FLOWTECH FLUIDPOWER

Annual Report

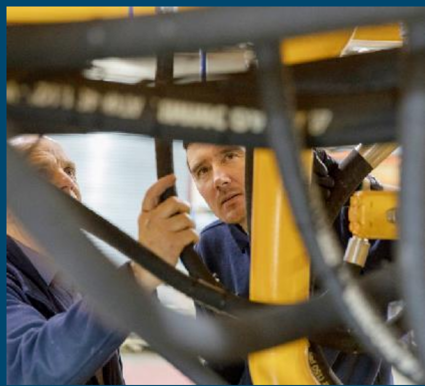
for the year ended 31 December 2021

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 three distinct segments: Flowtech, Fluidpower Group Solutions and Fluidpower Group Services.

www.flowtechfluidpower.com



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

Shareholder enquiries can be directed to:
The Company Secretary, Flowtech Fluidpower plc
Tel: +44 (0) 1695 52759
Email: info@flowtechfluidpower.com

Contents

FY2021
Financial & Operational Highlights

1. As anticipated 2021 was a year in which the business recovered strongly from the impact of the COVID-19 pandemic

2. Revenue was 15% up on 2020 but remained marginally below levels achieved in 2018 and 2019

3. Underlying Operating Profit (*) of £5.7m (2020: £1.1m)

4. Operating profit of £3.7m was £5.1m in excess of 2020, however, remains below that achieved in 2019 (£5.7m)

5. The benefits of cost base restructuring activities undertaken over the last two years limited the impact of inflationary and supply chain related pressures

6. Invested in inventory levels (£8.5m increase) to mitigate the impact of supply chain uncertainties and ensure we managed the availability of our core products

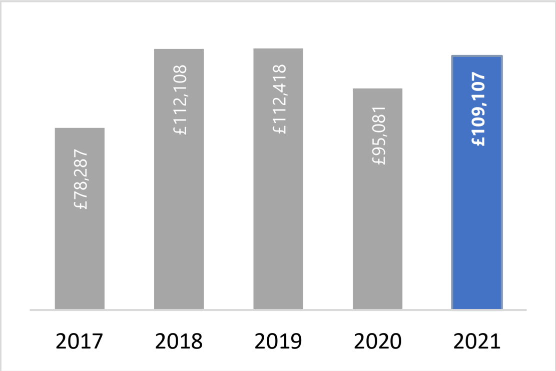
7. Strong progress was made with our plans to develop our e-business platform and we successfully aggregated the Flowtech businesses at the start of 2022

8. 2022 expected to be the year in which the business demonstrates a full recovery and delivers growth compared to pre COVID-19. Encouraging start to the year, with revenue and gross margin ahead of expectations

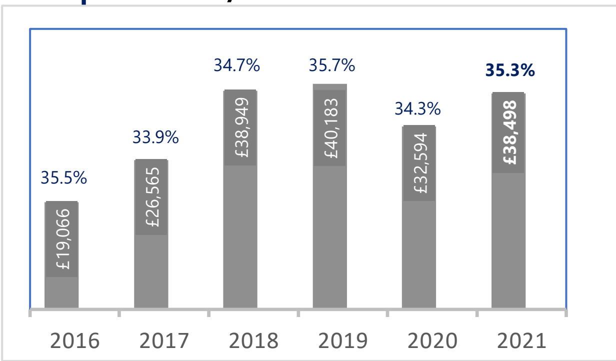
(*) Underlying Operating Profit is used as an alternative performance measure by management to assess the trading performance of the business and is operating profit before amortisation and impairment of acquired intangibles and share based payment, and restructuring costs.

FY2021 Financial Highlights

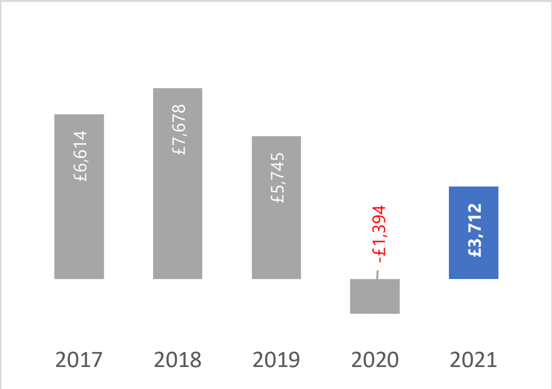
Revenue £000



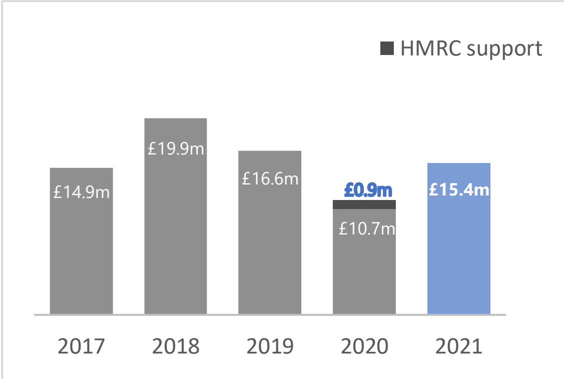
Gross profit £000 / %



Operating profit/(loss) £000

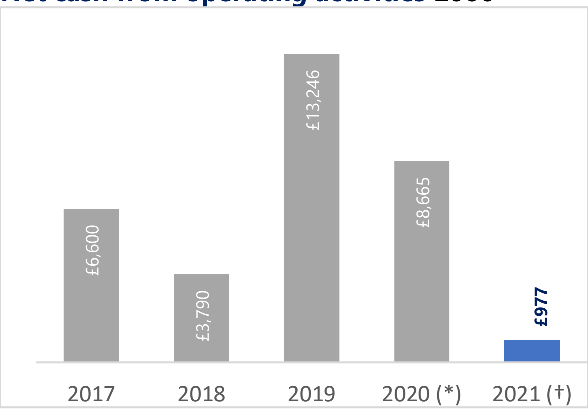


Net debt (*)



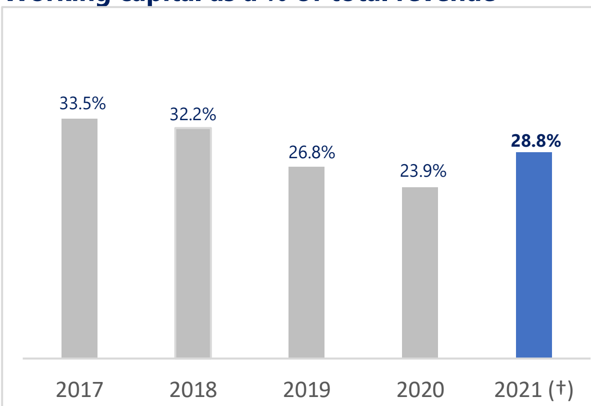
*Net Debt is Bank Debt less cash and cash equivalents. It excludes lease liabilities under IFRS 16

Net cash from operating activities £000



(*) FY 2020 cash flow restated for £1,418k VAT for Q1 2020 deferred and paid in FY 2021 to reflect normalised net cash from operating activity

Working capital as a % of total revenue



(†) FY 2021 net cash flow materially impacted by £8.6m increase in inventory

Chair's Statement

> *"By the end of the year we believe that most of the key components of our strategic plan will be in place with the business benefitting from solid foundations enabling us to move forward aggressively to unlock our undoubted growth potential in both offline and, increasingly, online markets"*
>
> **Roger McDowell, Chair**

Introduction

My second report, and first following a full year in role, is inevitably impacted by the ongoing effects of the global pandemic. Whilst we have continued to prioritise the wellbeing of our employees through the COVID-19 period, 2021 presented fresh challenges, most notably linked to the disruption of supply chains as they were rebuilt, and which has created significant inflationary pressures right across our product set. In any distribution business inventory is its lifeblood, we anticipated lead time extension and built stocks whilst maintaining our focus on margins and availability.

Review of 2021

Many of our business units performed well against our early expectations, particularly in our Flowtech and Solutions Divisions, aided by our decision to build inventory. However, performance across our Services Division has not been uniformly successful. We have dedicated significant management resources to these specific operations and, with confirmed order books positive as we enter 2022, we remain committed to improving returns in this Division in the near term.

Whilst our core operational centres are in England, we do have a significant presence in the Island of Ireland and the Netherlands. We have necessarily had to operate within differing COVID-19 environments and adapt our approach accordingly. With the majority of key suppliers being based overseas, we have not been able to benefit from traditional face to face interactions, so we look forward to a resumption and the consequent commercial advantages.

As detailed in our Sustainability Report on page 21, we have made good progress with the main framework of both our ESG and risk management agenda, with particular focus on employee related issues. In this regard the introduction of HR expertise at Management Board level for the first time will ensure the pace of improvement should now take a further step forward.

Strategic progress

Following our strategic review in late 2020, despite the ongoing challenges presented by the effects of the COVID-19 pandemic, it has been a year of solid progress; detail is provided in the Chief Executive's report.

Of particular significance is our new web trading platform, now close to implementation, with state-of-the art digital marketing tools established in parallel, and are confident this will see us with a class leading offering. We firmly believe that this new online infrastructure will provide competitive advantage and, over time, significant organic sales growth which will drive an increase in shareholder value.

In addition, the businesses in our Flowtech Division have now all rebranded under a single style, including a significant project to adopt a common IT platform. This represented the largest internal project that the Group has undertaken and it is encouraging to see the expected uplift in commercial presence, additional margin insight and cost control is showing early promise.

Dividend

We stated previously our ambition to return to dividend payments, albeit at levels commensurate with the needs of the business. I can confirm that the Board will be recommending a dividend of 2p per ordinary share in respect of 2021 at the AGM in June 2022. Moving forward we will maintain a balanced approach to dividend distribution.

Board changes
In March 2022, we announced an expansion to the Board with new Non-Executive Directors, Ailsa Webb and Jamie Brooke, adding considerable additional experience and skills. We are very pleased to welcome them both and I look forward to their contribution. I would also like to thank Paul Gedman who stepped down in November 2021 and wish him well for the future.

2021 Annual report
The majority of Shareholders now elect to receive key information in an electronic format. Given the availability of other information via our website, we have chosen to limit the number of graphics within the document, enabling us to release the full document in real time via the Regulatory News Service and upload to the website. We believe this approach is more efficient, cost effective and environmentally friendly.

Conflict in Ukraine
We are appalled at the events in Ukraine. Having carefully assessed the associated risks to the Group we have concluded they are minimal. We do not trade directly with Ukraine or Russia. It is possible there will be some limited supply chain disruption and there are some direct inflationary effects, such as fuel and energy costs that we will seek to pass on.

Outlook
We entered 2021 with significant work to do and, despite the array of challenges, it is pleasing to report that much has been achieved. For 2022, we have clear prioritised actions, notably exploiting our new digital capability, creating the Fluidpower Group to sit alongside the now aggregated Flowtech business and, re-focusing on improving all our important KPIs. The start to the year has been encouraging, with revenue and gross margin ahead of expectations.

By the end of the year we believe that most of the key components of our strategic plan will be in place with the business benefitting from solid foundations enabling us to move forward aggressively to unlock our undoubted growth potential in both offline and, increasingly, online markets. The Board therefore believes that the outlook for the business remains positive over both the near and long-term.

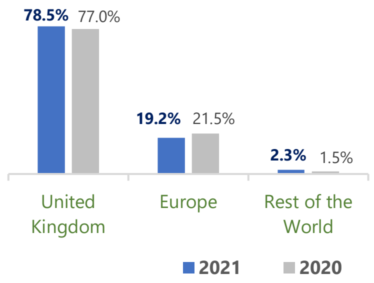
I would like to thank all my colleagues across the Group for all their efforts during the COVID-19 pandemic; it is a great credit to them that despite the obvious difficulties in managing a multi-site organisation across four countries, the Group exits the pandemic having made significant progress against its strategic goals.

Roger McDowell
Chair
28 March 2022

Group Overview

A Vital Partner in the Fluid Power Supply Chain

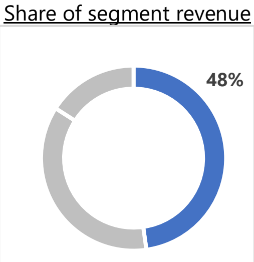
"Flowtech Fluidpower is a Group of specialist fluid power businesses. Working in partnership with customers and suppliers, we deliver essential components, custom solutions and high-quality servicing support to keep global industry moving"



Group Revenue %
Geographies

Flowtech

Share of segment revenue



Revenue by Division	
FY2021	**£52.1m**
FY2020	£46.1m
Employees*	
FY2021	**267**
FY2020	252

Our focus

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

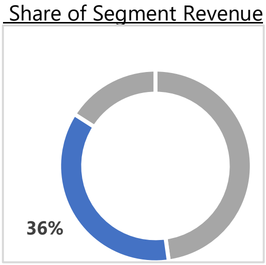
E-commerce websites, customer white label e-commerce websites, 70,000+ catalogues, own and customer trade counters.

Our Strengths

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

Fluidpower Group Solutions

Share of Segment Revenue



Revenue by Division	
FY2021	**£39.6m**
FY2020	£33.6m
Employees*	
FY2021	**173**
FY2020	203

Our focus

Supply specialist technical hydraulic components & systems, predominantly into Original Equipment Manufacturer and End User channels to all industry markets, supported by supply agreements with a broad range of manufacturer brands.

Channels to Market

Engineering collaboration, through sales offices providing national and local coverage. In 2022 enhanced by new e-commerce capabilities.

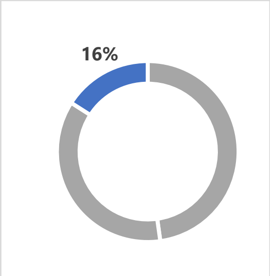
Our Strengths

1. Large volume /regular orders into OEMs
1. High degree of technical knowledge with the ability to source products for urgent customer needs
2. High levels of customer retention
3. Strong long-term strategic relationships with leading manufacturers
4. Bespoke product configurated to customers' requirements

*Average for the year. Excludes central employees (FY21: 41, FY20: 47)

Fluidpower Group Services	Our focus	Channels to Market	Our Strengths

Share of segment revenue



Revenue by Division	
FY2021	**£17.4m**
FY2020	£15.4m
Employees*	
FY2021	**131**
FY2020	125

Our focus

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. Capital project-based revenue.

Channels to Market

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

Our Strengths

1. Highly valued engineering support to customers
2. Working in partnership with suppliers and customers on large industry projects with cross-sell opportunities for the Group and additionally ongoing repeat business for Flowtech and Solutions.
3. Bespoke assembled customer solutions and deep technical support
4. Installation, commissioning and local servicing
5. Leading manufacturer brands in system builds

* Average for the year. Excludes central employees (FY21: 41, FY20: 47)

CEO's Year in Review

> *"It is encouraging to see that the Group, in its restructured and refreshed form, is taking shape, and we have already been able to see some of the benefits. This will be further enhanced when our new digital capabilities come on-stream"*
>
> **Bryce Brooks, CEO**

At the date of my report a year ago we were starting to see the UK economy recovering strongly from the shock of lockdown in 2020, and giving us significant encouragement about the resilience in our key markets. We targeted a return to the benchmark of 2019 volumes as being achievable by the close of 2021, and whilst the line has inevitably not been straight in that regard, there is a clear sense that this is now being seen in the early part of 2022.

What was not immediately apparent was that this market resurgence would also transition into a period of strong inflationary pressure, both at product and resources level, and be coupled with the most stretched and inconsistent supply chains seen in our industry for many years. This was highlighted when certain of our major European suppliers published lead times that had previously been measured in weeks to out beyond a year. The "sellers" market at supplier level meant that our previous core skills of improving margins through a cost-out focus, while improving stock turn KPIs, have had to change in the short-term to one where depth of inventory becomes the key, and margin enhancement can only be achieved with back-to-back increases in selling prices. Dealing with this is part and parcel of being a large scale distributor, and the manner in which the Group has adapted to many of these challenges has been particularly pleasing, with the one percentage point year on year increase in gross margin representative of this effort.

At customer level, the MRO markets serviced by Flowtech have essentially consumed what stock was immediately available. An important KPI in the division is a measure of the number of lines out of stock in our Top 2000 selling items. As a result of the lockdown impact we started the year at around 12% out of stocks, and with the subsequent upsurge in demand, well ahead of restocking capabilities, this measure peaked at 16% in Q1. It has been a challenge to improve this position, with much of the replenishment having a Far-East supply element, and it was not until much later in the year that we were able to bring this down to a more normalised 4%. It has continued to sit at this level as we entered 2022, and we believe this currently places us ahead of our direct competitors. The significant increase in "buffer" stock required has led to an increase in Net Debt, which we expect to support sales growth in 2022 and then naturally reduce to reach a more normalised position by the end of 2023, when a focus on improving turn and earn KPIs can be resumed.

In Solutions the inventory challenge is quite different. Here, core OEM customers have a specified product from largely European based manufacturers, and when demand surged sales were fundamentally restricted by the ability to obtain the product. We have sought wherever possible to work with customers in examining alternatives from within our range to overcome some of these issues, however, in most aspects, sales were deferred rather than lost, and this has given us some tailwind in the early part of 2022. It is also noteworthy that demand from sectors specifically related to the airline industry only began to show signs of improvement late in the year, and should hopefully provide further impetus to our 2022 sales target.

In Services, the Covid impact has been different again. For our assembly operations we are in the same position as all other OEMs – where disrupted supply of as little as a single component can mean that full units cannot be completed and invoiced, and we ended 2021 with considerable overhang in our order book for that reason. In parallel, onsite operations have had persistent disruption with completing and invoicing work in progress, and new projects have been consistently deferred by contractors.

Behind this, we have had to respond to more pronounced salary inflation and the well-publicised increases in utilities and property cost, and, at the end of the year, we also had to manage disruption in parcel delivery networks when the Omicron wave gained a foothold in the UK population. All contributed towards a drag on profitable growth in 2021, but we feel confident that each aspect has been dealt with and the basis for improved profitability is in place.

Financial overview

2021£000	Flowtech	Solutions	Services	Total
Total revenue	**52,135**	**39,575**	**17,397**	**109,107**
Underlying Segment Operating Profit (*)	**7,101**	**3,505**	**140**	**10,746**
Contribution %	**13.6%**	**8.9%**	**0.8%**	**9.8%**
2020 (£000)				
Total revenue	46,060	33,578	15,443	95,081
Underlying Segment Operating Profit / (loss) (*)	5,038	1,790	(1,236)	5,592
Contribution %	10.9%	5.3%	-8.0%	5.9%

(*) Underlying Segment Operating Profit is continuing operations' operating profit before central costs and separately disclosed items detailed in note 3

As expected, we experienced a rebound in the contribution from each reporting segment in 2021 as volumes returned. In Flowtech a contribution rate of 13.6% was achieved (2020: 10.9%), and with the completed restructuring detailed below we expect further improvements in overall contribution as we target well above 15% for the segment in the longer term. Solutions will also benefit in due course as part of the Fluidpower Group and here we will also be targeting to improve contribution to above 10%. Both Divisions have seen the benefits of warehouse restructuring work done in 2020, although to some degree this has been offset by strong cost inflation, one-off costs of working to deal with the inventory build, and increased costs of delivery to Ireland following Brexit.

