 2020				As at 31 December 2019			
	Land and property £000	**Plant, machinery and equipment £000**	**Motor vehicles £000**	**Total £000**	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Current	**1,040**	**56**	**363**	**1,459**	1,250	–	385	1,635
Non-current	**5,651**	**326**	**301**	**6,278**	6,408	–	327	6,735
Total	**6,691**	**382**	**664**	**7,737**	7,658	–	712	8,730

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	Plant, machinery and equipment	Motor vehicles
Number of right-of-use assets leased	27	5	94
Range of remaining term	1-11 years	7 years	1-4 years
Number of leases with extension options	7	–	–
Number of leases with options to purchase	1	–	–
Number 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 £593,000 (net of COVID-19 Subsidy) (2019: £752,000).

23.2 Share-based employee remuneration

As at 31 December 2020, 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	2020 number	2019 number
21 May 2014	11 April 2017 to 21 May 2021	**77**	77
1 June 2016	1 June 2019 to 1 June 2023	**3,005**	3,010

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	2020 number £000	2019 number £000
Approved plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**610**	610
8 August 2014	£1.26	4 April 2017 to 7 August 2024	**12**	12
			622	622
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	**60**	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**	9
25 October 2019	£0.50	5 May 2022 to 28 January 2026	**150**	150
8 January 2020	£0.50	31 Mar 2022 to 8 February 2030	**50**	–
			351	371
			973	993

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 2020	**622**	**1.01**	**371**	**0.91**	**993**
Granted	–	–	**50**	**0.50**	**50**
Lapsed	–	–	**(70)**	**1.32**	**(70)**
Forfeited	–	–	–	–	–
Exercised	–	–	–	–	–
Outstanding at 31 December 2020	**622**	**1.01**	**351**	**0.76**	**973**
Exercisable at 31 December 2020	**622**	**1.01**	**143**	**0.88**	**765**
Exercisable at 31 December 2019	622	1.01	212	0.84	834

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
Grant date	08 January 2020
Vesting period ends	31 March 2022
Share price at date of grant	£1.15
Volatility	39.00%
Option life	10 years
Dividend yield	6.00%
Risk-free investment rate	0.45%
Fair value at grant date	£0.07
Exercise price at date of grant	£0.50
Exercisable from/to	31 March 2022 to 07 January 2030
Weighted average remaining contractual life	9 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	2020 number 000	2019 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	**352**	365
1 January 2019	£1.13	5 May 2022 to 02 Sep 2025	**27**	27
			489	502

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 2020	502	1.10
Granted	–	–
Exercised	–	–
Forfeited	(13)	1.00
Outstanding at 31 December 2020	**489**	**1.07**

Exercisable at 31 December 2020	**462**	**1.13**
Exercisable at 31 December 2019	475	1.10

In total, £142,000 (2019: £143,000) 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 Weltac Limited

On 11 March 2020, the Group acquired 100% of the share capital of Weltac Limited, a UK based supplier of parts for pipe fittings and motor garages. The total consideration was £415,530 in cash. The acquisition integrates a profitable business and customer into the wider Flowtech business. Details of the provisional fair value of identifiable assets and liabilities acquired, and purchase consideration and goodwill are as follows:

	Book value £000	Fair value £000
Property, plant and equipment	2	2
Trade receivables	5	5
Cash balances	252	252
Trade and other payables	(28)	(28)
Current tax balances	(10)	(10)
Total net assets	**221**	**221**

	£000
Amount settled in cash	416
Less net assets acquired	(221)
Goodwill on acquisition	**195**

Fair values

Fair values are provisional as subject to management estimations at the reporting date. Acquisition costs amounting to £21,350 have been recognised as an expense in the consolidated income statement as part of the separately disclosed administration costs.

Goodwill

Goodwill of £195,000 is primarily related to expected future profitability. Goodwill has been allocated to components operating segment and is not expected to be deductible for tax purposes.

Hive up

The trade and assets of Weltac Limited were hived up to Fluidpower Group UK Limited at the close of business on 30th April 2020.

