Independent auditor's report

We have audited the financial statements of Flowtech Fluidpower plc for the year ended 31 December 2016 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 the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101 'Reduced Disclosure Framework'.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 49, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

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 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the 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.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and 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 parent company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and Directors' Report.

Matters on which we are required to report by exception

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

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

Stuart Muskett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
4 April 2017

Consolidated income statement

	Note	2016 £000	2015 £000
Continuing operations			
Revenue	3	**53,780**	44,848
Cost of sales		**(34,714)**	(29,503)
Gross profit		**19,066**	15,345
Distribution expenses		**(2,475)**	(2,245)
Administrative expenses before separately disclosed items:		**(9,137)**	(6,232)
— Acquisition costs	4	**(419)**	(299)
— Amortisation of acquired intangibles	4	**(569)**	(413)
— Share-based payment costs	4	**(353)**	(342)
— Restructuring costs	4	**(84)**	(323)
— Release of over accrued contingent consideration	4	**108**	—
Total administrative expenses		**(10,454)**	(7,610)
Operating profit	3,4	**6,137**	5,491
Financial income	6	**1**	22
Financial expenses	6	**(611)**	(233)
Net financing costs		**(610)**	(211)
Profit from continuing operations before tax	3	**5,527**	5,280
Taxation	7	**(1,146)**	(1,057)
Profit from continuing operations		**4,381**	4,223
Loss from discontinued operations, net of tax	28	**(91)**	(131)
Profit for the year attributable to the owners of the parent		**4,290**	4,092
Earnings per share	9		
Basic earnings per share			
Continuing operations		**10.17p**	9.85p
Discontinued operations		**(0.21p)**	(0.31p)
Basic earnings per share		**9.96p**	9.54p
Diluted earnings per share			
Continuing operations		**10.08p**	9.73p
Discontinued operations		**(0.21p)**	(0.30p)
Diluted earnings per share		**9.87p**	9.43p

Consolidated statement of comprehensive income

	2016 £000	2015 £000
Profit for the year	**4,290**	4,092
Other comprehensive income		
– items that will be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	**350**	85
Total comprehensive income for the year attributable to the owners of the parent	**4,640**	4,177

Consolidated statement of financial position

	Note	2016 £000	2015 £000
Assets			
Non-current assets			
Goodwill	10	**47,927**	46,412
Other intangible assets	11	**4,780**	4,179
Property, plant and equipment	13	**3,899**	3,265
Total non-current assets		**56,606**	53,856
Current assets			
Inventories	15	**16,592**	13,254
Trade and other receivables	16	**13,012**	10,367
Prepayments		**304**	316
Other financial assets	17	**—**	32
Cash and cash equivalents	18	**3,824**	1,841
Total current assets		**33,732**	25,810
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	19	**12,888**	5,986
Trade and other payables	20	**8,625**	6,625
Deferred and contingent consideration	21	**1,420**	1,250
Tax payable		**975**	758
Provisions	22	**—**	86
Other financial liabilities	23	**57**	15
Total current liabilities		**23,965**	14,720
Net current assets		**9,767**	11,090
Non-current liabilities			
Interest-bearing loans and borrowings	19	**4,081**	4,874
Deferred and contingent consideration	21	**212**	898
Provisions	22	**212**	130
Deferred tax liabilities	14	**1,019**	901
Total non-current liabilities		**5,524**	6,803
Net assets		**60,849**	58,143
Equity directly attributable to owners of the parent			
Share capital	26	**21,539**	21,539
Share premium		**46,880**	46,880
Share-based payment reserve		**733**	380
Shares owned by the Employee Benefit Trust		**(338)**	(338)
Merger reserve		**293**	293
Merger relief reserve		**2,086**	2,086
Currency translation reserve		**257**	(93)
Retained losses		**(10,601)**	(12,604)
Total equity		**60,849**	58,143

The financial statements on pages 56 to 58 were approved by the Board of Directors on 4 April 2017 and were signed on its behalf by:

Bryce Brooks
Chief Financial Officer
Company number: 09010518

Consolidated statement of changes in equity

	Share capital £000	Share premium £000	Share-based payment reserve £000	Merger reserve £000	Shares owned by the EBT £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Total equity £000
Balance at 1 January 2015	21,414	46,664	148	293	—	2,086	(178)	(14,521)	55,906
Profit for the year	—	—	—	—	—	—	—	4,092	4,092
Other comprehensive income	—	—	—	—	—	—	85	—	85
Total comprehensive income for the year	—	—	—	—	—	—	85	4,092	4,177
Transactions with owners									
Issue of share capital	125	216	—	—	—	—	—	—	341
Shares owned by the EBT	—	—	—	—	(338)	—	—	—	(338)
Share-based payment charge	—	—	342	—	—	—	—	—	342
Share options settled	—	—	(110)	—	—	—	—	—	(110)
Equity dividends paid (note 8)	—	—	—	—	—	—	—	(2,175)	(2,175)
Total transactions with owners	125	216	232	—	(338)	—	—	(2,175)	(1,940)
Balance at 1 January 2016	**21,539**	**46,880**	**380**	**293**	**(338)**	**2,086**	**(93)**	**(12,604)**	**58,143**
Profit for the year	—	—	—	—	—	—	—	4,290	4,290
Other comprehensive income	—	—	—	—	—	—	350	—	350
Total comprehensive income for the year	—	—	—	—	—	—	350	4,290	4,640
Transactions with owners									
Share-based payment charge	—	—	353	—	—	—	—	—	353
Equity dividends paid (note 8)	—	—	—	—	—	—	—	(2,287)	(2,287)
Total transactions with owners	**—**	**—**	**353**	**—**	**—**	**—**	**—**	**(2,287)**	**(1,934)**
Balance at 31 December 2016	**21,539**	**46,880**	**733**	**293**	**(338)**	**2,086**	**257**	**(10,601)**	**60,849**