Alongside this whilst the contribution from Services has improved, we have been disappointed that some momentum did not push through into the second half of the year. We suffered significant unexpected overruns in completing one "onsite" contract, and as mentioned above later in the year component supply hampered our ability to convert orders to fulfilled sales. That said, the position of the current order book , should allow us to improve financial performance to satisfactory levels, and we remain of the view that this is achievable in the short-term.

Developments in Group strategy and progress in 2021

We outlined 12 months ago what we saw as the key aspects of our development strategy and the timetable to which we were planning to operate. The progress made in each specific area is as follows:

E-business

In 2021 our internal project team has been working with external providers on a completely rebuilt e-commerce architecture. In parallel we will also be using enhanced SEO capabilities for the first time, and in conjunction we will also introduce a group wide Customer Data Platform with associated digital marketing tools to exploit the undoubted value in our commercial data. Behind the new website is a hugely expanded Product Information Management system, via an upgraded platform which we believe will become the most extensive available to our market and the engine for both transactional sales growth, and lead generation for our offline sales teams. To date the total capital investment has been £761K, with a further cost in 2022 expected in the region of £145k. In connecting the new web architecture to our legacy ERP systems, our testing regime has been robust in identifying any necessary "debugging" and whilst overall delayed from our original timetable, we are now in the advanced testing stage with "go live" date now expected within the next few weeks.

Overall our market assessment suggests that in the UK and Irish marketplace, marginal sales from search driven enquiries could be substantial and increasing, with no single dominant player having emerged. We therefore look forward to updating investors on progress over the coming months and expect this new capability to be a key element for organic growth. In addition, by focusing through the newly established Flowtech structure detailed below, we should be able to ensure that cost to serve is managed tightly.

Branding and organisation

Our sector has a long-term heritage based around single or dual site companies, with a strong focus on local service, and typically cornerstoned by a single supplier brand. In many respects the Group has historically mirrored this structure. However, as part of our need to support the new e-business capabilities, and the obvious potential for us to share resources more effectively, we firmly believe we are better served by a move to a more consolidated approach in many aspects, and our 2020 strategy review identified this.

In 2021 we completed a plan to integrate those businesses that were operating as part of our Flowtech segment - namely Flowtechnology UK, Indequip, Beaumanor Fluidpower, and Hydravalve to come together into a single commercial entity, and importantly with a single online presence www.flowtech.co.uk.

This project, which in many aspects also included the Dutch operation, Flowtechnology Benelux (and hence the working title "5 to 1") brought together over 300 people, 100,000 products, and the amalgamation of three distinct IT systems into a common platform. Using our recently enhanced project management capabilities, the project overall was delivered on time and on budget, with go-live day being 4 January 2022. In conjunction, the Division was also able to issue its first new catalogue in nearly three years, but for the first time now offering additional discrete publications for each of our key product areas - *Pneumatics*, *Hydraulics*, *Industrial*, and *Process and Instrumentation* - in a structure that aligns directly with how many of our customers approach the market. Whilst in the long-term hard copy catalogues will reduce in importance, the impact that this change has made to our customer set was best reflected with the considerable uptake of the new format where over 70,000 copies were sold, which was ahead of our expectations, and we believe strongly representative of the positivity for the changes we have made. With 70,000+ products covered, the catalogues reinforce our offline position, but with all fully supported in our online presence therefore provides direct impetus for our e-business aspirations. Whilst it is still relatively early days, trading in the year to date is encouraging, with improvements in margin control, and over time an expected reduction in overall "cost per transaction" KPIs.

In parallel with this we have continued to progress our strategy that the remainder of the Group - Solutions and Services will also consolidate under the single Fluidpower Group banner, albeit with regional variations such as the NHP brand in Ireland and which was established as part of our reorganisation work in 2020. The incumbent elements of the Fluidpower Group have almost exclusively operated in an "offline" market with deep-seated customer relationships. We shall-use the experience of the Flowtech "5 to 1" project to continue our development and produce a concise two brand strategy - Flowtech, with a high service offer for MRO supplies and class leading online capabilities, and the Fluidpower Group servicing a technically able hydraulics offer to niche OEMs. A key target for 2022 is to complete the Fluidpower Group project in full and exit the year with our commercial framework in place, and therefore create the best platform for organic sales growth, and in a structure that allows us to rationalise our cost base.

IT development

We previously outlined a requirement to start the process of transitioning from our legacy IT platforms to a new single ERP provider. However, during the course of the year we have been able to secure a more long-term support arrangement for our most widely used system, and which is the single environment used in Flowtech. This gives us greater scope to carefully assess the next stage of our development in this area, although we do expect to identify our likely long-term option by the end of 2022. Away from this we are continuing to refine the security of our various platforms, both in terms of business continuity and cyber risk.

Operational cost savings

After the work undertaken in 2020 and early 2021, focus for the majority of recent times has been dealing with supply chain challenges. However, in 2022 we expect to return to removing further elements of our cost base where refinement of our facilities infrastructure will bring about productivity improvements in both warehousing and back-office functions. Our overall objective is to ensure that we can now complete the work programme that was previously identified but deferred due to lockdown measures. The creation of the Flowtech single entity has already brought benefits in certain areas of cost control, and as we develop the Fluidpower Group along similar lines we have identified similar areas of potential benefit. For the combination of all areas of efficiency improvement we have set a target of achieving underlying annualised cost savings of around £1million per annum, with an estimated c.£0.5m impact in 2022.

Dealing with the effects of the COVID-19 pandemic and Brexit

A year ago we praised our staff for the way in which they had dealt with the challenges of the Covid19 lockdown periods, and in the 12-months since there has been no change to the stoical manner in which they have continued to operate. It is therefore right that we thank everyone employed by the Group for the determined efforts that have been made to continue to protect and support colleagues during what has been a difficult time for all. We are particularly proud of the way in which mental health issues for small sections of our employee base have been dealt with using Company sponsored resources.

I have commented above on the significant impact on global supply chains as the "new normal" was created. At the date of this Report there are certainly signs that this disruption is reducing but is nowhere near returning to the consistency previously enjoyed by our sector, and therefore in certain areas will offset the overall strong demand that is currently prevalent.

After the UK left the European Union in January 2021, we experienced the inevitable short-term impacts associated with essentially the redesign of paper flow. Thankfully, this quickly dissipated and by the end of the first quarter it was not seen as an undue hurdle for us to be able to operate effectively. However, in overview across the year there is one area that has supressed overall growth and this relates specifically to sales from within our mainland UK profit centres into the island of Ireland as a whole. For deliveries from our Flowtech Division, customers have found certain elements of the new trading requirements cumbersome, and direct supply from within the European Union has therefore become more attractive.

We are therefore reviewing our Irish sales strategy to understand whether an expansion in our local capabilities would provide a return to the strong position we previously enjoyed.

People

In what remains an essentially people focused business, and in an increasingly competitive marketplace for good quality employees, we believe that building the best people infrastructure we can is a key element in safeguarding our future success. However, an extensive change programme is challenging for all, and on the back of this, and the pandemic period, we did experience a slight fall back overall in our engagement score when tested in October 2021, falling from 69% to 66%. The introduction of our first HR Director is now giving us the knowledge from which we can return quickly to a path of proactive engagement. Our target is to create the best Learning & Development programme in the industry, giving employees a clear line of sight for career progression, and representing our commitment to ensuring good social governance aspects are to the fore in our ESG agenda.

In addition in early 2022 we have also created and appointed externally into the new role of Group Head of Health, Safety and Environment, to provide a further depth of skill and knowledge to our infrastructure of local HS&E officers, and we remain absolutely committed to improving standards and going beyond our industry peer group.

The expanded senior management team created in the early part of 2021 has provided the intended stability and scope for future growth management, and has undoubtedly provided a strong platform from which we can now move forward.

Members of our team have also been playing a leading role when it comes to shaping the priorities for the next decade for our sector with Group employees holding the positions of both President of the British Fluid Power Association, our industry body, and Chairmanship of the British Fluid Power Distributors Association.

Current trading and outlook

The strategy that we defined in late 2020 has involved significant development, and we laid out a year ago that our attitude towards the pace of change required. We will continue to act with energy to ensure the building blocks of this strategy are all in place during the course of 2022. It is encouraging to see that the Group in its restructured and refreshed form is taking shape, and we have already been able to see some of the benefits. In the near future, this will be further enhanced when our new digital capabilities come on-stream.

We believe we are being successful at sensibly passing through the considerable pressures upwards on pricing, and we will seek to ensure that the strength of our stock holding position provides enhanced benefits in the short and medium term. At both sector and geographical level the fundamentals of demand are currently good, and after working through the considerable headwinds of the past two years, the outlook for profitable growth is positive.

Conflict in Ukraine

Our commentary is given against the backdrop of the escalating conflict in Ukraine, and the resultant sanctions against Russia. We have conducted a review of all customer and supplier relationships to understand any potential for short-term negative impacts. This assessment confirms that we have no direct supply from Ukraine or Russia, with only a single customer serviced via our Netherlands operation. Beyond this there is some evidence of secondary customer effects, but overall we believe any immediate reduction in sales will be immaterial.

However, as was clear during 2020 and 2021, many of our largest suppliers may be impacted by raw material shortages, and with Russia in particular being a significant supplier of steel, nickel and oil based products, including black carbon used in hydraulic hose production, this may exacerbate the already tight supply situation. At the date of reporting we have not been advised of any specific deferment from suppliers, but there have been some examples of notification around pricing commitments being subject to review.

Bryce Brooks
Chief Executive Officer
28 March 2022

Our Business Model

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, enhanced by sector-leading online capabilities, makes fluid power supply convenient and efficient for customers and suppliers, driving growth and returns for Shareholders.

Resources	
1. **Widest product choice**	2. Leading industry brands (500+) through key supplier partnerships 3. Central purchasing, allowing cost saving synergies 4. Extensive stocks £30m net
5. **Expertise in our market**	6. Established businesses between 10 and 50 years in operation 7. Highly skilled, highly knowledgeable employees with extensive supplier and business training 8. 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	
9. **Vital products & solutions**	10. 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 11. Additionally, we design, manufacture and install bespoke solutions across all industry sectors, predominantly sold to OEMs and driven by capital investment
12. **Vital high-quality service**	13. 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	
14. **Strong leadership culture**	**15.** 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 are further empowered through access to training and reward schemes

FLOWTECH FLUIDPOWER

Our Strategy for Growth

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

Sales growth	Procurement & productivity improvement	Cash generation & management of Net Debt	IT strategy	People

Value created	
1. Short to medium-term	2. 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) 3. Respected collaborative supplier partnerships with the world's leading brands 4. Rewarding and progressive careers for employees, through training and incentive schemes. Support for our local communities through local apprenticeships and charitable work **5.** As we emerge from the worst effects of COVID-19, sustained annual growth with strong financial performance and attractive returns for investors
6. Long-term	7. Most cost-efficient provider of a high-quality service in fluid power 8. Sector-leading e-business platform and digital insight capabilities 9. Sustainable long-term growth, through reliable repeat business 10. Experience, stability and strength to support large long-term projects 11. Critical mass, with resources to adapt and explore new market opportunities 12. Thought leadership in fluid power with innovative solutions for industry

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. In late 2020, we completed a full strategy review to create focus and provide a framework for future developments, including our ambition to achieve significant growth. Whilst progress in many areas has been slowed by COVID-19, we believe that significant development has been undertaken in 2021, and the CEO's Year in Review details progress made in our structural goals.

The KPIs we established at that time remain relevant, our comments in each area being provided below:

Strategic Focus

<table>
<tr><th>KPIs</th><th></th><th>FY2022 Plan</th></tr>
<tr>
<td>Sales growth
<table>
<tr><th colspan="2">Daily Gross Profit £000</th></tr>
<tr><td>2019:</td><td>£161</td></tr>
<tr><td>2020:</td><td>£130</td></tr>
<tr><td>2021:</td><td>£155</td></tr>
</table>
<table>
<tr><th colspan="2">Total value of sales from online & EDI £000</th></tr>
<tr><td>2019:</td><td>£28,643</td></tr>
<tr><td>2020:</td><td>£25,501</td></tr>
<tr><td>2021:</td><td>£27,637</td></tr>
</table>
</td>
<td>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.
A key component in our strategy is to develop our e-business capabilities which are referred to in both the Chair’s Statement and the CEO’s Year in Review sections of this Report.</td>
<td>We will complete the transition to a single e-business platform available to all business units, and supported by new market leading SEO capabilities

We will introduce advanced data analysis tools using a new Customer Data Platform across all business units, and which will be enhanced by e-marketing campaigns built around the data insight provided

In addition to the Flowtech Division, which now operates on a single platform, we will now look to create a consolidated structure in the Solutions and Services segments under the “Fluidpower Group” banner</td>
</tr>
<tr><td></td><td></td><td></td></tr>
<tr>
<td>Procurement & productivity improvement
<table>
<tr><th>Group Cost Per Pick*</th></tr>
<tr><td>2019: £3.32</td></tr>
<tr><td>2020: £4.32</td></tr>
<tr><td>2021: £4.54</td></tr>
</table>
*Being the Group’s total cost of warehousing, including property and people, divided by number of invoiced lines in the year</td>
<td>KPIs are measured to cover service levels including stock availability. However, the Group has developed a number of additional measures to be able to compare efficiency levels accurately between Business Units, 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.
In 2020 and 2021, our ability to make substantial improvements has been made difficult with firstly dealing with the immediate fallout from the 2020 lockdown, and more latterly substantial disruption in supply chains. In 2022 we believe that markets will continue to normalise, and we can then return to a clear focus on productivity improvement.</td>
<td>1. Significant progress was made in 2020 and we intended to complete the Group-wide warehouse and logistics plan in 2021. This was not possible due to the continued Covid19 restrictions, but has resumed in 2022, when underlying annualised savings of £1m are being targeted

2. Return on sales in each operating segment will be a key metric to ensure productivity measures across the Group are improved

3. The volumes in 2020 and 2021 were affected by COVID-19 factors and therefore the cost per pick was higher than would be expected; we expect 2022 and beyond to result in materially lower cost per pick metrics and continue to target below £3.00 cost per pick in the fullness of time</td>
</tr>
</table>

KPIs		FY2022 Plan

Cash generation & management of Net Debt

Working capital as a % of Total Revenue	
2019	26.8%
2020	23.9%
2021	**28.8%**

Net Debt* excludes lease liabilities under IFRS 16.
2019: £16.6m
2020: £11.6m**
2021: £15.4m

*Bank Debt less cash and cash equivalents
**Includes £0.9m HMRC COVID-19 related support

Turn & Earn %
2019: 95%
2020: 81% *
2021: 84%

Turn & Earn Index is calculated by multiplying gross margin by stock turn. In 2021, the gross margin (achieved was 35.33% and the average stock turn achieved was 2.37, therefore the Turn & Earn index was 84%.

DSO (days)
2020: 58.1
2021: 60.5

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.

This proved beneficial in the pandemic period when working capital reduction allowed Net Debt to be managed down, and now that volumes have increased, we are using the capacity created to invest in an enhanced inventory profile.

A continued focus on controlling credit risk and, where possible, putting in place more favourable terms.

FY2022 Plan

1. Due to COVID-19, the Group has focused on short-term trends. Once supply chains are normalised, we will resume our progress with a target to now achieve a Turn & Earn KPI of 130% by 2025
2. Inventory levels are continually monitored. Whilst we have targets for improved stock turn in the medium term, in the short-term we have increased buffer stocks to mitigate challenges in global supply chains
3. Continued management of trade debtors is fundamental
4. Internal reports are included in Board papers to ensure tight control is maintained and managed by monthly reviews with each business unit leader

IT strategy

Process systems
2019: 7
2020: 5
2021: 4

Accounting systems
2019: 2
2020: 2
2021: 2

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.

FY2022 Plan

1. Work is on-going to further reduce the number of process systems by the end of 2023
2. Our focus in the short-term continues to be the development of a single IT architecture and the Customer Data Platform to support our e-business strategy and the opportunities we believe this presents. We expect that all aspects of this development will have been fully implemented during the course of 2022
3. In the medium term, we are developing plans to transition to one ERP system, and expect to have identified the timetable to this position during the course of the year

<table>
<tr><th>KPIs</th><th></th><th>FY2022 Plan</th></tr>
<tr><td>People

<table><tr><th>Group employment engagement</th></tr><tr><td>2019: 64%</td></tr><tr><td>2020: 69%</td></tr><tr><td>2021: 66%</td></tr></table></td><td>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.

To improve leadership skills at management levels all senior staff will undertake training at Leadership Trust.

The Group conducts an annual Employee Engagement Survey to measure employee satisfaction, and subsequent activities are tailored to improve overall engagement.</td><td>1. We had targeted to improve our overall engagement score from 64% to 75%. In 2021 this was not achieved. However, this was against the backdrop of widespread lockdown periods in the UK, Netherlands and Ireland
2. Our ambition to achieve a score of 75%, ideally more, remains; we will certainly be focussing on behaviours which we believe are important to support this.
3. All Profit Centre Directors and above to complete Leadership Trust training by the end of 2022
4. 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</td></tr>
</table>

Marketplace

A growing fluid power market

We operate in a growing fluid power market, worth £1.1 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 equipment

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

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

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 with major distributors , the Group aims to further support this consolidation and grow its market share. Some of the key manufacturers include Parker Hannifin, with turnover of £10.8bn, Rexroth £4.3bn & Festo £2.3bn. During 2021, two of the largest hydraulic manufactures joined when Danfoss acquired Eaton Hydraulics, resulting in Danfoss total business increasing to £6.9bn. Overall manufacturers direct supply accounts for approximately 65% of demand, with an increasing emphasis on the balancing distribution channel.

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 (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. Since that time UK manufacturing has recovered strongly, albeit with demand outstripping supply as global supply chains have been rebuilt.

Prepared in October 2021, the BFPA 2022 outlook prepared by Oxford Economics was positive with growth expected in both Hydraulics and Pneumatics in the period from 2022 to 2025 (a full table of their predictions is shown below). However, there is an element of caution within the BFPA forecast, uncertainty due to the quality of recovery in manufacturer the supply chains. This uncertainty is more prevalent in the automotive sector. Across our Group the automotive sector accounts for less than 1% of demand. We expect to mitigate these risks through our relationships with many manufacturers and offer customers alternative options to meet their requirements.