Weltac Limited's contribution to the Group results

Weltac Limited generated sales of £65,629 and operating profit of £13,392 for the period 12 March to 30 April 2020, at the end of which period the business was hived up and merged with the business of Beaumanor. Prior to its acquisition, for the period 1 January to 11 March 2020, Weltac Limited generated sales of £75,134 and operating profit of £19,613. Had Weltac been acquired at the start of this financial year, the Group revenue would have been £95,155,764 and the Group operating loss would have been £1,372,866.

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 2020	61,492,673	30,746
Shares authorised for share-based payments	6,666,667	3,333
Total shares authorised at 31 December 2020	**68,159,340**	**34,079**

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At 1 January 2020	61,157,127	30,579
Shares issued as consideration	335,546	167
At 31 December 2020	**61,492,673**	**30,746**

On 16 April 2020, 335,546 ordinary shares of 50p each were issued at 63.74 pence each in settlement of contingent consideration owed for purchase of minority interest in Derek Lane & Co Limited.

26. Net Cash from Operating Activities

	2020 £000	2019 £000
Reconciliation of profit before taxation to net cash flows from operations		
Loss/(profit) from continuing operations before tax	**(2,148)**	4,707
Depreciation and impairment of property, plant and equipment	**1,170**	916
Depreciation on right-of-use assets (IFRS 16)	**1,607**	1,701
Finance costs (note 6)	**754**	1,038
Loss on sale of plant and equipment	**184**	6
Write back liabilities	**(19)**	–
Amortisation of intangible assets	**1,090**	1,051
Profit on sale of shares	**–**	140
Equity-settled share-based payment charge	**142**	143
Change in amounts accrued for contingent consideration	**219**	596
Other financial items	**–**	123
Fair value adjustment to stock	**–**	12
Operating cash inflow before changes in working capital and provisions	**2,999**	10,433
Change in trade and other receivables	**3,455**	4,006
Change in stocks	**2,207**	4,667
Change in trade and other payables (*)	**2,118**	(2,862)
Change in provisions	**(47)**	18
Cash generated from operations	**10,732**	16,262
Tax paid	**(649)**	(3,016)
Net cash generated from operating activities	**10,083**	13,246

(*) Change in trade and other payables includes VAT payments of £1,418k relating to Q1 2020 VAT deferred under the COVID support scheme offered by HMRC.

27. Contingent Liabilities & Commitments

The Group had capital expenditure of £50,000 contracted for but not provided at 31 December 2020 (2019: £274,000).

28. 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:

	2020 £000	2019 £000
Bryce Brooks	–	18
Malcolm Diamond MBE	–	4
Bill Wilson	–	2
Roger McDowell	–	–
Nigel Richens	–	5
Paul Gedman	–	–
Russell Cash	–	1
	–	30

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.

29. Financial Instruments

29.1 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 2020 £000	Fair value 2020 £000	Level 3 2020 £000	Carrying amount 2019 £000	Fair value 2019 £000	Level 3 2019 £000
Contingent consideration (note 20)	–	–	–	(214)	(214)	(214)
Total financial liabilities at fair value through profit or loss	–	–	–	(214)	(214)	(214)

There have been no transfers in either direction during the years ended 31 December 2020 and 31 December 2019.

The reconciliation of the carrying amounts of financial instruments classified within level 3 is as follows:

	2020 £000	2019 £000
Balance at 1 January	**214**	2,240
Arising on business combinations	**–**	214
Changes in amounts accrued for contingent consideration	**219**	596
Issue of share capital towards settlement of contingent liability	**(214)**	–
Payment of contingent consideration (*)	**(219)**	(2,836)
Balance at 31 December	**–**	214

(*) The Group acquired BALU Limited and its subsidiaries in March 2018. Additional deferred consideration of £219k refers to re-payment to the vendors of tax deduction/refunds realised in the recently concluded corporation tax submission of these companies, as agreed in the SPA.

The Group is exposed to various risks in relation to financial instruments. Each of these is disclosed in the table below.

	Carrying amount 2020 000	Fair value 2020 £000	Carrying amount 2019 £000	Fair value 2019 £000	Level 3 2019 £000
Loans and receivables					
Cash and cash equivalents (note 17) (*)	**9,235**	**9,235**	3,446	3,446	
Trade and other receivables (note 16) (*)	**18,415**	**18,415**	21,377	21,377	
Total financial assets measured at amortised costs	**27,650**	**27,650**	24,823	24,823	
Total financial assets at fair value	**–**	**–**	–	–	
Financial assets	**27,650**	**27,650**	24,823	24,823	
Financial liabilities measured at amortised cost					
Other interest-bearing loans and borrowings (note 18)	**(27,737)**	**(27,737)**	(28,433)	(28,433)	
Trade payables and accruals (note 19) (*)	**(13,880)**	**(13,880)**	(13,429)	(13,429)	
Total financial liabilities measured at amortised cost	**(41,617)**	**(41,617)**	(41,862)	(41,862)	
Financial liabilities at fair value					
Contingent consideration (note 20)	**–**	**–**	(214)	(214)	(214)
Total financial liabilities at fair value	**–**	**–**	(214)	(214)	(214)
Total financial liabilities	**(41,617)**	**(41,617)**	(42,076)	(42,076)	
Total financial instruments	**(13,967)**	**(13,967)**	(17,253)	(17,253)	

(*) 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. Values for other interest-bearing loans and borrowings for 2019 are corrected to be consistent with note 18.

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.
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.

29. Financial Instruments continued

29.2 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.

	2020 £000	2019 £000
UK	**14,951**	17,811
Europe	**2,653**	2,858
Rest of the World	**268**	389
	17,872	21,058

29.3 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 2020	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					
Liabilities relating to right-of-use assets	**7,737**	**8,910**	**1,689**	**1,422**	**3,054**
Revolving credit facility	**20,000**	**21,492**	**535**	**535**	**20,422**
Trade payables	**10,792**	**10,792**	**10,792**	**–**	**–**
	38,529	**41,194**	**13,016**	**1,957**	**23,476**

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

There are no contractual maturities over five years, save for liabilities relating to right-of-use assets.

29.4 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 activities. 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 2020	Sterling £000	Euro £000	US Dollar £000	Other £000	Total £000
Cash and cash equivalents	7,980	1,226	29	–	9,235
Trade and other receivables	15,654	2,635	99	27	18,415
Revolving credit facility	(20,000)	–	–	–	(20,000)
Liabilities relating to right-of-use assets	(6,549)	(1,188)	–	–	(7,737)
Trade payables	(7,699)	(3,711)	618	–	(10,792)
Net exposure	(10,614)	(1,038)	746	27	(10,879)

31 December 2019	Sterling £000	Euro £000	US Dollar £000	Other £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)

Sensitivity analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2020 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 2019.

	Profit or loss and equity	
	2020 £000	2019 £000
€	94	244
$	(68)	(21)

A 10% strengthening of the following currencies against the pound sterling at 31 December 2020 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 2019.

	Profit or loss and equity	
	2020 £000	2019 £000
€	(115)	(298)
$	83	25

29. 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:

	2020 £000	2019 £000
Fixed rate instruments		
Financial liabilities	**–**	63
Variable rate instruments		
Financial liabilities (carrying value)	**19,887**	20,000

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 2019.

	2020 £000	2019 £000
Equity		
Increase of 100 basis points	**(199)**	(200)
Decrease of 100 basis points	**199**	200
Profit or loss		
Increase of 100 basis points	**(199)**	(200)
Decrease of 100 basis points	**199**	200

29.5 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. 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.

30. Subsequent Events

There are no material adjusting or non-adjusting events subsequent to the reporting date.

Company Income Statement

	Note	2020 £000	2019 £000
Continuing operations			
Administrative expenses		**(827)**	(943)
Operating loss	C	**(827)**	(943)
Financial income	F	**9,000**	4,350
Financial expenses	F	**(488)**	(708)
Net financing income		**8,512**	3,642
Profit from continuing operations before tax		**7,685**	2,699
Taxation	G	**39**	–
Profit for the year attributable to the owners of the parent		**7,724**	2,699