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 2021: % change (year-on-year)

	2019	2020	2021	2022	2023	2024	2025
Hydraulic equipment UK Home Sales Index	-0.8%	-23.3%	28.6%	3.1%	4.5%	1.6%	2.3%
Pneumatic equipment UK Home Sales Index	0.0%	-3.7%	13.8%	-0.8%	3.8%	1.8%	2.8%
UK indirect sales							
Hydraulic	30.8%	29.8%	31.3%	30.7%	31.4%	30.2%	30.2
Pneumatic	39.9%	38.5%	36.8%	37.1%	38.8	39.1%	39.2

Source: BFPA / Oxford Economics

Sustainability Report

> *"This is our second year reporting on our Environmental, Social and Governance (ESG) agenda. Our Sustainability Report examines our Environmental and Social aspects, with the important area of Governance being covered elsewhere in the Report. This focuses on three core areas: Our Environment, Our People and Our Communities"*

Our environment

The Group is mindful of the impact that its operations have on the environment; we are committed to reducing our carbon footprint by encouraging individual sites to introduce and promoting environmentally friendly practices.

As a norm we:

1. Use low energy, motion-sensored and LED lighting within warehouses and most of our offices
2. Recycle as much as possible (100% paper, oil rags and cardboard bails across all sites)
3. Personal recycling bins are used at most sites., and recycle non re-usable pallets
4. Over 80% of Group HES's power is generated by solar panels and we are examining the feasibility of using this technology elsewhere
5. Encourage cycle use through local government initiatives in both the UK and the Netherlands
6. 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
7. Use FedEx as our main carrier, who are undertaking a "reduce, replace, revolutionise" campaign – this plans to significantly improve energy efficiency and reduce emissions in Europe across aircraft, vehicles, and facilities by 2025
8. We continue to utilise our Engineering Modification Centre – instead of scrapping products, a product life-cycle inspection takes 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, and,
9. As a result of the COVID-19 pandemic, we have embraced the concept of hybrid working and supported our employees who wish to do so; this has reduced unnecessary travel. This has been enhanced by our usage of online meeting software.

Company vehicles

In 2021, we leased 52 (2020:17) new company vehicles, with 96% (2020: 71%) of new UK leases being either hybrid or fully electric. This has increased our hybrid and electric vehicle total to 72% (2020: 56%) across the Group.

Working alongside our vehicle partners at Alphabet GB and BMW Group, we have also arranged for early terminations for our diesel vehicle leases. Our lease providers liaised directly with our diesel drivers to provide new hybrid or electric vehicles on shorter lead times.

Packaging

We currently source packaging from Forest Stewardship Council (FRC) certified sources, utilising reusable, or recyclable packaging materials for the majority of our products. Further we use suitable packaging that reduces damages and returns to lower the overall carbon footprint and in doing so utilise automated solutions where possible to optimise the correct amount of packaging required. In our processes we ensure that waste packaging is sorted for recycling, which is monitored through an external accredited third party.

Carbon reporting

This is our second year of reporting and as such we are able to report year-on-year changes for the first time. This report was prepared by Carbon Responsible using the GHG (greenhouse gas) Corporate Reporting & Accounting Standard and UK Government Reporting & Conversion methodology and conversion factors, on the 3 March 2021. It covers data for 2020 and 2021.

We have used the financial control approach. Most of the emissions impact comes from our own offices, premises, and staff. It includes all businesses within the Group. It also includes significant impacts from activities that are not owned by us, but over which we exert financial control. We currently use FY20 as our baseline reporting year, and expect to revise our baseline, in line with further improvement in our reporting framework to be undertaken during FY22.

As yet we have not set reduction targets for our business; this will be done once we have completed further analysis of our emissions profile and associated plans for the business. This will be based on our 2021 energy assessment, alongside improved reporting, and monitoring of our impact in FY22.

We continue to use revenue and FTE intensity from Scope 1, 2 and 3 emissions, as we think they form the best available intensity measures for our business. Our intensity metrics for FY21 are as follows:

	2020	2021
Tonnes CO2e per £100,000 of Revenue	1.52	1.37
Tonnes CO2e per FTE	2.38	2.37

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 currently available data.

Our emissions for FY21 have marginally increased by 3% over FY20. This is primarily due to the inclusion of Scope 3 freight impacts, for which only limited data was available in FY20. On a like-for-like basis, there has been a 46% reduction primarily driven by a significant fall in fuel consumption.

The Scope 3 impact is mitigated by changes in the composition of our energy use mix, which reflect improved data capture in this area. The acquisition of new hybrid and electric vehicles has reduced our owned vehicle emissions by 83%.

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

	2020		2021	
	tCO2e	kwh	tCO2e	kwh
Scope 1 (Fuel Consumption)	939.37	4,412,097	507.09	2,334,538
Scope 2 (Electricity Consumption)	418.21	1,617,471	402.57	1,824,653
Scope 3 (Other Direct Emissions)	85.94	0	578.88	80,882
Totals	**1,443.52**	**6,029,568**	**1,488.54**	**4,240,073**

Our main emissions sources from fuel and energy included in our total CO2e impacts are as follows:

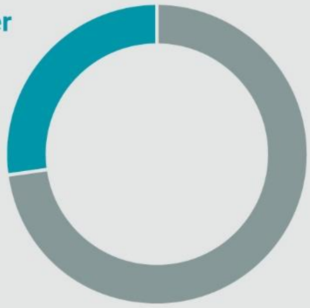
Source	Global tCO2e
Stationary Fuel Combustion	500.69
Electricity	402.57
Mobile Fuel Combustion	6.40

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.

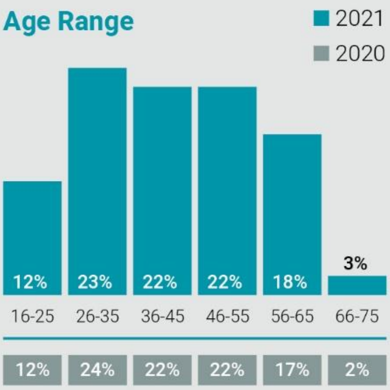
Statistics

Gender



Male – **74%** Female – **26%**
(2020: – Male 73%, Female 27%)

Age Range



Demographics

Number of Employees*
612
(2020 – 627)

Retention†
78%
(2020 – 83%)

Length of Service**
8.6 years
(2020 – 9.2 years)

*Average in 2021.
**Average number of years.
† (1- leavers [during 2021]/average number of employees).

Our people

We continually strive to ensure we invest in our people through a broad range of areas including Learning & Development and career progression planning but equally taking account of important areas such as mental and physical wellbeing and our rounded reward package.

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 are in a strong position to drive added value right through the fluid power supply chain.

Mental health training

We recognise the importance of supporting our teams in maintaining a sense of positive mental well-being, but with the COVID-19 pandemic having taken a heavy toll on many, it is now more essential than ever.

Stigma and fear around mental health conversations, especially in the workplace often mean such conversations have traditionally been avoided altogether. As mental health disorders are invisible, a person can appear healthy while concealing suffering. Training helps to recognise distress and hopefully inspires more people to seek help. The training that many within our business have now received focuses on growing awareness and building a positive culture of support, empathy and treating others well. Individuals are empowered to build resilience and recognise when others need support.

Mental health training programmes aim to teach employees and managers about common mental health conditions, how to spot the warning signs and reduce the stigma surrounding them. It helps to normalise stress, depression, and anxiety so that employers are less likely to suffer in silence.

Mental health champions

In March 2021 we appointed 15 Mental health champions across the Group to cover all sites. Each member has completed online training with Mental Health First Aid England (MHFA) which teaches practical skills to spot triggers and signs of mental health issues in their colleagues.

The champions meet on a monthly basis to discuss any issues they have supported across the Group, looking at external factors that may affect well-being, such as COVID-19, or working from home.

Employees are encouraged to contact any Champions with any work or home related concerns or obstacles with the hope that this will support their mental wellbeing.

Employee assistance programme (EAP)

AXA Health operates our EAP, which is a confidential employee benefit programme that provides 24/7 mental health support in the workplace. Our goal is that our EAP will help employees deal with personal problems that might adversely impact their health, wellbeing, and work performance.

Almost two-thirds of people say they have suffered from mental health issues at some point in their life. This number increases to 7 in 10* when applied to women, young adults and those that live alone. With AXA, our employees now have access to speak to teams of nurses, pharmacists, and midwives as well as their Life Management™ team who are ready to support and guide employees through any worries they have. AXA also offers up to five counselling sessions for employees that need it and is available to all employees across the Group.

*Mental Health Foundation, 2017

"5 to 1" project

The Flowtech Division has recently completed a project that has seen four of our UK based businesses become one entity called Flowtech. We have striven to ensure a robust level of communication with our people and our legacy customers throughout the journey. As part of our frequent communications, we ensured all employees were aware of any new roles created as part of the restructuring process and announced our aim to align and harmonise all hours and holidays within Flowtech. This has been received very positively, with people settling into new roles, ensuring we delivered these huge changes efficiently and with enthusiasm.

Assessment of staff benefits

We currently provide a range of benefits such as holiday, pension and healthcare, employee assistance programmes and mental health champions. We plan to review the benefits available to ensure that they are aligned with our employees needs and confirm that suppliers are providing quality services. We are now working with ISIO, a leading, pensions administration, investment advisory, employee benefits and wealth management consultancy. ISIO are currently gathering information about our employee demographics and circumstances, to understand what is seen as most important and how this compares with benefits currently provided. This work will be progressed with a view to putting in place a robust, meaningful, and proportionate basket of benefits which suits our business and our people.

Training & collaboration

The Group recognises that investing in our teams brings many benefits to the organisation and are committed to ensuring that all staff are prepared with the tools, knowledge, skills, and behaviours needed to do productive and high-quality work that will allow the Company to serve its customers effectively.

At Flowtech Fluidpower, we want our staff to be recognised as the most efficient providers of exceptional service and support in the fluid power industry. In order to achieve this, the Group HR Director has recently engaged the services of a Learning & Development Consultant. His remit is to support the Group in developing a collaborative training programme that meets the requirements of all parts of the business and creates a model that supports career development, succession planning, talent management and assures the safety of our people.

We believe that effective learning and development benefits individuals and the Group as a whole and contributes to the attainment of our business objectives.

These benefits include:

1. Higher standards of safety & work performance
2. Greater understanding and appreciation of factors affecting work performance
3. Effective management and implementation of change
4. Building strong, effective, and high performing teams
5. Increased motivation and job satisfaction for individuals
6. Sharing ideas and dissemination of good practices
7. Professional development, and
8. Greater understanding of Group business.

Since October 2021, the Learning & Development Consultant has been working with some of the key stakeholders within the Group to create a framework that will support not only the organisations goals, but also the individual goals of our staff. As a result, we have created a robust framework that helps the organisation and the individuals to identify areas for development and a pathway of growth within the organisation.

Apprentices

We are keen to attract and retain apprentices and currently employ fourteen apprentices across the Group, with fourteen more planned to commence in 2022.

Since 2017, we have been contributing towards the governments Apprenticeship Levy. The Apprenticeship Levy requires all employers operating in the UK, with a wage bill of over £3m each year, to invest in apprenticeships and contribute 0.5% of their annual wage bill into the levy, not an insignificant amount.

The Group, in collaboration with our Learning & Development Consultant, are looking at ways to access the levy funding to support and develop our staff and provide opportunities for them to gain real knowledge, skills and experience required for their specific careers to provide a long-term career path and increase their earning potential.

Industrial placement

As part of our Leaning and Development programme, we have set up an industrial placement scheme for university students, to provide an extended period of work experience for students looking to supplement their degree with professional development.

We have in the first instance targeted those seeking a career in Mechanical Engineering but will expand the programme over the next few years. This provides benefits to both parties, by allowing students to better prepare themselves for the workplace through the development of practical skills and training, and for the business by filling key resourcing gaps. Our scheme is targeted to encourage students to make Flowtech Fluidpower Plc a career destination choice when they finish their graduate studies.

Health & safety

The business continues to adopt successful health and safety management policies, which in spite of another year of the COVID-19 pandemic, has seen developments in all aspects of the companies' policies, in providing a safe and healthy environment for our employees.

Our Chief Executive Officer continues to hold overall responsibility for Health and Safety and chairs the monthly Health Safety Steering Group which is attended by key business heads, ensuring that all risks and concerns raised by the profit centre Managing Directors, are dealt with through validated risk assessment, and follow up audits.

During 2021, in partnership with external specialist consultancies we have worked to refine our approach in both auditing and reviewing our Health and Safety policies within all our businesses. To further embrace these policies, we have recruited a Group Head of Health, Safety and Environment, to lead the ongoing implementation of best practice programmes. At the heart of these programmes is the engagement of our employees, and in particular, the rewarding and celebration of success for the adoption of new and innovative approaches to Health and Safety in the workplace. We now have a structured Health and Safety organisation embedded within all areas of the Group's operations aligned to specific employee training and development needs. During 2022 we will be launching the quarterly connect programme to ensure that all those in the organisation with Health and Safety responsibilities are connected to Group wide initiatives and campaigns.

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.

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 parental leave, additional flexibility, and in many cases career progression, has increased their commitment and attitude towards the business.

Gender pay gap

We are striving to ensure we have an inclusive workforce with no unconscious bias and that employees in similar roles are paid equitably; we are determined that where pay differences exist, they are not based on gender. This is not the same as Equal Pay. Equal Pay deals with pay differences between men and women who carry out the same jobs, similar jobs, or work of equal value.

This is the first gender pay gap report published by the Group. It has been prepared in accordance with legislation that came into force in April 2017, whereby UK employers, with more than 250 employees, are required to publish the gender pay gap using 5th April as the snapshot date. Hourly rates include basic pay, allowances and shift premium pay, but not overtime. For the purposes of these calculations, only the UK based workforce have been included. Under the requirements of the Gender Pay gap regulation, only relevant employees have been included. This excludes any employees who for whatever reason did not receive a full months' pay, including sick leave and parental leave.

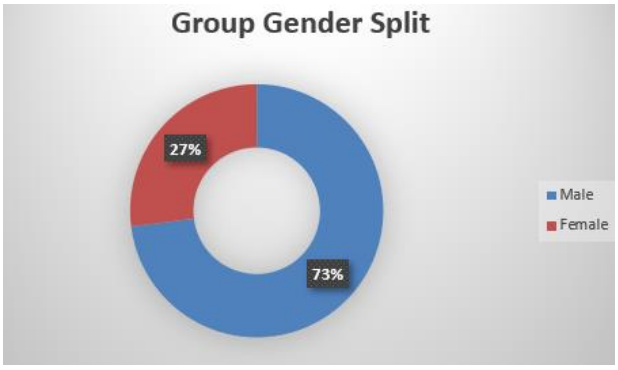
Difference between Men & Women	Mean (Average) %	Median (Middle) %
Gender pay gap	22.6	16.38
Gender bonus gap	23.0	28.12

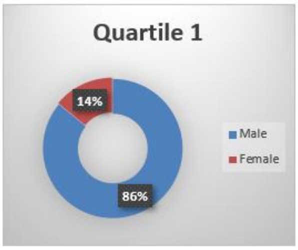
Key findings

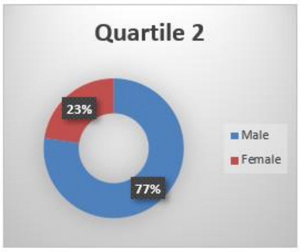
1. 73% of our UK employees are male
2. There are proportionately fewer females working in our more senior roles and it is this which explains the 22.6% and 23% gap in gender pay and bonus.

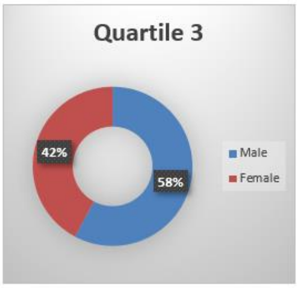
The main cause of our mean and median pay gaps in favour of men is the demographic profile of our workforce, which has proportionately less women across the business, including the most senior roles. This is reflective of the distribution and engineering sectors in general, which typically employ more men than women. The Group is actively encouraging more females to enter our industry, aided by our female HR Director.

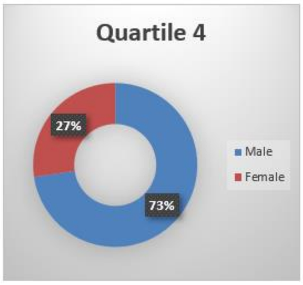
The proportion of males and females in each quartile pay band is as follows:











Gender mix across the Group

	The Board	Management Board	Senior Management	All Other Employees
Male headcount	100%	67%	94%	73%
Female headcount	0%	33%	6%	27%

On the 8 March 2022 we appointed two additional Non-Executive Directors to the Board, Jamie Brook and Ailsa Webb who is the first female to join the PLC Board. Biographies on both can be read on page 40 of this Report.

*Based on relevant UK employees for Gender Pay Gap Reporting purposes

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

In regard to community engagement, Flowtech sponsors several local sports teams.

Kickstart scheme

The Kickstart Scheme provides funding to create new jobs for 16-24-year-olds on Universal Credit who are at risk of long-term unemployment. The scheme involves a six-month paid job with local employer, funded by the government.

Flowtech is currently working towards collaborating alongside local job centres to engage with individuals for this programme. This scheme links into our chosen Group charity, the Prince’s Trust, which aims toward better futures for 11-30-year-olds. We believe that this scheme is mutually beneficial to both the individuals employed and our business.

Rainbows Hospice

Since 2014, we have partnered with Rainbows Hospice for Children and Young People, and within that time we have raised over £21.5K. Throughout the pandemic we also donated some of our standard stock line items of PPE to help keep them safe and well in the challenging times.

During the pandemic, we encountered fundraising obstacles and so introduced new fundraising methods via our LinkedIn profile that promised donations for every ‘Like’ on our fundraising posts.

The Prince’s Trust

The Prince’s Trust is our Groups chosen charity, which helps vulnerable young people int the UK through education and upskilling.

The impact of COVID-19 has affected the plans we had to work more closely with the Prince’s 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.

FLOWTECH FLUIDPOWER

Corporate Social Responsibility (CSR)

> *"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 all our stakeholders"*

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 2021, 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 to its wider stakeholders.

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 our stakeholders, including our employees, customers and suppliers, as well as our Shareholders. Our reputation is of paramount importance to us and we always seek to ensure that whatever decisions we take, we do so by maintaining suitable high ethical mindsets, always seeking to treat each category of stakeholder with respect and in the same manner we would like to be treated ourselves.

The Board seeks to ensure there is always an appropriate balance between the impact any key decision may have on the short as well as the medium to long-term. It is also recognised that certain decisions may be more aligned to the interests of one category of stakeholder over another and this is always taken account of when debating options and ultimately making decisions.

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 Board is committed to effective engagement with all stakeholders and takes steps to ensure this mindset is filtered down throughout the business. Whilst our business model delegates certain day to day operational decisions to local management, we encourage all involved to adopt the same behaviours by which the PLC Board is measured in their day to day activities. We have recently introduced a "balanced scorecard" approach to our reward scheme which is designed to flex reward based on a number of behaviours, including those captured within the spirit of the s172 legislation.

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:

Colleagues

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, and

Key matters are discussed at Board meetings at which our recently appointed HR Director has presented, and new reporting framework for all HR related matters has been instigated.