Company Statement of Financial Position

	Note	2020 £000	2019 £000
Fixed assets			
Investments	J	**59,358**	59,002
Total fixed assets		**59,358**	59,002
Current assets			
Cash and cash equivalents		**15**	–
Trade and other debtors	K	**73,059**	65,292
Total current assets		**73,074**	65,292
Creditors: amounts falling due within one year			
Interest-bearing loans and borrowings	L	**–**	16,000
Trade and other creditors	M	**5,990**	5,819
Total creditors: amounts falling due within one year		**5,990**	21,819
Net current assets		**67,084**	43,473
Total assets less current liabilities		**126,442**	102,475
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	L	**19,887**	4,000
Total creditors: amounts falling due after more than one year		**19,887**	4,000
Net assets		**106,555**	98,475
Capital and reserves			
Called up share capital	O	**30,746**	30,579
Share premium account		**60,959**	60,959
Share-based payment reserve		**334**	192
Other reserves		**187**	187
Merger relief reserve		**453**	406
Retained earnings		**13,876**	6,152
Total equity		**106,555**	98,475

The financial statements on pages 106-115 were approved by the Board of Directors on 19 April 2021 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 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	140
Equity dividends paid (note H)	–	–	–	–	(3,749)	(3,749)
Total transactions with owners	119	166	-	24	(3,518)	(3,209)
Balance at 1 January 2020	30,579	60,959	187	406	6,344	98,475
Profit for the year	–	–	–	–	7,724	7,724
Total comprehensive income for the year	–	–	–	–	7,724	7,724
Transactions with owners						
Share options – granted to subsidiary employees	–	–	–	–	142	142
Issue of share capital	167	–	–	47	–	214
Total transactions with owners	167	–	–	47	142	356
Balance at 31 December 2020	30,746	60,959	187	453	14,210	106,555

(*) Retained earnings and share based payment reserve.

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 2020 were authorised for issue by the Board of Directors on 19 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 2020.

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 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 12% (2019: 8%-11%). 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 2020 is £59,358,000 (2019: £59,002,000). The value in use of investment in subsidiaries is in excess of the carrying value. 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 effect on the ability of each of the Group companies to repay the amounts due.

The amounts owed by subsidiary undertakings were £72,648,000 (2019: £64,912,000). 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:

	2020 £000	2019 £000
Acquisition costs	–	35
Restructuring	–	69

- Acquisition costs relate to stamp duty, due diligence, legal fees, finance fees and other professional costs incurred in the acquisition of businesses.
- 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:

	2020 £000	2019 £000
Audit of the statutory financial statements of Flowtech Fluidpower plc	**92**	60

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:

	2020 £000	2019 £000
Administration	**4**	4

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Remuneration	**604**	587
Social security costs	**85**	75
Benefits in kind	**21**	16
	710	678

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

	2020 £000	2019 £000
Highest paid Director's remuneration		
Remuneration	**224**	225
Social security costs	**30**	30
Benefits in kind	**18**	16
Total highest paid Director's remuneration	**272**	271

Directors waived remuneration totalling £5k during the months of May-June 2020 as part of steps taken by the Group in order to mitigate the impact of COVID-19 on the business.

F. Financial Income & Expense

Finance income for the year consists of the following:

	2020 £000	2019 £000
Finance income arising from:		
Dividends received from Group undertakings	**9,000**	4,350
Total finance income	**9,000**	4,350

Finance expenses for the year consist of the following:

	2020 £000	2019 £000
Finance expense arising from:		
Bank loans and revolving credit facility, and amortisation of loan arrangement fee	**488**	708
Total finance income	**488**	708

Notes to the Company Financial Information

G. Taxation

Reconciliation of effective tax rate	2020 £000	2019 £000
Profit for the year	**7,724**	2,699
Total (credit)/tax expense	**(39)**	–
Profit excluding taxation	**7,685**	2,699
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	**1,461**	513
Deferred tax movements not recognised	**(2)**	–
Group relief	**212**	310
Effect of share option exercises	**–**	–
Income not taxable	**(1,710)**	(827)
Amounts not deductible	**–**	4
Total (credit)/tax expense in the income statement	**(39)**	–

Change in corporation tax rate

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25% for companies with profits of £250,000 or greater. For companies with profits of £50,000 or less the corporation tax rate will remain at 19%. A tapered rate will be introduced for companies with profits greater than £50,000 and less than £250,000.