Suppliers
We work closely with our key suppliers, developing relationships in partnership with them. Suppliers are keen for 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.

Issues associated with supplier relations are discussed, when necessary, at Board meetings and our Management Board includes representation from the Supply Chain and Logistics side of our business. On occasions presentations are delivered to the Board to provide up to date commentary and to enable any issues to be discussed, debated and, if necessary, addressed.

Customers
The interests of our customers are at the heart of our business all of the time. 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.

Environment and communities
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 business unit 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.

Investors
The Group works alongside investor relations 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 2022 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 from time to time, independent information is received through the Company's Advisers, from both investors and analysts. On an ongoing basis, the Board is also furnished with brokers' and analysts' reports when published.

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 stockbroker.

Communication with shareholders

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. Given the pandemic related constraints in recent times these have been conducted through use of technology (Zoom/Teams meetings) but we intend to return to offering in-person meetings going forward provided conditions allow.

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.

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 Nominated Adviser and Sole Broker, Liberum Capital (see page 118 for details).

Financial Review

We expect 2022 to see us benefitting from a full recovery in our revenues, the impact of our restructuring activities as well as the beginnings of what we believe our investment in our e-business platform can deliver.

Operational review

	2021	2020	2019	**Change**	
				2021 v 2020	*2021 v 2019*
Group revenue (*)	£109.1m	£95.1m	£112.4m	14.7%	-2.9%
Gross profit (*)	£38.5m	£32.6m	£40.2m	18.1%	-4.2%
Gross profit %	35.3%	34.3%	35.7%	100bps	-42bps
Operating profit / (loss)	£3.7m	£(1.4)m	£5.7m	£5.1m	£(2.0)m
Underlying Operating Profit / (Loss)	£5.7m	£1.1m	£9.6m	£4.6m	£(3.9)m
Net Debt (**)	£15.4m	£11.6m	£16.6m	£3.8m	£(1.2)m

*All results relate to continuing operations

** Net debt at 31 December 2020 comprised £10.7m Bank Debt and £0.9m of COVID-19 related HMRC support. All figures exclude lease liabilities under IFRS16

Revenue

Revenue recovered strongly against the heavily impacted 2020 period but was down 3.0% against the more meaningful 2019 comparison. Broadly speaking we exited 2021 with Revenue in our Flowtech Division fully recovered but still continuing to recover in other areas of our business.

Gross profit margins

Our overall gross profit margin remains strong and is consistent with recent years. Sustaining such a margin remains towards the top of our list of priorities and we are confident that, over time, this can become even stronger.

Operating overheads

Underlying operating overheads were £32.8m in 2021 compared to £31.5m in 2020. £0.4m of the increase related to distribution costs, in line with our recovery of volumes, with the balance of £0.9m related to inflationary pressures and increased activity levels, notably within the supply chain area of the business. This increase has been mitigated by the impact of our cost reduction initiatives, some of which were performed in 2020 where 2021 has a full year benefit coming through.

Operating profit

It is pleasing to see a strong return to operating profit; we are expecting this will improve as our recovery from pandemic conditions continues and we eventually benefit from a more stable supply chain environment.

Results by Division

Revenue	**2021**		2020	
	£000		£000	
Flowtech	**52,135**		46,060	
Solutions	**39,575**		33,578	
Services	**17,397**		15,443	
Group	**109,107**		95,081	
Gross profit				
Flowtech	19,318	37.1%	16,604	36.0%
Solutions	13,659	34.5%	11,675	34.8%
Services	5,521	31.7%	4,315	27.9%
Group	38,498	35.3%	32,594	34.3%
	2021		2020	
Underlying Segment Operating Profit / (Loss)				
Flowtech	7,101		5,038	
Solutions	3,505		1,790	
Services	140		(1,236)	
Total Segment	10,746		5,592	
Less allocation of Central costs	(5,056)		(4,520)	
Underlying Group operating profit	5,690		1,072	
Less Separately disclosed items	(1,978)		(2,466)	
Group operating profit/ (loss)	3,712		(1,394)	

Separately disclosed items

Following the integration of brands under the 5-to-1 project, the written down value of the Beaumanor brand intangible asset was impaired. The impairment charge of £673k is included in separately disclosed items.

Central costs

Central costs are approximately £0.5m in excess of 2020; this results in part from the involvement of an interim professional to assist with the profit improvement plan within Services and in part to the recruitment of additional senior members of the team, notably in HR, Operations Development and Customer Insight. We believe this investment in people provides the infrastructure to support the organic growth plans which are the cornerstone of our strategic objectives.

Taxation

The tax charge for the year was £741k (2020: £24k). The effective tax rate for the year is 25.7%.

Dividends

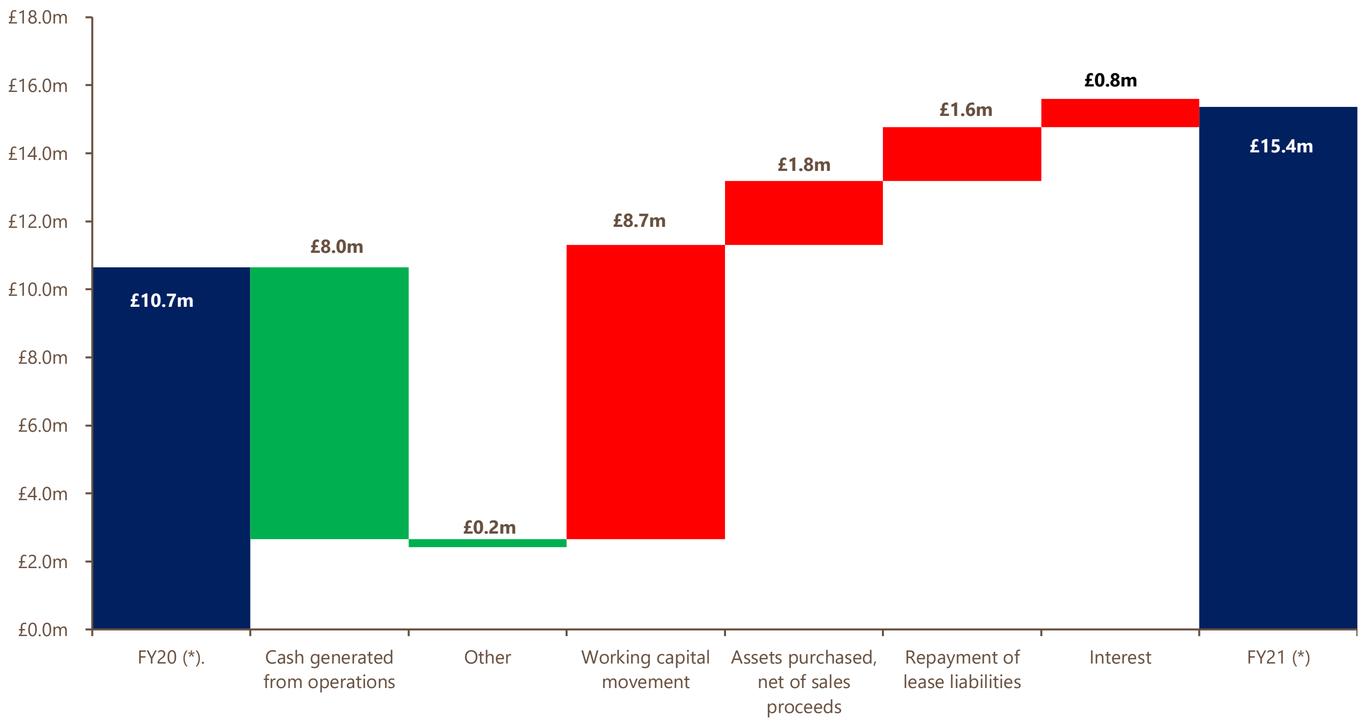
As referred to in the Chair's letter, our ambition to return to dividend payments, albeit at levels commensurate with the needs of the business. I can confirm that the Board will be recommending a dividend of 2p in respect at the AGM in June 2022. Moving forward we will maintain a balanced approach to dividend distribution.

Statement of financial position & cash flow

On a like for like basis our Debt position increased by £3.8m (£4.7m increase in Bank debt offset by the repayment of £0.9m of residual COVID-19 related HMRC support).

The investment we chose to make in increasing stock levels, combined with the impact of improved revenue, lead to a £8.7m increase in working capital. This negated the £8.0m cash generated from trading activities. Other key outflows included capital expenditure, net of sale proceeds (£1.9m), repayment of lease liabilities (£1.6m) and finance costs (£0.8m).

The key components impacting on the movement in Bank debt are summarised in the chart below:



(*) Opening and closing figures exclude (1) £0.9m HMRC COVID-19 related support at 31/12/20 and (2) IFRS 16 related liabilities

Stockbroker changes

In early 2022 we announced that we would revert to a single broker policy and look forward to working with Liberum moving forward. Many thanks must go to the previous brokers, Zeus Capital and FinnCap for their considerable support over the last eight years since joining AIM.

Risk Management

The Board is ultimately responsible for risk and internal control systems across the Group.

Each of our business units Profit Centres is 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.

During 2021 the following incremental actions have been taken:

1. The establishment of a Risk Committee, comprising members of our Management Board and chaired by Russell Cash, which meets once every two months to discuss all aspects of the Risk Agenda
2. Further engagement with Marsh, specialist consultants, to enhance our approach to Business Continuity planning. This proved difficult to focus on during the COVID-19 impacted periods, but the thinking is now very much re-energised, and
3. Under the leadership of our Operations Development Director, we have revisited each area of identified risk and formulated an appropriate and proportionate action plan. Actions are regularly reviewed at Management Board meetings and any issue of sufficient significance escalated to the PLC Board.

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.

2021 Challenges & New Areas of Focus

2021 saw us continue to face 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 way we have dealt with the challenges presented by 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 during 2021 and we have worked hard to mitigate the impact of these issues, notably via an investment in our inventory levels

COVID-19

COVID-19 presented what we hope is once-in-a-lifetime challenge 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 2020 however, we are very pleased with the gradual recovery we have seen since that point.

We have established a COVID working group to focus on all the situation – initially this group of senior management met daily to deal with the impact; over time the frequency of the meetings has reduced with emphasis maintained in ensuring turning to ensure our staff's wellbeing is an area of focus.

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.

Having revisited the risk agenda, we have identified the following key areas:

1. **Site disruption**
2. **Systems disruption**
3. **Health & safety**
4. **People issues**

(Refer following pages for detailed discussion of 1-4)

5. **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 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.

6. **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.

Site disruption ^		
Owner: Operations Development Director	**Description**	**Mitigation**
	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 that unplanned events could disrupt the functioning of key elements of the operational infrastructure, damaging customer service and business reputation.	Off-site disaster recovery provision for IT systems, including cloud-based technologies. The Group has a formal Business Continuity Process underpinned by monthly Steering Group to assess and refresh risk mitigation plans at key locations. Continual improvement is being made on testing the robustness of our systems, Steps are taken to enhance processes; we see this as an important, ongoing work stream to ensure our business is continually alert to future challenges. We have what we believe to be adequate insurance cover in place to compensate for any loss which proved difficult to recover.

Systems disruption v		
Owner: Systems Director	**Description**	**Mitigation**
	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. Part of our strategic focus has been, and continues to be, a desire to reduce the number of process systems operated by the Group.	Current mitigation measures for local business systems include anti-virus software, virus scans on incoming emails and firewall protection. All systems bar one is now 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 embedded in all that we do within the business. Regular on-site IT reviews are carried out including reviews of networks and controls. 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.

Health & safety —		
Owner: Group Head of Health & Safety	**Description**	**Mitigation**
	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. 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.	Whilst the business sources certain products from the Far-East, the majority of products are sourced from respected 'brands' in the UK and Europe. Group representatives often 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. There is an ongoing review of relevant national and international compliance requirements. 2021 has seen us build on the establishment of the Health & Safety Steering Committee in 2020 and the appointment of Senior Managers dedicated to ensuring compliance in all areas. These Senior Managers now report into a recently appointed Group Head of Health & Safety, a new role further evidencing the importance we attach to this area.

Trend	
^	Risk increasing
—	No risk movement
v	Risk decreasing

People issues v		
Owner: HR Director	**Description**	**Mitigation**
	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.	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. We have recently appointed a Director of Human Resources and a Learning & Development Consultant. We are currently reviewing the reward packages made available to all of our staff and the options available to ensure continuous learning and development opportunities where this makes sense for both the business and the individuals concerned.

The Strategic report, as set out on pages 04 to 37, has been approved by the Board.

Bryce Brooks
Chief Executive Officer
28 March 2022

The Board

 **Roger McDowell,** **Non-Executive Chair**	**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.
	Board Committees • Chair of Nomination Committee • Member of the Audit, Remuneration and AIM Compliance and Corporate Governance Committees	**External appointments** 1. Non-Executive Chair of Hargreaves Services plc, Avingtrans plc and Brand Architekts Group plc 2. Senior Non-Executive Director of Tribal Group plc 3. Non-Executive Director of Proteome Sciences plc, Augean plc and British Smaller Companies VCT II plc

 **Bryce Brooks** **Chief Executive Officer**	**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.
	Board Committees • Member of the AIM Compliance and Corporate Governance Committee • Other committees by invitation	**External appointments** None
 **Russell Cash** **Chief Financial Officer & Company Secretary**	**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.
	Board Committees • Member of the AIM Compliance and Corporate Governance Committee • Other committees by invitation	**External appointments** None

Nigel Richens **Non-Executive Director &** **Senior Independent Director**		
	**Appointed** May 2014	
	Board Committees • Chair of the Audit, Remuneration and AIM Compliance and Corporate Governance Committees • Member of the Nomination and Remuneration Committees	**External appointments** Trustee of various charities
	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.	**other** In his role as Senior Independent Director, Nigel acts as a sounding board and intermediary for the Chair and other Board members. He also leads the performance evaluation of the Chair.

On 30 November 2021 Paul Gedman who joined the Board in July 2020 resigned from the Board. We would like to thank him for his significant contribution to the development of our e-business platform during his tenure.

On 8 March 2022 Jamie Brooke and Ailsa Webb were appointed to the PLC Board as Non-Executive Directors. Their biographies can be read on the next page.

Ailsa G Webb **Non-Executive Director**		
	**Appointed** March 2022	**External appointments** None
	Board Committees • Member of the Audit, Remuneration and AIM Compliance and Corporate Governance Committees	**Skills & experience** Ailsa has held a number of lead-operational management roles including at TNT and Brammer Buck and Hickman. Until 2019, Ailsa was Chief Operating Officer for the UK, Ireland and Iceland territories at Brammer Buck and Hickman, the UK subsidiary of Rubix Group, Europe's largest supplier of industrial maintenance, repair and overhaul products and services. In 2019, Ailsa joined HSS Hire Services, Scotland, one of the UK's largest equipment rental companies, where she is Managing Director and, in early 2021 she took over as Managing Director for ABird and Apex Power Solutions, two service business parts of HSS Group. Ailsa has a deep understanding of the industrials distribution sector, including within e-commerce where she has a wealth of digital transformation expertise driving revenue growth through e-commerce strategies.
Jamie Brooke **Non-Executive Director**		
	**Appointed** March 2022	**External appointments** Chapel Down Group Plc Maitland Capital Limited
	Board Committees • Member of the Audit, Remuneration and AIM Compliance and Corporate Governance Committees	**Skills & experience** Jamie has had successful roles in listed and private equity fund management, originally starting out with 3i plc. Over his 30-year career, having sat on 20 different boards, he has focused on driving shareholder value and has gained experience covering fund management and investing, strategy and governance, M&A, audit and consultancy. Most recently he worked with Hanover Investors and, prior to this, Jamie spent twelve years with the Volantis team under the umbrellas of Lombard Odier, Henderson and Gartmore. He trained as an ACA with Deloitte.

Corporate Governance Report

Chair'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 continue to 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, ever evolving business model and related key performance measures are clearly articulated in pages 15-18; the associated risks and the Board's view thereon are set out in the Risk Management section of this Report. 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 advisers. We work hard to ensure we achieve a quality delivery of meaningful information on a consistent basis. We are looking forward to working closely with Liberum who we recently appointed as sole broker and NOMAD; we expect this will serve to further develop the content and quality of our messaging.

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"

The Board recognises that its relationship with customers, suppliers and employees are critical to its success. Efforts have always, and will continue to be, made to develop strong relationships with customers and suppliers and increasing emphasis has been placed on engagement with employees, something which proved invaluable during the unforeseen challenges of COVID-19. The CEO regularly engages with Divisional Directors and Senior Management within each of our businesses to keep them suitably appraised of key developments; this information is then cascaded through the organisation through specific reporting channels. Included within this is an increased emphasis on all aspects of health and safety as well as our responsibilities under the ESG agenda.

Linked to all of this 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 21-27.

Principle 4

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

Our approach to risk is set out within the Risk Management section of this report. Whilst the Board has overall responsibility, the importance of developing our processes and controls is an area of focus for many others within the business. The Audit Committee has responsibility for reviewing internal controls and in this regard, there is regular communication between the Committee and the Internal Audit team and Executive Management.

In addition we retain the services of Marsh, specialist Risk Management advisers, who provide regular external reviews of the progress we make and highlight areas for future improvement. On pages 34-37 we have sought to identify our key areas of risk and provide comments throughout this section to demonstrate the investment we have made to put measures in place to address each of these. 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 these areas are, and will always remain, to us. We have also made a significant investment in our Health & Safety agenda over the course of the last two years.

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 38-47.

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.

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.

We have recently welcomed Jamie Brooke and Ailsa Webb to the Board and we very much look forward to the contribution they are set to make see page 40.

Principle 6

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

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 appointments of Jamie Brook and Ailsa Webb bring further valuable experience as well as incremental areas of expertise to the Boardroom.

Brief biographies of each of our Directors are outlined on pages 38-40.

Principle 7

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

The Board undertakes an annual evaluation of its effectiveness. This exercise involves each Board 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:

1. Board/Committee composition (including succession planning)
2. Board/external reporting and information flows
3. Board processes, internal control and risk management
4. Board accountability
5. Executive management effectiveness, and
6. Standards of conduct.

Any areas where improvement is deemed necessary are discussed and appropriate action plans put in place.

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 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 with appointments being made across each of our businesses and initiatives put in place to ensure this is consistently uppermost in our thoughts.

Ever increasing emphasis is being placed on the Environmental, Social & Governance agenda, evidence of which can be seen via the comments provided on pages 28-30 in this Report. We believe good progress has been made during the course of 2021.

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 2021 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, in particular assessments as to the degree of compliance with key operating procedures. This enables 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.

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.

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

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

The Chair

The main responsibilities of the Chair are to lead the Board, ensuring its effective management of the Group's operations and governance. The Chair 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 with major Shareholders as he sees fit.