Since the proposal to increase the corporation tax rates had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

H. Dividends Paid

	2020 £000	2019 £000
Final dividend NIL (2019: 4.04p) per share	**–**	2,453
Interim dividend NIL (2019: 2.13p) per share	**–**	1,296
	–	3,749

During 2020, due to the uncertainty of COVID-19, the Directors suspended all dividend payments in order to retain as much cash in the business as possible.

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 2019	58,772	109	58,881
Increase in holding in direct subsidiary	–	–	–
Shares issued in consideration for acquisition of indirect subsidiaries	38	–	38
Additions net of exercise of options in the year	–	83	83
At 31 December 2019	**58,810**	**192**	**59,002**
At 1 January 2020	**58,810**	**192**	**59,002**
Shares issued in consideration for acquisition of indirect subsidiaries	**214**	**–**	**214**
Additions net of exercise of options in the year	**–**	**142**	**142**
At 31 December 2020	**59,024**	**334**	**59,358**

The principal subsidiaries of the Company are listed below:

	Country of incorporation	Principal activity	Ownership
Fluidpower Group UK Limited	UK	Distributors of engineering components	100%
Fluidpower Group Services UK Limited	UK	Assembly and distribution of engineering components	100%
Flowtech Fluidpower Ireland Limited	ROI	Assembly and distribution of engineering components	100%
Derek Lane & Co Limited	UK	Dormant	100%
Process Fluidpower Group Limited	UK	Dormant	100%
Group HES Limited	UK	Dormant	100%
Beaumanor Limited	UK	Dormant	100%
Process Fluidpower Limited	UK	Dormant	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	UK	Holding company	100%
PMC Fluidpower Group Limited	UK	Holding company	100%
Balu Limited	UK	Dormant	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%
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%
Weltac Limited	UK	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.

Notes to the Company Financial Information

K. Trade & Other Debtors

	2020 £000	2019 £000
Current:		
Deferred tax asset	**39**	–
Prepayments and accrued income	**372**	380
Amounts owed by Group undertakings	**72,648**	64,912
Total trade and other debtors	**73,059**	65,292

L. Interest-bearing Loans & Borrowings

	2020 £000	2019 £000
Non-current liabilities:		
Secured bank loans	**–**	4,000
Revolving credit facility	**19,887**	–
Total non-current liabilities	**19,887**	4,000
Current liabilities:		
Revolving credit facility	**–**	16,000
Total current liabilities	**–**	16,000
Total interest-bearing loans and borrowings	**19,887**	20,000

Under terms agreed in November 2020, the secured bank loan of £4,000,000 was ceased and the revolving credit facility was increased to £20,000,000. The revolving credit facility is subject to a non-utilisation fee of 0.9275% and is due for renewal in 2023. The facility is secured by legal charges over certain of the Group's assets which include trade receivables and stock. The Group also has a £5,000,000 overdraft facility which is subject to annual review, next such review due on 31 July 2021.

M. Trade & Other Creditors

	2020 £000	2019 £000
Social security and other taxes	**92**	83
Accruals and deferred income	**213**	113
Amounts owed to other Group undertakings	**5,685**	5,623
Total trade and other creditors	**5,990**	5,819

N. Deferred Taxation

Deferred tax assets comprise:

	2020 £000	2019 £000
Provisions	–	–
Total deferred tax	–	–
At start of year	–	–
Deferred tax credit in profit and loss account for the year	39	–
At end of year	39	–

A deferred tax asset of Nil (2019: £12,000) in respect of cumulative share-based payments of Nil (2019: £58,000) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

O. Share Capital

Allotted, called up and fully paid:

	Number	£000
At 1 January 2020	**61,157,127**	**30,579**
Shares issued in consideration for acquisition of indirect subsidiaries	**335,546**	**167**
At 31 December 2020	**61,492,673**	**30,746**

P. Contingent liabilities & Commitments

The Company has no capital expenditure contracted for but not provided as at 31 December 2020 (2019: £274,000).

Q. 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. Amount owing by Flowtech Fluidpower Employee Benefit Trust is £372,000 remains outstanding. There are no other related party transactions other than those relating to Directors that have been disclosed in note 28 to the consolidated financial statements.

R. Ultimate Controlling Party

The Directors consider that there is no ultimate controlling party.

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