This is achieved by:

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

The Chief Executive Officer

The CEO 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 Chair 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 Non-Executive Chair, two Executive Directors and three other Non-Executive Directors. Details of the Directors' remuneration and terms of appointment are set out in the Directors' Remuneration report on pages 48-50. Biographical details of the Directors are included on pages 38-40.

Roger McDowell is Chair of the Board and the Nomination Committee. 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 Chair 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 11 formal Board meetings during the year. All meetings were attended by all eligible Directors.

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

Board Committees

Executive Management
To support the two Executive Directors, we have a Management Board which sits beneath PLC level. This Group includes individuals who lead each of our divisions as well as those focused on Operational and Human Capital matters and manages all aspects of day-to-day management, including:

1. Implementing the strategy as set out/agreed by the Board
2. Overseeing all commercial operations of the Group, ensuring good and effective communication in key areas and alignment of local business objectives to the strategic direction at Group level
3. Assessment of growth opportunities, both organic and potential acquisition opportunities
4. Talent management and succession planning
5. Product quality
6. Health and safety
7. Financial control and systems, including IT infrastructure and development, and
8. 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 2021 members of the Nominations Committee met to discuss the remuneration packages of the Executive Directors. This culminated in share options being granted to Russell Cash (CFO) and a Long-Term Incentive Plan scheme being introduced for both Bryce Brooks (CEO) and Russell Cash. Full details are provided in the Directors Remuneration section of this Report (pages 4-50).

The Remuneration Committee - Chaired by Nigel Richens
The Remuneration Committee meets at least once a year to determine and agree remuneration packages of the Chair and Executive Directors and other employee benefits. In the year being reported the Committee met three times to discuss approve and implement salary, bonus, and share option packages for the Executive Directors. (14 January, 19 April, and 21 May 2021). The measures put in place to reward the Executive Directors is detailed in the Directors' Remuneration section of this Report.

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 Chair and Executive Directors. Details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 48-50.

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 November were attended by all Directors.

As part of our transition to working with Liberum all Directors attended a briefing by Liberum which served as a reminder of all responsibilities each Director has whilst in office.

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:

1. Monitor the integrity of the financial statements
2. Review the quality of the Group's internal controls, ethical standards, and risk management systems
3. Review the Group's procedures for detecting and preventing bribery and fraud, corruption, sanctions, and whistleblowing.
4. 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, and
5. Oversee the relationship with the Group's external Auditor.

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

1. 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
2. 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
3. Considering the effectiveness and independence of the external Auditor and recommending to the Board the reappointment of Grant Thornton UK LLP as external Auditor
4. Considering the review of material business risks
5. Monitoring of reporting and follow-up of items reported by employees
6. Considering the significant risks and issues in relation to the financial statements and how these were addressed including: revenue recognition; impairment of inventory; impairment reviews of goodwill; impairment of investments and intercompany receivables; going concern.
7. Considering the adequacy of accounting resource and the development of appropriate systems and control
8. Engaging with external providers to assist with certain aspects of accounting disclosure
9. Review of progress in introducing best practice systems and procedures Group-wide
10. Considering policies on non-audit engagements for the Company's Auditor, and
11. Review of reports from the Internal Audit Function.

The Audit Committee met twice during 2021 (April and November) and meetings were attended by all Directors. In accordance with best practice, the Chairman of the Audit Committee met separately with the Audit Engagement Leader to provide an opportunity for any relevant issues to be raised directly with him.

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

The Chair leads an exercise performed on an annual basis to evaluate the effectiveness of the Board.
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. This his 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 are 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 important factors such as experience and capabilities.

This year sees us including comments on gender pay gap for the first time. As we state in the Sustainability section of the Report, we are determined that gender plays no part in any decisions we make relating to recruitment, remuneration or career progression.

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:

1. Regular Board meetings to consider matters reserved for Directors' consideration
2. Regular management reporting
3. Regular Board reviews of corporate strategy, including a review of material risks and uncertainties facing the business.
4. Established organisational structure with clearly defined lines of responsibility and levels of authority
5. Documented policies and procedures
6. Regular review by the Board of financial budgets, forecasts and covenants with performance reported to the Board monthly, and
7. Detailed investment process for major projects, including capital investment 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. This report is voluntarily disclosed.

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:

1. To provide a suitable remuneration package to attract, motivate and retain Executive Directors who will run the Group successfully, and

2. 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, in the case of Bryce Brooks, a motor vehicle.

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.

Developments during 2021

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

1. The Board implemented a new long-term incentive plan (LTIP) which provides 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 are capped at 100% of salary and subject to appropriate malus and claw back provisions
2. The Board also established a cash bonus scheme for the Executive Directors in respect of the financial year 2021, conditional upon the achievement of results above market expectations and capped at 100% of salary. Appropriate malus and claw back provisions also apply. Annual bonus plans will be established in respect of future periods although the levels of award and performance conditions may vary as circumstances dictate
3. The Board granted 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 provides 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, and
4. The rules of the Flowtech Fluidpower plc Enterprise Management Incentive Plan were amended 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 claw back provisions.

Long-term incentive plans and annual bonus plans are 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' detailed remuneration

	Salary and fees £000	Benefits £000	Bonus £000	Total 2021 £000	Total 2020 £000
Executives					
Bryce Brooks	225	7	56	288	242
Russell Cash	200	2	50	252	192
Non-Executives					
Roger McDowell *(appointed to the plc June 2020 and Chair, 1 August 2020)*	80	–	-	80	41
Nigel Richens	55	–	-	55	54
Paul Gedman *(resigned November 2021)*	42	–	-	42	19
Malcolm Diamond MBE *(retired August 2020)*	-	–	-	-	46
Bill Wilson *(resigned 10 June 2020)*	-	–	-	-	31
	602	9	106	717	625

In 2020 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 2021 number of ordinary shares	**As at 31 December 2020 number of ordinary shares**
Executives		
Bryce Brooks	299,160	299,160
Russell Cash	48,175	48,175
Non-Executives		
Roger McDowell	750,000	-
Nigel Richens	73,500	73,500

Directors' share interests *continued*

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 2021	-	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 22.

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 2020	Granted	Exercised	Cancelled	As at 31 December 2021
Bryce Brooks	EMI (Approved)	159,999	-	-	-	159,999
Bryce Brooks	LTIP	-	187,500	-	-	187,500
Russell Cash	EMI (Unapproved)	150,000	150,000	-	-	300,000
Russell Cash	LTIP	-	166,667	-	-	166,667

The shares were issued as part of an employee share-based remuneration scheme called the 'Enterprise Management Incentive Plan' and 'Long-Term Incentive Plan.' Further details are provided in note 22 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 2021. The Group financial statements have been prepared in accordance with UK-adopted international accounting standards. 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 06-15. Details of revenue and operating profits for each operating segment are contained in note 3 to the consolidated financial statements. The principal subsidiaries contributing to the profits and net assets of the Group are listed in note 12 to the consolidated financial statements.

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

Results and dividends

The results for the year ended 31 December 2021 are set out in the consolidated income statement on page 66.

The Group has reported an operating profit from its continuing activities of £3.7 million (2020: loss of £1.4 million). After accounting for net finance costs, the consolidated income statement shows a profit from continuing operations before taxation of £2.9 million (2020: loss of £2.1 million).

As already stated, our ambition is to return to dividend payments, albeit at levels commensurate with the needs of the business. The Board will be recommending a dividend of 2p in respect of 2021 at the AGM in June 2022. Subject to Shareholder approval, the dividend will be paid on 22nd July 22 to Members on the Register as at 1st July 22 with an ex-Dividend date of 30th June 22. Moving forward we will maintain a balanced approach to dividend distribution.

Directors

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

- Nigel Richens
- Bryce Brooks
- Russell Cash
- Roger McDowell *(appointed 10 June 2020)*
- Paul Gedman (*appointed 28 July 2020, (resigned 30 November 2021)*
- Ailsa Webb (*appointed 8 March 2022*)
- Jamie Brook (*appointed 8 March 2022*)

Short biographies of each Director currently in office, including two new Non-executive Directors appointed on 8 March 2022 are provided on page 38-40.

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 2021 is disclosed in the Directors' Remuneration report on page 49.

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 23 to the consolidated financial statements.

The Company's share capital comprises one class of ordinary shares and as at 01 March 2022 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.

The table below shows the position as at 9 March 2022 (being the last practicable date before the publication of this Report):

Shareholders – 9 March 2022	Number of shares held	% of share capital
Odyssean Investment Trust	10,000,001	16.26
Harwood Capital	4,945,826	8.04
Downing	4,939,352	8.03
Close Brothers Asset Management	4,852,738	7.89
Charles Stanley	3,166,893	5.15
Gresham House Asset Management	2,673,210	4.35
Lazard Freres Banque (PB)	2,620,080	4.26
Janus Henderson	2,537,190	4.13
River and Mercantile Asset Management	1,969,502	3.20
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 27. 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 stakeholders whilst making key decisions are contained on page 28, 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.

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

Whilst Shareholders have the right to attend, speak and vote at the meeting if they so wish, we are strongly encouraging Shareholders to submit a proxy vote in advance of the Annual General Meeting and to appoint the Chairman of the meeting as their proxy rather than attend the meeting in person. We are also providing a facility which will enable Shareholders to view the meeting electronically (although they will not be able to vote through this facility) and to submit questions prior to the AGM, which will be addressed at the meeting or otherwise responded to.

The AGM will be held on 1 June 2021 at 10.00 hrs. The Company is facilitating an online AGM experience via the IMC platform, details of which are contained in the Notice of Meeting. Those joining the meeting in this fashion, will have the opportunity to join the meeting from any remote location and to listen to the proceedings of the meeting. The webcast will also be available on the website after the event.

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 41 to 47. This 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 21 to 27. 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 28-29. 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:

- As expected in 2021 the Group returned to a profitable trading performance following the challenges presented by COVID-19;
- The Group is expecting to continue to trade profitably in 2022 and beyond;
- The Group is financed by revolving credit facilities totalling £20m (in place until November 2023) and a £5m overdraft facility, repayable on demand, and;
- At the end of 2021 the Group's Net Bank Debt was £15.4 million (£9.6 million within the aggregate banking facilities which include a £5.0 million overdraft facility).

The Directors have prepared forecasts covering the period to September 2023. 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 banking facilities.

We have performed reverse stress testing, based on revenue reductions, to determine scenarios in which our banking covenants could be breached. The Directors view the set of circumstances required for such a situation to crystallise as highly unlikely and as such not reasonably plausible scenarios.

The Directors believe the business will continue to operate within its agreed banking facilities and comply with all banking covenants. As such 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 deemed necessary to make each 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 & Accounts 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 UK-adopted international accounting standards.

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 UK-adopted international accounting standards 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, and
- ✓ 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:

1. so far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
2. 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
28 March 2022

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 'Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021, 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 UK-adopted international accounting standards. 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 2021 and of both the Group's and the Company's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- 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.

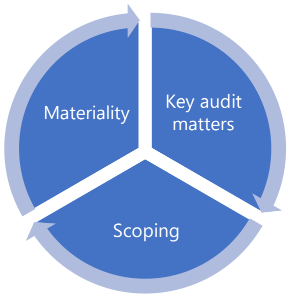
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when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

Our approach to the audit

Grant Thornton



Overview of our audit approach

Overall materiality:
Group: £545,000, which represents 0.5% of the Group's revenue.
Parent company: £490,500, which represents approximately 0.4% of the Company's total assets, capped at a portion of Group materiality.

Key audit matters were identified as

- Going Concern assumption (same as previous year)
- Improper revenue recognition – sale of goods (same as previous year)
- Carrying value of the Group's goodwill (same as previous year)
- Provision for impairment of inventories (same as previous year)
- Recoverability of the Carrying Value of Investments in Subsidiaries (same as previous year)

Our auditor's report for the year ended 31 December 2020 did not include any key audit matters that have not been included for the current year.

We have performed audits of the financial information (full scope audits) using component materiality for 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.

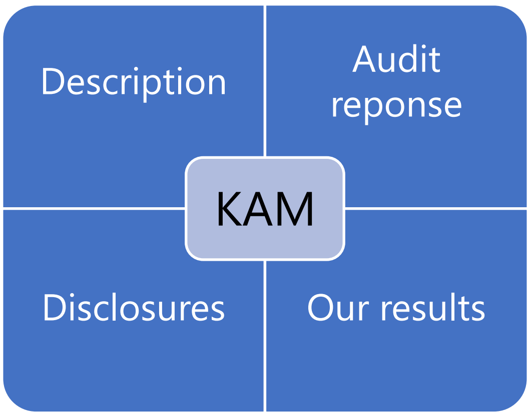
We performed specific audit procedures on Flowtechnology Benelux Limited and Hydroflex Hydraulics Group BV.

In total our audit procedures covered 99% of the Group's total assets, 100% of the Group's revenue and 83% of the Group's profit before tax.

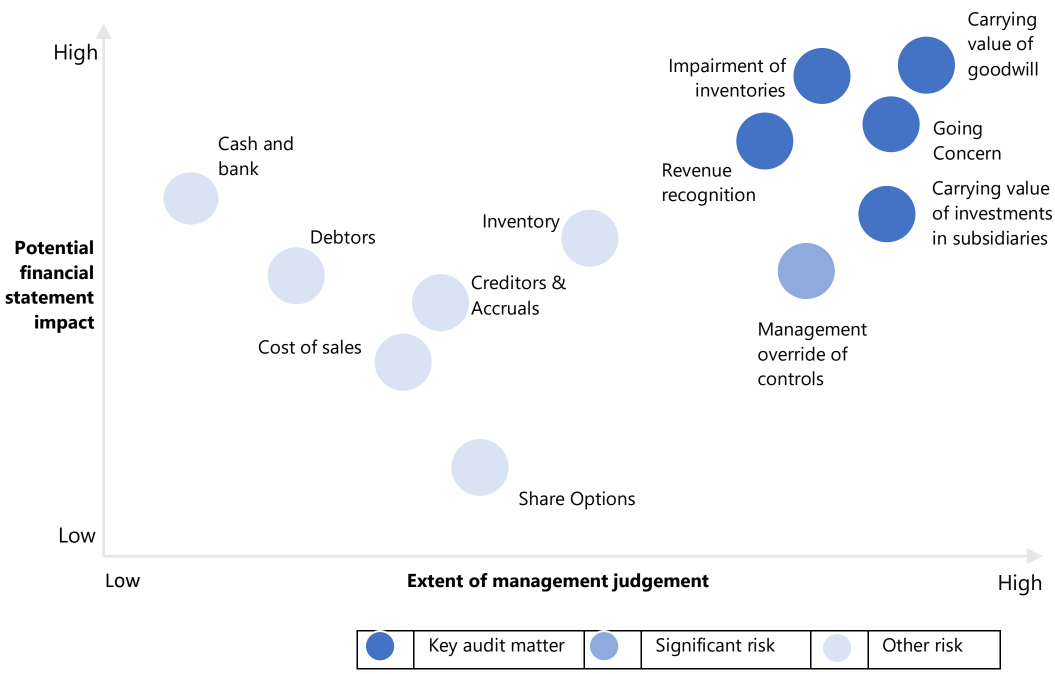
We performed analytical procedures at Group level on the financial information of all the remaining group components.

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.



Key Audit Matter – Group	How our scope addressed the 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 error as a result of the judgement required to conclude whether there is a material uncertainty related to going concern. In our evaluation, we considered the inherent risks associated with the Group's business model including the effects arising from macro-economic uncertainties such as COVID-19. The Group was and continues to be impacted by the COVID-19 pandemic The COVID-19 impact continues to remain uncertain and this could adversely impact the future trading performance of the Group, leading to increased judgement in respect of the forward-looking assessment. 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, compliance with covenants and anticipated cash flows. As a result, there is significantly more judgment applied in developing forecasted revenue and profits of the Group.	In responding to the key audit matter, we performed the following audit procedures: • Obtained an understanding of relevant controls relating to the assessment of going concern models, including the assessment of the inputs and assumptions used in those models; • Obtained and assessed management's paper and assessment of going concern, including forecasts covering the period to 30 September 2023 and tested the mathematical accuracy of the 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; • Considering management's historic forecasting accuracy and the extent to which this impacts the forecasts produced; • 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; • Assessing scenario sensitivities and reverse stress tests performed by management, and determining if they are plausible;

Key Audit Matter – Group	How our scope addressed the matter – Group
	• Performing our own scenario sensitivities over and above the sensitivities of management and considering the available headroom and compliance with covenants, including assessing the impact on cash flow; • Testing the adequacy of the supporting evidence for cash flow forecasts, assessed and considered the headroom; • Comparing movement in net debt and assumptions with movements in working capital; and • Assessing the adequacy of the going concern disclosures within the financial statements.
Relevant disclosures in the Annual Report and Accounts 2021 • 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 53.	**Our results** We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report.
Improper revenue recognition – sale of goods We identified the occurrence of revenue as one of the most significant assessed risks of material misstatement due to fraud. Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This is also considered to be a key audit matter given the importance of reported revenue to key stakeholders. The revenue recognised in respect of sale of goods totalled £82.81m for the year ended 31 December 2021 (2020: £69.24m). 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 around the year end being recorded in the incorrect period.	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 testing 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' and whether management accounted for revenue in accordance with the accounting policies; • Utilising data analytics where possible to interrogate and test the revenue populations, including the analysis of revenue postings from inception to cash and identifying non-standard revenue postings; • Testing a sample of revenue transactions from material revenue streams to supporting evidence such as customer contract, sales invoices delivery note and proof of cash receipt; • Testing the appropriate allocation of sales to the relevant year by testing a sample of revenue recognised either side around the year end and traced to delivery information to ensure the correct allocation. We have performed an assessment of those sales around the year end, using an expected delivery timeframe using information we have obtained throughout our testing; and • Testing the completeness of revenue by tracing a sample of transactions from underlying purchase orders to the revenue listing.
Relevant disclosures in the Annual Report and Accounts 2021 • 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 2021.

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. We have pinpointed the significant risk in relation to the carrying value of goodwill to the Primary Fluidpower Systems and Orange County Cash Generating Units ('CGU') in respect of the valuation and allocation assertion. There is an increased risk that goodwill held by the group relating to these two CGU's is impaired due to the underperformance in 2021 and higher level of estimation uncertainty in assessing the future performance due to the nature of project work undertaken.

The carrying value of Goodwill of the Primary Fluidpower Systems and Orange County CGU's is £751,000 and £2,793,000 respectively in the consolidated statement of financial position as at 31 December 2021.

Under International Accounting Standard IAS 36 'Impairment of Assets', management is required to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to perform an annual assessment whether the Group's goodwill within a CGU is impaired.

The process for assessing whether impairment of assets exists under IAS 36 is complex. Management prepare impairment models to assess the recoverable amount. Calculating value in use, through forecasting cash flows related to CGUs and the determination of the CGUs, appropriate discount rate and other assumptions to be applied can be highly judgemental and subject to management bias or error. The selection of certain inputs into the cash flow forecasts can also significantly impact the results of the impairment assessment.

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

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 testing whether they were implemented as designed;
- Assessing the competence, capabilities and objectivity of the management's expert used by the Group;
- Assessing the mechanical accuracy of the impairment model and the methodology applied by management for consistency with the requirements of IAS 36, including their associated sensitivity analysis
- Obtaining management's assessment over carrying value and value in use, understanding and challenging sensitivities performed;
- Testing the accuracy of management's forecasting through a comparison of prior forecasts to actual data;
- Considering the appropriateness of management's assumptions and sensitivities relating to the calculations of the value in use of CGUs and estimated future cash flows, including the growth rate and discount rate used to assess the level of headroom;
- The client performed sensitivity analysis and reverse stress test to understand the impact of any reasonably possible changes in assumptions, determining their impact on the carrying value of the intangible assets;
- Evaluating whether the goodwill and intangible assets are allocated to the CGUs appropriately and challenging whether the CGUs identified are appropriate;
- We ascertained the extent to which a change in these assumptions, both individually or in aggregate, would result in a goodwill impairment, and considered the likelihood of such events occurring. We also considered the sufficiency and appropriateness of disclosures included in the Group's consolidated financial statements regarding such events;
- We used our internal valuation specialists to inform our challenge of management, that the assumptions used within the calculation of WACC are reasonable and consistent with other similar groups; and
- We assessed whether the Group's disclosures with respect to the carrying value of Group goodwill are adequate and the key assumptions are disclosed.

Relevant disclosures in the Annual Report and Accounts 2021

- The Group's 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 consider the disclosures with respect to the carrying value of the Group's goodwill to be in accordance with IAS 36.

Provision for impairment of inventories

We identified provision for impairment of inventories as one of the most significant assessed risks of material misstatement due to error.

The Group's total inventory as at 31 December 2021 totals £30,531,000 (2020: £21,994,000), which is recorded net of a provision of £1,421,000 (2020: £1,710,000).

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.

.

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;
- Challenging 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;
- Assessment of sales made at a loss, both during the financial period and subsequent to the year end, and an assessment of the historical accuracy of prior period's provisioning;
- On a sample basis we vouched post year end sales to determine if inventory is held at lower of cost and net realisable value;
- Considering the suitability of the inventory provision, including comparisons to competitors, re-performance of the calculation and considering historical performance relating to inventories.

Relevant disclosures in the Annual Report and Accounts 2021

- 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	How our scope addressed the matter–Company
Recoverability of the Carrying Value of Investments in Subsidiaries We identified the recoverability of the carrying value of investments in subsidiaries as one of the most significant assessed risks of material misstatement due to error. The Company statement of financial position includes investments in subsidiaries of £59,421,000 (2020: £59,358,000). We have focused on this area due to the size of the investment balance and the higher estimation uncertainty in determining the future cashflows to support the balance. There is a risk that the carrying value of investments may be overstated. The process for assessing whether impairment exist under IAS 36 'Impairment of Assets' is complex and there is significant judgement in forecasting future cashflows and therefore assessing the value. Management has performed an assessment of the recoverable amount of the investment and compared this to the carrying value using the same cash flow methodology applied in the impairment test for goodwill described above. The judgements made by management in respect of the impairment review are subject to significant measurement uncertainty.	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 testing 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; • Performing sensitivity analysis on key assumptions to understand the potential impact on headroom. This included sensitising the discount rate applied to the future cash flows, and the short term growth rates and operating income forecast; 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 and Accounts 2021 • The Company's accounting policies on impairment of investments is shown in note B to the Company financial statements. • The related disclosures in respect of impairment of investment is shown in note I 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 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.

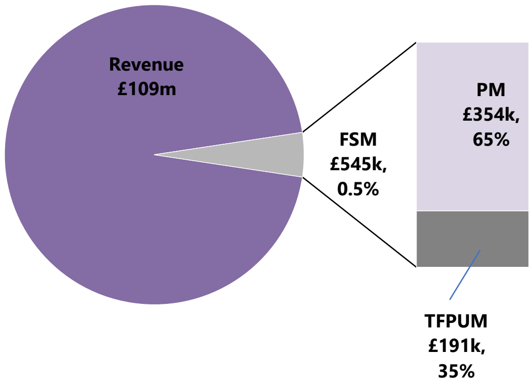
Materiality was determined as follows:

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	£545,000 which is 0.5% of revenue.	£490,500 which is 0.4% of total 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: We determined that revenue was the most appropriate benchmark for the Group due to it being a key performance indicator of the Group (as part of the Sales growth KPI) and provides a consistent year on year basis for determining materiality as it is less volatile than the earnings for the Group. Materiality for the current year is higher than the level we determined for the year ended 31 December 2020 to reflect the year on year revenue growth.	In determining materiality, we made the following significant judgements: The primary objective of the parent company is to hold the investments in the group undertakings, as well as to provide financing. Materiality for the current year is higher than the level we determined for the year ended 31 December 2020 to reflect the higher Group materiality. Group materiality is higher as a result of revenue growth in the year.
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	£354,250, which is 65% of financial statement materiality.	£318,825, which is 65% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we assessed the strength of the control environment, including the effect of misstatements identified in previous audits, to make our judgement. Therefore, we consider the performance materiality percentage to be appropriate.	In determining performance materiality, we assessed the strength of the control environment, including the effect of misstatements identified in previous audits, to make our judgement. Therefore, we consider the performance materiality percentage to be appropriate.

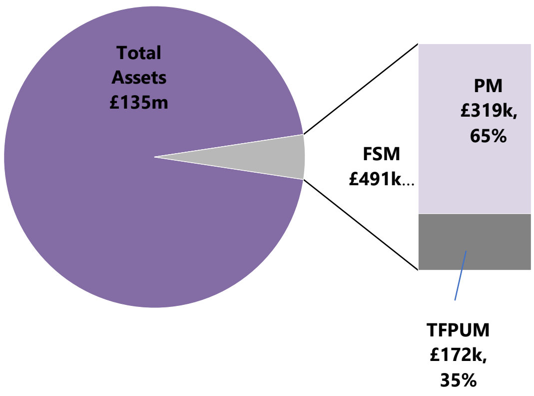
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions 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, excluding intercompany transactions.	
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£27,250 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£24,525 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 and its environment, including Group-wide controls, and assessed the risks of material misstatement at the Group level; and
- The engagement team further considered the structure of the Group, including Group-wide processes and controls, and used this to inform our assessment of risk

Identifying significant components

- In order to address the risks identified, the engagement team performed an evaluation on 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.

Type of work to be performed on financial information of parent and other components (including how it addressed the key audit matters)

- We have performed full scope audits using component materiality for, 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.

Performance of our audit

- Together, the components subject to full scope audits and specified audit procedures performed by the group auditor were responsible for 99% of the Group's total assets, 100% of the Group's revenue and 83% of the Group's profit before tax. 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;
- For the remaining eight components we performed analytical procedures.
- 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; UK adopted international accounting standards , FRS 101, Companies Act 2006 and Quoted Companies Alliance (QCA) Corporate Governance Code.
- 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.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it; and
- 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 Lowe, Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
28 March 2022

Consolidated Income Statement

For the year ended 31 December

	Note	2021 £000	2020 £000
Continuing operations			
Revenue	3	109,107	95,081
Cost of sales		(70,609)	(62,487)
Gross profit		38,498	32,594
Distribution expenses		(4,683)	(4,286)
Administrative expenses before separately disclosed items:		(28,125)	(27,236)
- Separately disclosed items	3	(1,978)	(2,466)
Total administrative expenses		(30,103)	(29,702)
Operating profit /(loss)	4	3,712	(1,394)
Financial expenses	6	(833)	(754)
Net financing costs		(833)	(754)
Profit/(Loss) from continuing operations before tax	3	2,879	(2,148)
Taxation	7	(741)	(24)
Profit/(Loss) from continuing operations		2,138	(2,172)
Profit /(Loss) for the year attributable to:			
Owners of the parent		2,138	(2,172)
		2,138	(2,172)
Earnings per share			
Basic earnings per share - continuing operations	9	3.48p	(3.54p)
Diluted earnings per share - continuing operations		3.45p	(3.54p)

Consolidated Statement of Comprehensive Income

	2021 £000	2020 £000
Profit/(Loss) for the year	2,138	(2,172)
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss		
- Exchange differences on translating foreign operations	(342)	289
Total comprehensive income /(loss) for the year	1,796	(1,883)
Total comprehensive income /(loss) for the year attributable to:		
Owners of the parent	1,796	(1,883)
	1,796	(1,883)

Consolidated Statement of Financial Position

	Note	2021 £000	2020 £000
Assets			
Non-current assets			
Goodwill	10	63,164	63,164
Other intangible assets	11	4,517	5,483
Right-of-use assets	21	6,925	7,490
Property, plant and equipment	13	6,891	6,747
Total non-current assets		81,497	82,884
Current assets			
Inventories	15	30,531	21,994
Trade and other receivables	16	21,566	18,415
Prepayments		472	477
Tax receivable		-	257
Cash and cash equivalents	17	4,562	9,235
Total current assets		57,131	50,378
Liabilities			
Current liabilities			
Lease liability	18,21	1,561	1,459
Trade and other payables	19	21,111	17,805
Tax payable		604	-
Total current liabilities		23,276	19,264
Net current assets		33,855	31,114
Non-current liabilities			
Interest-bearing borrowings	18	19,927	19,887
Lease liability	18, 21	5,586	6,278
Provisions	20	309	367
Deferred tax liabilities	14	1,528	1,459
Total non-current liabilities		27,350	27,991
Net assets		88,002	86,007
Equity directly attributable to owners of the Parent			
Share capital	23	30,746	30,746
Share premium		60,959	60,959
Other reserves		187	187
Shares owned by the Employee Benefit Trust		(276)	(372)
Merger reserve		293	293
Merger relief reserve		3,646	3,646
Currency translation reserve		(286)	343
Retained losses		(7,267)	(9,795)
Total equity attributable to the owners of the Parent		88,002	86,007

The financial statements on pages 65-115 were approved by the Board of Directors on 28 March 2022 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	Shares owned by the EBT £000	Merger reserve £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Total equity £000
Balance at 1 January 2020	30,579	60,959	187	(372)	293	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									
Issue of share capital	25	45	-	-	-	-	-	-	70
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	(372)	293	3,646	343	(9,795)	86,007
Balance at 1 January 2021	30,746	60,959	187	(372)	293	3,646	343	(9,795)	86,007
Profit for the year	-	-	-	-	-	-	-	2,138	2,138
Other comprehensive income	-	-	-	-	-	-	(535)	193	(342)
Total comprehensive income for the year							(535)	2,331	1,796
Transactions with owners									
Share options settled	-	-	-	96	-	-	-	(14)	82
Share-based payment charge	-		-	-	-	-	-	166	166
Other movements	-	-	-	-	-	-	(94)	45	(49)
Total transactions with owners	-	-	-	96	-	-	(94)	197	199
Balance at 31 December 2021	30,746	60,959	187	(276)	293	3,646	(286)	(7,267)	88,002

Consolidated Statement of Cash Flows

	Note	**2021 £000**	2020 £000
Cash flow from operating activities			
Net cash from operating activities	24	(441)	10,083
Cash flow from investing activities			
Acquisition of subsidiary, net of cash acquired		-	(164)
Acquisition of property, plant and equipment	13	(1,342)	(1,652)
Acquisition of intangible assets (under construction)	11	(761)	-
Proceeds from sale of property, plant and equipment		525	105
Payment of deferred and contingent consideration		-	(219)
Net cash used in investing activities		(1,578)	(1,930)
Cash flows from financing activities			
Repayment of lease liabilities	21	(1,882)	(1,550)
Interest on lease liabilities		(246)	(264)
Other interest		(547)	(603)
Proceeds from sale of shares held by the EBT		108	-
Net cash used in financing activities		(2,567)	(2,417)
Net change in cash and cash equivalents		(4,586)	5,736
Cash and cash equivalents at start of year		9,235	3,446
Exchange differences on cash and cash equivalents		(87)	53
Cash and cash equivalents at end of year	17	4,562	9,235

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	**Total £000**
At 1 January 2020	4,000	16,000	8,433	**28,433**
Cash flows:				
Repayment	-	-	(1,550)	**(1,550)**
Transfer between facilities (note 18)	16,000	(16,000)	-	**-**
Other movements	(113)	-	(116)	**(229)**
Noncash:				
Additions	-	-	970	**970**
At 31 December 2020	19,887	-	7,737	**27,624**

At 1 January 2021	19,887	-	7,737	**27,624**
Cash flows:				
Repayment	-	-	(1,882)	**(1,882)**
Other movements	40	-	(59)	**(19)**
Non cash:				
Additions	-	-	1,424	**1,424**
Foreign exchange difference	-	-	(73)	**(73)**
At 31 December 2021	19,927	-	7,147	**27,074**

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 UK adopted international accounting standards. 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 UK-adopted international accounting standards 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 as follows, which are all effective for the period beginning 1 January 2022:

1. Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
2. Definition of Accounting Estimates (Amendments to IAS 8)
3. Disclosure of Accounting policies (Amendments to IAS 1 and FRS Practice Statement 2)
4. Onerous Contracts Ð Cost of Fulfilling a Contract (Amendments to IAS 37).
5. Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
6. Reference to the Conceptual Framework (Amendments to IAS 16)
7. Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41), and
8. 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:

- As expected in 2021 the Group returned to a profitable trading performance following the challenges presented by COVID-19;
- The Group is expecting to continue to trade profitably in 2022 and beyond;
- The Group is financed by revolving credit facilities totalling £20m (in place until November 2023) and a £5m overdraft facility, repayable on demand, and;
- At the end of 2021 the Group's Net Bank Debt was £15.4 million (£9.6 million within the aggregate banking facilities which include a £5.0 million overdraft facility).

The Directors have prepared forecasts covering the period to September 2023. 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 banking facilities.

We have performed reverse stress testing, based on revenue reductions, to determine scenarios in which our banking covenants could be breached. The Directors view the set of circumstances required for such a situation to crystallise as highly unlikely and as such not reasonably plausible scenarios.

The Directors believe the business will continue to operate within its agreed banking facilities and comply with all banking covenants. As such the Group therefore continues to adopt the going concern basis is 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.

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

1. 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, and
2. 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'.
3. 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 2021. 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 has a reporting year ending in June, whilst BALU Limited has a reporting year ending in July, however both of these entities are dormant.

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:

1. fixed payments (including in-substance fixed payments), less any lease incentives receivable;
2. variable lease payments that are based on an index or a rate
3. amounts expected to be payable by the lessee under residual value guarantees
4. the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
5. 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:

1. the amount of the initial measurement of lease liability
2. any lease payments made at or before the commencement date less any lease incentives received
3. any initial direct costs, and
4. 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 with a value of less than £3,500.

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.

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:

1. 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
2. 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 makes use of a simplified approach in accounting for trade losses and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cashflows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward looking information to calculate the expected credit losses using a 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.

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.

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 after 1 January 2011

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

1. the fair value of the consideration transferred; plus
2. the recognised amount of any non-controlling interests in the acquiree; plus
3. the fair value of the existing equity interest in the acquiree; less
4. 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.

Website development costs

Website development costs that generate economic benefits beyond one year are capitalised as intangible assets and amortised on a straight-line basis over a period of up to six years, or by exception over a longer period where it is expected that economic benefits are attributable over a longer period. The remaining useful life of assets is reviewed on an annual basis, or where a change in the business or other circumstances would trigger a revision. Assets under development are not amortised but instead tested for impairment annually. The amortisation expense on intangible assets is recognised in the income statement within Administration costs. Software as a service ("SAAS") contract costs are expensed to the Income Statement over the life of the contract. For SAAS and cloud based technology, integration costs are capitalised only when they represent enhancements to Group's existing assets. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses. Capitalised costs include employee costs incurred on project management, system architecture development and testing.

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. An expert is used to assist management with the valuation.

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.

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 Divisions

Since the start of 2021, the Group has been operating under three distinct branded segments: Flowtech, Fluidpower Group Solutions and Fluidpower Group Services. This has changed from the prior year, where Flowtech and Fluidpower Group Solutions taken together were presented as "Components" segment. There is no change in the presentation of the Fluidpower Group Services segment.

The Group monitors and reports business performance based on these three segments:

1. **Flowtech:**
   Supply of both hydraulic and pneumatic consumables, predominantly through distribution for maintenance and repair operations across all industry markets and supported by supply agreements direct to a broad range of original equipment manufacturers
2. **Fluidpower Group Solutions:**
   Supply specialist technical hydraulic components and systems predominantly into OEMs and end-user channels to all industry markets and supported by supply agreements direct to a broad range of manufacturer brands
3. **Fluidpower Group Services:**
   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.

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

The Board are 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.

2.20 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:

1. 'Share capital' represents the nominal value of equity shares
2. '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.
3. 'Other reserves' relate to the issue of share options for consideration in respect of acquisition of subsidiaries
4. 'Share-based payment reserve' represents the provision made to date for share-based payments as detailed in note 2.13
5. 'Shares owned by the EBT' represents shares in the Group purchased for the Employee Benefit Trust.
6. '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
7. 'Merger relief reserve' represents merger relief arising on the acquisition of subsidiaries for which some or all of the consideration was settled in shares
8. 'Currency translation reserve' comprises all foreign exchange differences arising since 1 January 2011, arising from the translation of foreign operations
9. 'Retained losses' represent retained losses of the Group, and
10. '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 (2020: 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.

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 cash generating units (CGUs) to which goodwill is allocated. Value in use is dependent on estimations of future cash flows from the CGU 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 2021 is £63,164,000 (2020: £63,164,000). 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 £4,517,000 (2020: £5,483,000). During the year, intangible assets of £673,000 relating to Brand name was impaired, following discontinuation of its use as a trading name with effect from 4 January 2022. Refer to note 11 for further detail.

Provision for impairment of inventories

The carrying value of inventories as at 31 December 2021 was £30,530,000 (2020: £21,994,000) and included a provision against the inventories of £1,421,000 (2020: £1,710,000). 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 is 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.

3. Segment reporting

From the beginning of 2021, Management reviews the operations of the business based on three segments – Flowtech, Fluidpower Group Solutions and Fluidpower Group 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 2021	Flowtech £000	Fluidpower Group Solutions £000	Fluidpower Group Services £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement - continuing operations:						
Revenue from external customers	52,135	39,575	17,397		-	109,107
Inter-segment revenue	5,164	970	833	(6,967)		-
Total revenue	57,299	40,545	18,230	(6,967)		109,107
Underlying operating result (*)	7,101	3,505	140		(5,056)	5,690
Net financing costs	(141)	(72)	(20)	-	(600)	(833)
Underlying segment result	6,960	3,433	120	-	(5,656)	4,857
Separately disclosed items	(925)	(723)	(124)		(206)	(1,978)
Profit/(loss) before tax	6,035	2,710	(4)	-	(5,862)	2,879
Specific disclosure items						
Depreciation and impairment on owned plant, property and equipment	773	137	175		-	1,084
Depreciation on right of use assets	656	615	192	-	180	1,643
Impairment of acquired intangibles	673	-	-	-	-	673
Amortisation	247	683	124		-	1,054
Reconciliation of underlying operating result						
Underlying operating result (*)	7,101	3,505	140	-	(5,056)	5,690
Separately disclosed items	(925)	(723)	(124)	-	(206)	(1,978)
Operating profit	6,176	2,782	16	-	(5,262)	3,712

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

Segment information for 2020 has been re-stated following the division of segments into Flowtech, Fluidpower Group Solutions and Fluidpower Group Services:

For the year ended 31 December 2020	Flowtech £000	Fluidpower Group Solutions £000	Fluidpower Group Services £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement - continuing operations:						
Revenue from external customers	46,060	33,578	15,443		-	95,081
Inter-segment revenue	2,084	581	559	(3,224)	-	-
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)
Underlying segment result	4,892	1,686	(1,242)	-	(5,018)	318
Separately disclosed items	(862)	(862)	(240)		(502)	(2,466)
Profit/(loss) before tax	4,030	824	(1,482)	-	(5,520)	(2,148)
Specific disclosure items						
Depreciation and impairment on owned plant, property and equipment	655	206	309	-	-	1,170
Depreciation on right of use assets	646	771	66	-	124	1,607
Amortisation	282	684	124	-	-	1,090
Reconciliation of underlying operating result						
Underlying operating result (*)	5,038	1,790	(1,236)	-	(4,520)	1,072
Separately disclosed items	(862)	(862)	(240)	-	(502)	(2,466)
Operating profit/(loss)	4,176	928	(1,476)	-	(5,022)	(1,394)

(*) Underlying operating result is continuing operations' operating profit before separately disclosed items detailed below.

	2021 £000	2020 £000
Separately disclosed items		
Separately disclosed items within administration expenses:		
- Acquisition costs	11	94
- Amortisation of acquired intangibles (note 11)	1,054	1,090
-Impairment of acquired intangibles (note 11)	673	-
- Share-based payment costs (note 22)	166	142
- Restructuring	74	921
- Changes in amounts accrued for contingent consideration	-	219
Total separately disclosed items	1,978	2,466

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 related 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 2021	Sale of goods £000	Contracts £000	On-site services £000	Total revenue £000	Non-current assets £000
United Kingdom	82,809	900	1,889	85,598	76,914
Europe	20,952	-	-	20,952	4,582
Rest of the World	2,557	-	-	2,557	-
Total	106,318	900	1,889	109,107	81,496

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

Some contract works begun during the year were still in progress at the end of the year. As such the financial statements contain contract assets worth £714k (2020: nil) and contract liabilities worth £688k (2020: nil).

No customers of the Group account for 10% or more of the Group's revenue for either of the years ended 31 December 2021 or 2020. 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 £105,418k (2020: £93,394k) and revenue recognised over time was £900k (2020: £1,687k).

4. Operating profit / (loss)

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

	2021 £000	2020 £000
Depreciation of property, plant and equipment under right-of-use assets (note 21)	1,643	1,607
Depreciation and impairment of tangible assets (note 13)	1,084	1,170
Amortisation of intangible assets (note 11)	1,054	1,090
Impairment of intangible assets (note 11)	673	-
Changes in amounts accrued for contingent consideration (27.1)	-	219
Impairment (gain)/loss on trade receivables and prepayments	(1)	152
Loss on foreign currency transactions	24	240
Repairs and maintenance expenditure on plant and equipment	95	100

Services provided by the Group's Auditor

	2021 £000	2020 £000
Audit of the statutory consolidated and Company financial statements of Flowtech Fluidpower plc	88	92
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	172	171

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 2021	Number 2020
Assembly and distribution	269	262
Administration	343	365
Total	612	627

The aggregate payroll costs of these persons were as follows:	**2021 £000**	2020 £000
Wages and salaries	20,538	18,925
Social security costs	2,126	2,040
Contributions to defined contribution pension plans	658	630
Share-based payments (note 22)	166	142
Total	23,488	21,737

	2021 £000	2020 £000
Wages and salaries	202	1,148
Social security costs	-	17
Contributions to defined contribution pension plans	-	37
Total	202	1,202

Payroll costs, net of COVID-19 subsidy, charged to Income statement:	2021 £000	2020 £000
Wages and salaries	20,336	17,777
Social security costs	2,126	2,023
Contributions to defined contribution pension plans	658	593
Share based payments (note 22)	166	142
Total	23,286	20,535

(*) COVID-19 subsidy credit in FY 2021 relates to contribution to payroll costs received from the UK government. During FY 2020, COVID-19 subsidies were availed under the respective schemes in UK, Netherlands and Republic of Ireland.

Key management compensation

The remuneration of the Directors and the Chair, 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'.

	2021 £000	2020 £000
Remuneration	602	604
Bonus	106	-
Social security costs	73	76
Benefits in kind	9	21
Total	790	701

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:

	2021 £000	2020 £000
Highest paid Director's remuneration		
Remuneration	225	224
Bonus	56	-
Social security costs	27	30
Benefits in kind	7	18
Total highest paid Director's remuneration	315	272

6. Financial expenses

Finance expenses for the year consist of the following:	**2021 £000**	2020 £000
Finance expense arising from:		
Interest on revolving credit facility	546	377
Amortisation of loan arrangement fee	40	7
Bank loans	-	104
Total bank interest	586	488
Interest on lease liabilities	247	266
Total lease interest	247	266
Total finance expense	833	754

7. Taxation

Recognised in the income statement

Continuing operations:	**2021 £000**	2020 £000
Current tax expense		
Current year charge/(credit)	493	(73)
Overseas tax	241	146
Adjustment in respect of prior periods	(60)	17
Current tax expense	674	90
Deferred tax		
Origination and reversal of temporary differences	106	(80)
Adjustment in respect of prior periods	(112)	(16)
Change in tax rate	73	30
Deferred tax charge/(credit)	67	(66)
Total tax charge/(credit) - continuing operations	741	(24)

7. Taxation......*continued*

Reconciliation of effective tax rate	**2021 £000**	2020 £000
Profit/ (Loss) for the year	2,138	(2,172)
Total tax (expense)/ credit	(741)	24
Profit / (Loss) excluding taxation	2,879	(2,148)
Tax using the UK corporation tax rate of 19.00% (2020: 19.00%)	547	(400)
Deferred tax movements not recognised	64	149
Impact of change in tax rate on deferred tax balances	181	31
Income not taxable	-	(6)
Amounts not deductible	61	233
Adjustment in respect of prior periods	(172)	1
Other adjustments	60	-
Other tax reliefs and transfers	-	16
Total tax (credit)/expense in the income statement - continuing operations	741	24

Change in corporation tax rate

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021, and the UK deferred tax position for the group as at 31 December 2021 has been calculated based on this rate.

8. Dividends

In response to the COVID-19 pandemic, the Directors suspended dividend payments in order to retain as much cash in the business as possible. Thereafter our dividend policy will recognise both the growth requirements of the business and the interests of our Shareholders.

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. For diluted loss per share the weighted average number of ordinary shares in issue is not adjusted since its impact would be anti-dilutive.

9. Earnings per share......*continued*

	Year ended 31 December 2021			Year ended 31 December 2020		
	Profit after tax £000	Weighted average number of shares	Profit per share Pence	Loss after tax £000	Weighted average number of shares	Loss per share Pence
Basic earnings per share						
Continuing operations	2,138	61,493	3.48p	(2,172)	61,424	(3.54)
Diluted earnings per share						
Continuing operations	2,138	61,894	3.45p	(2,172)	61,488	(3.54)

	2021 £000	2020 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	61,493	61,424
Impact of share options	401	64
Weighted average number of ordinary shares for diluted earnings per share	61,894	61,488

10. Goodwill

	2021 £000	2020 £000
Cost		
Balance at 1 January	63,164	63,014
Acquired through business combinations	-	195
Other movements	-	(45)
Balance at 31 December	63,164	63,164
Impairment		
At 1 January	-	-
Impairment charge	-	-
At 31 December	-	-
Carrying amount at 31 December	63,164	63,164

Background
From the beginning of 2021, Management has reviewed the operations of the business based on three segments – Flowtech, Fluidpower Group Solutions and Fluidpower Group Services. Goodwill has been allocated for impairment testing purposes to 14 cash-generating units across these 3 segments (2020 – 14 CGUs). These cash-generating units represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

No 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.

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	**63,164**

Impairment tests

During the year ended 31 December 2021, 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 prepared forecasts for each cash-generating unit for periods of two years (extending to 3 years where appropriate), all of which have been approved by the Board.

Cash flows beyond the period forecast by management for each CGU were 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.

Year 1 forecasts are based on CGU specific assumptions taking account of market conditions and expectations in the year ahead. Beyond year 1, sensible CGU specific growth rates have been applied, in some cases, reflecting a recovery from COVID-19 supressed trading performance. Growth rates in all terminal periods are restricted to 2%.

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 7.1% to 10.8% (2020 – 7.4% to 11.9%). This discount rate has been derived from the Group's weighted average post-tax cost of capital. Based on work by an external expert, engaged by management.

Sensitivity to changes in key assumptions

FTUK: The recoverable amount of the FTUK CGU is estimated to exceed the carrying value of the CGU at 31 December 2021 by £2,485,000. The recoverable amount of this CGU would equal its carrying value if the key assumptions were to change as follows:

	From	To
EBITDA margin	14.9%	14.3%
Discount rate	10.3%	10.7%

FTUK is a well-established business with a strong track record of profitability and cash generation. It is still recovering to a degree from the impact of COVID-19 and has yet to see the benefit of operational improvements which have either already been made or are in the process of being made, most notably the bringing together of five businesses to one as alluded to in the CEO’s year in review section of this report. Management is confident that the base assumptions upon which this is based are all set at achievable levels.

Orange County: The recoverable amount of the Orange County CGU is estimated to exceed the carrying value of the CGU at 31 December 2021 by £1,295,000. The recoverable amount of this CGU would equal its carrying value if the key assumptions were to change as follows:

	From	To
EBITDA margin	13.9%	10.7%
Discount rate	10.8%	13.6%

Orange County is a relatively difficult business to predict as can be seen by the differing historical trading performances. The business is currently sat on a strong order book, and we believe the key assumptions upon which the impairment calculations are based are appropriate.

Primary Systems: The recoverable amount of the Primary Systems CGU is estimated to exceed the carrying value of the CGU at 31 December 2021 by £882,000. The recoverable amount of this CGU would equal its carrying value if the key assumptions were to change as follows:

	From	To
EBITDA margin	13.9%	12.8%
Discount rate	10.6%	12.3%

Primary Systems has had a disappointing trading performance in 2021 but a variety of process and operational improvement plans have now been put in place. This, combined with a healthy order book, give us confidence that the assumptions upon which these calculations are based are sensible.

Hydroflex: The calculations resulted in an approximate breakeven position. This, combined with the expectation of improving financial performance, resulted in a decision not to impair the goodwill value.

For illustrative purposes only we have considered the impact that movements in revenue, EBITDA margin and discount rate would have on the extent of potential impairment:

1. If revenue fell by 1% in the terminal period, the impact would be to increase the impairment by £306,000
2. If EBITDA margin fell by 100bps in the terminal period, the impact would be to increase the impairment by £718,000
3. If the discount rate increased from 9.8% to 10.8% the impact would be to increase the impairment by £463,000

11. Other intangible assets

	Customer relationships		Brands		Assets under construction (*)		Total	
	2021 £000	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000	**2021 £000**	2020 £000
Gross carrying value								
Balance at 1 January 2021	9,371	9,371	1,173	1,173	-	-	10,544	10,544
Additions	-	-	-	-	761	-	761	-
Balance at 31 December 2021	9,371	9,371	1,173	1,173	761	-	11,305	10,544
Amortisation and impairment								
Balance at 1 January 2021	4,711	3,729	350	242	-	-	5,061	3,971
Amortisation	946	982	108	108	-	-	1,054	1,090
Impairment	-	-	673	-	-	-	673	-
Balance at 31 December 2021	5,657	4,711	1,131	350	-	-	6,788	5,061
Carrying amount at 31 December 2021	3,714	4,660	42	823	761	-	4,517	5,483

(*) The assets under construction relate to new website for the Flowtech Division comprising Online ordering, Customer Data Platform, Product information System and Fulfilment capabilities.

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 MIP Limited	UK	Holding company	100%
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%
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%
Fluidpower Shared Services Limited	UK	Group Shared Service Centre	100%
Beaumanor Engineering Limited	UK	Dormant	100%
Flowtech Europe Limited	UK	Dormant	100%
Fluidpower Holdings Limited	UK	Dormant	100%
Balu Limited	UK	Dormant	100%
Indequip Limited	UK	Dormant	100%
KR Couplings Limited	UK	Dormant	100%
Betabite Hydraulics Limited	UK	Dormant	100%
Hydraulics (Ireland) Limited	UK	Dormant	100%
Haitima Flow Control UK 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%
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 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 and 1 January 2021	1,207	13,490	898	**15,595**
Additions	82	1,234	26	**1,342**
Disposals	-	(92)	(179)	**(271)**
Effect of movements in foreign exchange	-	(67)	(10)	**(77)**
Balance at 31 December 2021	1,289	14,565	735	**16,589**
Depreciation and impairment				
Balance at 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 and 1 January 2021	207	8,134	507	**8,848**
Depreciation charge for the year	36	908	140	**1,084**
Impairment		-	-	**-**
Disposals	-	(40)	(137)	**(177)**
Effect of movements in foreign exchange	-	(49)	(8)	**(57)**
Balance at 31 December 2021	243	8,953	502	**9,698**
Net book value				
At 31 December 2021	1,046	5,612	233	**6,891**
At 1 January 2021	1,000	5,356	391	**6,747**
At 1 January 2020	1,027	5,087	414	**6,528**

Included in land and property is land at a cost of £145,000 which is not depreciated (2020: £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	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Intangible assets	**-**	-	**(806)**	(1,117)
Property, plant and equipment	**-**	-	**(756)**	(463)
Provisions	**20**	84	**-**	-
Employee share-based payments	**14**	-	**-**	-
Losses and other deductions	**-**	37	**-**	-
Tax assets/(liabilities)	**34**	121	**(1,562)**	(1,580)
Net deferred tax liability			**(1,528)**	(1,459)

Movement in deferred tax during the year ended 31 December 2021

	1 January 2021 £000	Recognised in profit or loss £000	31 December 2021 £000
Intangible assets	(1,117)	311	(806)
Property, plant and equipment	(463)	(293)	(756)
Provisions	84	(63)	20
Employee share-based payments	-	14	14
Losses and other deductibles	37	(37)	-
	(1,459)	(68)	(1,528)

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)

15. Inventories

	2021 £000	2020 £000
Finished goods and goods for resale	30,531	21,994

Charges for finished goods recognised as cost of sales in the year amounted to £62,237,000 (2020: £54,974,000). The write-down of inventories to net realisable value amounted to £21,000 (2020: £264,000). The write-downs and reversals are included in cost of sales. The provision made against inventories at the year end was £1,421,000 (2020: £1,710,000).

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.

16. Trade & other receivables

	2021 £000	2020 £000
Trade receivables	20,416	17,872
Other receivables	1,150	543
Trade and other receivables	21,566	18,415

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

	Gross 2021 £000	Impairment 2021 £000	Gross 2020 £000	Impairment 2020 £000
Not past due	17,711	27	16,574	30
Past due 0-30 days	2,283	9	1,151	10
More than 30 days	720	262	480	293
	20,714	**298**	18,205	333

The overall expected credit loss rate is 1.4% (2020: 1.6%).

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

	2021 £000	2020 £000
Balance at 1 January 2021	333	309
Provision utilised	(34)	(128)
(Decrease)/increase in provision	(1)	152
Balance at 31 December 2021	298	333

17. Cash & cash equivalents

	2021 £000	2020 £000
Cash and cash equivalents:		
Sterling	3,285	7,980
Euro	1,251	1,226
Dollar	26	29
Total cash and cash equivalents	4,562	9,235

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 27.

	2021 £000	2020 £000
Non-current liabilities		
Revolving credit facility ($)	19,927	19,887
Lease liabilities	5,586	6,278
Total non-current liabilities	25,513	26,165
Current liabilities		
Lease liabilities	1,561	1,459
Total current liabilities	1,561	1,459
Total	27,074	27,624

($) 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, £40k amortisation charge is charged to the income statement during 2021 (2020: £7k). The unamortised value of the loan fee as at 31 December 2021 of £73k is netted off against the RCF Facility of £20,000k.

Terms and debt repayment schedule	Currency	Nominal interest rate	Year of maturity	Carrying value 2021 £000	Carrying value 2020 £000
Secured revolving credit facility	GBP	SONIA+ 2.65%	2023	20,000	20,000
Lease liabilities	GBP	Various	2021 to 2031	6,043	6,548
Lease liabilities	EUR	Various	2021 to 2027	1,104	1,189
				27,147	27,737

Under terms agreed in November 2020, the Group secured a revolving credit facility worth £20,000,000. The revolving credit facility is subject to a non-utilisation fee of 0.9275% and is due for renewal in November 2023. The facility is secured by legal charges over certain of the Group's assets which include trade receivables and stock. Following the phase out of LIBOR, the Group agreed to switch the benchmark rate to SONIA (Sterling Overnight Interbank Average Rate). The switch will take effect for any loans maturing on or after 1st January 2022. The Group also has a £5,000,000 overdraft facility which is subject to annual review.

19. Trade & other payables

	2021 £000	2020 £000
Current liabilities		
Trade payables	15,719	10,792
Accrued expenses	3,555	3,088
Social security and other taxes (*)	1,837	3,925
	21,111	17,805

20. Provisions

	2021 £000	2020 £000
Opening balance	367	417
Amount utilised during the year	-	(74)
Amount (released)/ provided in the year	(58)	24
Closing balance	309	367

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

	2021 £000	2020 £000
Current	-	-
Non-current	309	367
Total	309	367

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.

21. 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 2021	8,758	399	1,259	**10,416**
Additions	264	-	1,161	**1,425**
Disposals	(703)	-	(328)	**(1,031)**
Effect of movement in foreign exchange	(100)	-	(14)	**(114)**
Balance at 31 December 2021	8,219	399	2,078	**10,696**
Depreciation and amortisation				
Balance at 1 January 2021	2,327	19	580	**2,926**
Depreciation charge for the year	1,067	57	519	**1,643**
Disposals	(454)	-	(295)	**(749)**
Effect of movements in foreign exchange	(41)	-	(8)	**(49)**
Balance at 31 December 2021	2,899	76	796	**3,771**
Net book value				
At 31 December 2021	5,320	323	1,282	**6,925**
At 31 December 2020	6,431	380	679	**7,490**

21. Right-of-use assets & lease liabilities *continued*

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

	2021 £000	2020 £000
Depreciation charge of right-of-use assets		
Land and property	1,067	1,163
Plant, machinery and equipment	57	19
Motor vehicles	519	425
Interest expenses (included in finance cost)	247	264
Exchange movements in income statement	9	(3)
Total expense in the income statement relating to right-of-use assets	1,899	1,868

Analysis by length of liability

	As at 31 December 2021				As at 31 December 2020			
	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	970	58	533	1,561	1,040	56	363	1,459
Non-current	4,576	274	736	5,586	5,651	326	301	6,278
Total	5,546	332	1,269	7,147	6,691	382	664	7,737

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	20	5	105
Range of remaining term	1-10 years	6 years	1-4 years
Number of leases with extension options	7	-	-
Number of leases with termination options	1	-	-

22. 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 £658,000 (2020: £593,000) (net of COVID-19 Subsidy).

23.2 Share-based employee remuneration

As at 31 December 2021, the Group maintained five share-based payment schemes for employee remuneration: the Management Incentive Plan; the Long-Term 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	**2021 number**	2020 number
21 May 2014	11 April 2017 to 21 May 2021 (*)	-	77
1 June 2016	1 June 2019 to 1 June 2023	3,005	3,005

(*) 77 options granted on 21 May 2014 were allowed to lapse.

Long-Term Incentive Plan

The Group established a new Long-Term Incentive Plan ("LTIP") together with an initial grant under the LTIP to the Executive Directors. The LTIP has been established to incentivise management to deliver long-term value creation for Shareholders and ensure alignment with Shareholder interests.

The Directors were granted nil-cost options in accordance with the rules of the LTIP. The share options are subject to both share price and EPS performance criteria measured on the results for the three year financial period to 31 December 2023. As the grants made under the MIP in June 2016 can vest up to June 2023, there will be a period where the two incentive schemes will run concurrently. As such, the Remuneration Committee have agreed for Bryce Brooks, that there will be up to a £1 for £1 of any value accrued for the same period of performance. 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:

Awards (*)	**RC LTIPs (EPS)**	**RC LTIPs (Share price)**	**BB LTIPs (EPS and share price)**
Number of awards	83,333	83,334	187,500
Grant date	28 May 2021	28 May 2021	28 May 2021
Vesting period ends	28 May 2024	28 May 2024	28 May 2024
Share price at date of grant	£1.26	£1.26	£1.26
Volatility	58.30%	58.30%	58.30%
Option life	10 years	10 years	10 years
Dividend yield	0.00%	0.00%	0.00%
Risk-free investment rate	0.17%	0.17%	0.17%
Fair value at grant date	£0.85	£0.57	£0.39
Exercise price at date of grant	-	-	-
Exercisable from/to	28 May 2024 to 28 May 2031	28 May 2024 to 28 May 2031	28 May 2024 to 28 May 2031
Weighted average remaining contractual life	10 years	10 years	10 years

(*) RC = Russell Cash, Director BB = Bryce Brooks, Director

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. 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	**2021 number £000**	2020 number £000
Approved plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	480	610
8 August 2014	£1.26	4 April 2017 to 7 August 2024	12	12
			492	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	60
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 March 2022 to 8 February 2030	50	50
28 May 2021	£1.00	15 March 2023 to 28 May 2031	150	-
			501	351
			993	973

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 2021	622	1.01	351	0.76	973
Granted	-	-	150	1.00	150
Lapsed	(125)	1.00	-	-	(125)
Forfeited	-	-	-	-	-
Exercised	(5)	1.00	-	-	(5)
Outstanding at 31 December 2021	492	1.01	501	0.83	993
Exercisable at 31 December 2021	492	1.01	143	0.88	580

The fair values of the options granted were determined using the Binomial model.

The following principal assumptions were used in the valuation:

	Unapproved EMI scheme
Grant date	28 May 2021
Vesting period ends	15 Mar 2023
Share price at date of grant	£1.26
Volatility	61.50%
Option life	10 years
Dividend yield	0.00%
Risk-free investment rate	0.17%
Fair value at grant date	£0.85
Exercise price at date of grant	£1.00
Exercisable from/to	15 Mar 2023 to 28 May 2031
Weighted average remaining contractual life	10 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:

Date of grant	Exercise price	Exercise period	**2021 number 000**	2020 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	260	352
1 January 2019	£1.13	5 May 2022 to 02 Sep 2025	27	27
			397	489

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 2021	489	1.07
Granted	-	-
Exercised	(77)	1.00
Forfeited	(15)	1.00
Outstanding at 31 December 2021	397	1.13
Exercisable at 31 December 2021	370	1.13
Exercisable at 31 December 2020	462	1.13

In total, £166,000 (2020: £142,000) of employee remuneration expenses, all of which related to equity-settled share-based payment transactions, has been included in the Consolidated Income Statement.

23. 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 1 January 2020	61,492,673	30,746
At 31 December 2021	61,492,673	30,746

24. Net cash from operating activities

	2021 **£000**	2020 £000
Reconciliation of profit before taxation to net cash flows from operations		
Profit / (loss) from continuing operations before tax	2,879	(2,148)
Depreciation and impairment of property, plant and equipment	1,084	1,170
Depreciation on right-of-use assets (IFRS 16)	1,643	1,607
Finance costs (note 6)	833	754
(Gain)/Loss on sale of plant and equipment	(209)	184
Write back liabilities	-	(19)
Other movements	(95)	-
Amortisation of intangible assets	1,054	1,090
Impairment of intangible assets	673	-
Cash settled share options	(26)	-
Equity-settled share-based payment charge	166	142
Change in amounts accrued for contingent consideration	-	219
Operating cash inflow before changes in working capital and provisions	8,002	2,999
Change in trade and other receivables	(3,325)	3,455
Change in stocks	(8,764)	2,207
Change in trade and other payables (*)	3,496	2,118
Change in provisions	(59)	(47)
Cash generated from operations	(650)	10,732
Tax reclaimed/(paid)	209	(649)
Net cash (used)/generated from operating activities	(441)	10,083

(*) Change in trade and other payables includes VAT payments of £1,418k relating to Q1 2020 VAT, deferred under the COVID-19 support scheme offered by HMRC.

25. Contingent liabilities & commitments

The Group had capital expenditure of £34,000 contracted for but not provided at 31 December 2021 (2020: £50,000).

26. 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. The compensation paid or payable to key management is disclosed in the Directors' Remuneration report. The Group has not entered into any transactions other than those disclosed in the Directors' Remuneration report, nor has it entered into any transactions with any related parties who are not members of the Group.

27. Financial instruments

27.1 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).

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

	Carrying amount 2021 000	Fair value 2021 £000	Carrying amount 2020 £000	Fair value 2020 £000
Loans and receivables				
Cash and cash equivalents (note 17) (*)	4,562	4,562	9,235	9,235
Trade and other receivables (note 16) (*)	21,566	21,566	18,415	18,415
Total financial assets measured at amortised costs	26,128	26,128	27,650	27,650
Financial assets	26,128	26,128	27,650	27,650
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 18)	(27,147)	(27,147)	(27,737)	(27,737)
Trade payables and accruals (note 19) (*)	(19,274)	(19,274)	(13,880)	(13,880)
Total financial liabilities measured at amortised cost	(46,421)	(46,421)	(41,617)	(41,617)
Total financial liabilities	(46,421)	(46,421)	(41,617)	(41,617)
Total financial instruments	(20,293)	(20,293)	(13,967)	(13,967)

(*) The Group has not disclosed the fair value for financial instruments such as short-term trade receivables and payables, interest bearing loans and borrowings, and cash and cash equivalents, because their carrying amounts are a reasonable approximation of fair values.

Financial instruments measured at fair value	Valuation technique
Forward exchange contracts	The Group does not use forward exchange contracts, rather it 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 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.

27.2 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 considers 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:

	2021 £000	2020 £000
UK	17,112	14,951
Europe	2,789	2,653
Rest of the World	515	268
	20,416	17,872

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.

27.3 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 2021	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	7,147	7,906	1,758	1,597	2,889
Revolving credit facility	19,927	21,562	545	545	20,472
Trade payables	15,719	15,719	15,719	–	–
	42,793	45,187	18,022	2,142	23,361

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

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

27.4 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 2021	Sterling £000	Euro £000	US Dollar £000	Other £000	Total £000
Cash and cash equivalents	3,285	1,251	26	-	4,562
Trade and other receivables	18,583	2,982	1	-	21,566
Revolving credit facility	(19,927)	-	-	-	(19,927)
Liabilities relating to right-of-use assets	(6,043)	(1,104)	-	-	(7,147)
Trade payables	(10,145)	(5,517)	(40)	(17)	(15,719)
Net exposure	(14,247)	(2,388)	(13)	(17)	(16,665)

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)

Sensitivity analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2021 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 2021.

	Profit or loss and equity	
	2021 £000	2020 £000
€	195	94
$	1	(68)

A 10% strengthening of the following currencies against the pound sterling at 31 December 2021 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 2021.

	Profit or loss and equity	
	2021 £000	2020 £000
€	(238)	(115)
$	(1)	83

Market risk - interest rate risk
Profile: At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

Variable rate instruments	**2021 £000**	2020 £000
Financial liabilities (carrying value)	19,927	19,887

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 2020.

	2021 £000	2020 £000
Equity		
Increase of 100 basis points	(199)	(199)
Decrease of 100 basis points	199	199
Profit or loss		
Increase of 100 basis points	(199)	(199)
Decrease of 100 basis points	199	199

27.5 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.

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

Company income statement	Note	2021 £000	2020 £000
Continuing operations			
Administrative expenses		(861)	(827)
Operating loss		(861)	(827)
Financial income	E	3,000	9,000
Financial expenses	E	(585)	(488)
Net financing income		2,415	8,512
Profit from continuing operations before tax		1,554	7,685
Taxation	F	(38)	39
Profit for the year attributable to the owners of the parent		1,516	7,724

Company statement of financial position	Note	2021 £000	2020 £000
Fixed assets			
Investments	I	59,421	59,358
Total fixed assets		59,421	59,358
Current assets			
Cash and cash equivalents		15	15
Trade and other debtors	J	75,964	73,059
Total current assets		75,979	73,074
Creditors: amounts falling due within one year			
Trade and other creditors	L	7,250	5,990
Total creditors: amounts falling due within one year		7,250	5,990
Net current assets		68,729	67,084
Total assets less current liabilities		128,150	126,442
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	K	19,927	19,887
Total creditors: amounts falling due after more than one year		19,927	19,887
Net assets		108,223	106,555
Capital and reserves			
Called up share capital	N	30,746	30,746
Share premium account		60,959	60,959
Other reserves		187	187
Merger relief reserve		453	453
Retained earnings		15,878	14,210
Total equity		108,223	106,555

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 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						
Issue of share capital	167	-	-	47	-	214
Share options Đ granted to subsidiary employees	-	-	-	-	142	142
Total transactions with owners	167	-	-	47	142	356
Balance at 1 January 2021	30,746	60,959	187	453	14,210	106,555
Profit for the year	-	-	-	-	1,516	1,516
Total comprehensive income for the year	-	-	-	-	1,516	1,516
Transactions with owners						
Share options Đ granted to subsidiary employees	-	-	-	-	166	166
Share options settled	-	-	-	-	(14)	(14)
Total transactions with owners	-	-	-	-	152	152
Balance at 31 December 2021	30,746	60,959	187	453	15,878	108,223

(*) Retained earnings and share based payment reserve.

The financial statements on pages 65-115 were approved by the Board of Directors on 28 March 2022 and were signed on its behalf by:

Russell Cash
Chief Financial Officer
Company Registration Number: 09010518

Notes to the Company's 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 2021 were authorised for issue by the Board of Directors on 28 March 2022 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 2021.

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 where 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. 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 2 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 7% to 11% (2020: 8%-12%). 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 2021 is £59,421,000 (2020: £59,358,000). 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 £75,688,000 (2020: £72,648,000). There was no impairment charge during the year.

C. 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:

	2021 £000	2020 £000
Audit of the statutory financial statements of Flowtech Fluidpower plc	88	92

D. 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:

	2021 £000	2020 £000
Administration	4	4

The aggregate payroll costs of these persons were as follows:

	2021 £000	2020 £000
Remuneration	602	604
Bonus	106	-
Social security costs	73	85
Benefits in kind	9	21
	790	710

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

	2021 £000	2020 £000
Highest paid Director's remuneration		
Remuneration	225	224
Bonus	56	-
Social security costs	27	30
Benefits in kind	7	18
Total highest paid Director's remuneration	315	272

E. Financial income & expense

Finance income for the year consists of the following:

	2021 £000	2020 £000
Finance income arising from:		
Dividends received from Group undertakings	3,000	9,000
Total finance income	3,000	9,000

Finance expenses for the year consist of the following:

	2021 £000	2020 £000
Finance expense arising from:		
Bank loans and revolving credit facility, and amortisation of loan arrangement fee	585	488
Total finance income	585	488

F. Taxation

Reconciliation of effective tax rate	2021 £000	2020 £000
Profit for the year	1,516	7,724
Total (credit)/tax expense	38	(39)
Profit excluding taxation	1,554	7,685
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	295	1,461
Deferred tax movements not recognised	(1)	(2)
Group relief	421	212
Income not taxable	(570)	(1,710)
Amounts not deductible	15	-
Total (credit)/tax expense in the income statement	38	(39)

Change in corporation tax rate

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021, and the UK deferred tax position for the group as at 31 December 2021 has been calculated based on this rate.

G. Dividends

In response to the COVID-19 pandemic, the Directors suspended dividend payments in order to retain as much cash in the business as possible. Thereafter our dividend policy will recognise both the growth requirements of the business and the interests of our Shareholders.

H. Share-based payments

Details of share-based payments are shown in note 22 to the consolidated financial statements.

I. Investments

Cost and net book value	Investments in subsidiaries' unlisted shares £000	Subsidiaries' share-based payment reserves £000	Total £000
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
At 1 January 2021	59,024	334	29,358
Additions net of exercise of options in the year	-	63	63
At 31 December 2021	59,024	397	59,421

The subsidiaries of the Company are listed below:

	Country of incorporation	Principal activity	Ownership
Fluidpower MIP Limited	UK	Holding company	100%
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%
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%
Fluidpower Shared Services Limited	UK	Holding company	100%
Beaumanor Engineering Limited	UK	Dormant	100%
Flowtech Europe Limited	UK	Dormant	100%
Fluidpower Holdings Limited	UK	Dormant	100%
Balu Limited	UK	Dormant	100%
Indequip Limited	UK	Dormant	100%
KR Couplings Limited	UK	Dormant	100%
Betabite Hydraulics Limited	UK	Dormant	100%
Hydraulics (Ireland) Limited	UK	Dormant	100%
Haitima Flow Control UK 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%
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.

J. Trade and other debtors

	2021 £000	2020 £000
Current:		
Deferred tax asset	1	39
Prepayments and accrued income	275	372
Amounts owed by Group undertakings	75,688	72,648
Total trade and other debtors	75,964	73,059

K. Interest-bearing loans and borrowings

	2021 £000	2020 £000
Non-current liabilities:		
Revolving credit facility	19,927	19,887
Total non-current liabilities	19,927	19,887
Total current liabilities	-	-
Total interest-bearing loans and borrowings	19,927	19,887

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 2022.

L. Trade and other creditors

	2021 £000	2020 £000
Social security and other taxes	107	92
Accruals and deferred income	144	213
Amounts owed to other Group undertakings	6,999	5,685
Total trade and other creditors	7,250	5,990

M. Deferred taxation

Deferred tax assets comprise:

	2021 £000	2020 £000
At start of year	39	-
Total deferred tax credit in profit and loss account for the year	(38)	39
At end of year	1	39

A deferred tax asset of £nil (2020: nil) in respect of cumulative share-based payments of £77k (2020: nil) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

N. Share capital

Allotted, called up and fully paid:

	Number	£000
At 1 January 2021	61,492,673	30,746
At 31 December 2021	61,492,673	30,746

O. Contingent liabilities & commitments

The Company has no capital expenditure contracted for but not provided as at 31 December 2021 (2020: nil).

P. 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 £276,000 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.

Q. Ultimate controlling party

The Directors consider that there is no ultimate controlling party.

Glossary of terms

Daily Gross Profit	Daily Gross Profit is Gross profit divided by number of trading days in a year. FY 2021 had 249 trading days whereas FY 2020, being a leap year, had 250 trading days.
DSO (days)	Debtors Sales Outstanding (days) is the gross value of trade receivables as shown in Note 16 divided by the daily revenue recorded during the quarter Oct – Dec. Daily revenue is the revenue for the quarter, including VAT on revenue at a standard rate of 20% divided by 92 (being number of days in the quarter).
Group Cost Per Pick	Group Cost Per Pick is the Group's total cost of warehousing, including property and people, divided by the number of invoiced lines in the year.
Net Debt	Net Debt is Bank Debt less the value of cash and cash equivalents. It includes value of unpaid COVID-19 related HMRC support (applicable only for FY 2020) but excludes lease liabilities under IFRS16. Bank Debt is the value of Barclays RCF facility of £20m and any utilised value of £5m overdraft facility (NIL for FY 2020 and FY 2021).
Turn & Earn	Turn & Earn Index is calculated by multiplying gross margin by average stock turn. Average stock turn is the finished goods recognised as cost of sales in the year divided by the average of opening and closing inventory ((note 15).
Underlying Operating Profit	Underlying Operating Profit is continuing operations' operating profit before separately disclosed items detailed in note 3, namely, amortisation and impairment of acquired intangibles, share based payment costs, restructuring costs and acquisition costs.
Underlying Segment Operating Profit	Underlying Segment Operating Profit is continuing operations' operating profit before central costs and separately disclosed items detailed in note 3. 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.
Working Capital	Working Capital is inventories (Note 15), trade and other receivables (Note 16) and prepayments less trade and other payables (Note 19).

Company information

Flowtech Fluidpower plc
Registered Office
Bollin House
Bollin Walk
Wilmslow
Cheshire
SK9 1DP

Company number: 09010518

Company Secretary
Russell Cash

Contact:
Tel: +44 (0) 1695 52759
Email: info@flowtechfluidpower.com
Website: www.flowtechfluidpower.com

Nominated adviser and sole stockbroker
Liberum Capital Limited
Ropemaker Place
Level 12 25 Ropemaker Street
London
EC2Y 9LY

Auditor
Grant Thornton UK LLP
Landmark
St Peter's Square
1 Oxford Street
Manchester
M1 4PB

Solicitors
DLA Piper UK LLP
1 St Peter's Square
Manchester
M2 3DE

Bankers
Barclays Bank PLC
1 Churchill Place
London
E14 5HP

Company registrars
Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

Investor & media relations
TooleyStreet Communications Ltd
15 Colmore Row
Birmingham
B3 2BH

Flowtech Fluidpower plc
Registered Office
Bollin House
Bollin Walk
Wilmslow
Cheshire
SK9 1DP
info@flowtechfluidpower.com
www.flowtechfluidpower.com