Consolidated statement of cash flows

	Note	**2016 £000**	2015 £000
Cash flow from operating activities			
Net cash from operating activities	27	**4,166**	5,943
Cash flow from investing activities			
Acquisition of businesses, net of cash acquired	25	**(3,677)**	(3,063)
Acquisition of property, plant and equipment	13	**(858)**	(750)
Proceeds from sale of property, plant and equipment		**52**	7
Payment of deferred and contingent consideration		**(1,031)**	(1,603)
Net cash used in investing activities		**(5,514)**	(5,409)
Cash flows from financing activities			
Proceeds from new loan		**—**	6,523
Repayment of long term borrowings		**(857)**	(2,357)
Net change in short term borrowings		**7,000**	(2,096)
Repayment of finance lease liabilities		**(37)**	(32)
Interest received		**1**	14
Interest paid		**(302)**	(244)
Purchase of own shares		**—**	(338)
Cash settled share options		**—**	(105)
Dividends paid	8	**(2,287)**	(2,175)
Net cash generated from/(used in) financing activities		**3,518**	(810)
Net change in cash and cash equivalents		**2,170**	(276)
Cash and cash equivalents at start of year		**1,725**	1,979
Exchange differences on cash and cash equivalents		**(71)**	22
Cash and cash equivalents at end of year	18,19	**3,824**	1,725
Cash and cash equivalents	18	**3,824**	1,841
Bank overdraft	19	**—**	(116)
Cash and cash equivalents at end of year		**3,824**	1,725

Company number: 09010518

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 Pimbo Road, Skelmersdale, Lancashire, WN8 9RB. 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, Pimbo Road, Skelmersdale, Lancashire, WN8 9RB. Email: info@flowtechfluidpower.com; or telephone +44 (0) 1695 52796.

2. Accounting policies

2.1 Basis of preparation

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

The consolidated financial statements have been prepared on a going concern basis and prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss.

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

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

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

These financial statements have been prepared on a going concern basis. The Directors have prepared cash flow projections and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facilities. Accordingly, the Directors continue to adopt the going concern basis in preparing these 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.

Notes to the consolidated financial information continued

2. Accounting policies continued

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

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

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

Subsidiaries

The Group's financial statements consolidate those of the parent Company and all of its subsidiaries as of 31 December 2016. 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. All subsidiaries have a reporting date of 31 December.

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 Classification of financial instruments issued by the Group

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

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

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

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

2.5 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 fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

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.

2. Accounting policies continued

Cash and cash equivalents

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

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses. Any change in their value through impairment or reversal of impairment is recognised in profit or loss. Discounting is omitted where the effect is immaterial. Interest-bearing borrowings include invoice discounting facilities and stock loans. Cash flows on these items are treated net due to the large amounts, short maturities and the rapid turnover on cash receipts and cash payments.

Derivative financial instruments

Derivative financial instruments held by the Group 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 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.

2.6 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.

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

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	50 years – straight line
Plant, machinery and equipment	3 to 20 years – straight line
Motor vehicles	4 to 5 years – reducing balance

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

2.7 Leased assets

Finance leases

Management applies judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership at the end of the lease term.

See note 2.6 for the depreciation methods and useful lives for assets held under finance leases.

Notes to the consolidated financial information continued

2. Accounting policies continued

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

Operating lease payments

An operating lease is defined as a lease in which substantially all of the risks and rewards incidental to ownership remain with the lessor. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

2.8 Business combinations

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

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

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

Acquisitions after 1 January 2011

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

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

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

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

Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

2.9 Intangible assets

Goodwill

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

Acquired intangibles

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

The Group has recognised customer relationships and brand identity as separately identifiable acquired intangible assets. The useful economic life attributed to each intangible asset is determined at the time of the acquisition and ranges from five to ten years.

Impairment reviews are undertaken annually and whenever the Directors consider that there has been a potential indication of impairment.

2. Accounting policies continued

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 whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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, inventories and deferred tax 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 operating segments as defined in note 2.17. The goodwill acquired in a business combination, for the purpose of impairment testing, is also allocated to the relevant operating segment. Goodwill acquired in a business combination is allocated to operating segments 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 operating segment exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of operating segments are allocated first to reduce the carrying amount of any goodwill allocated to the segments, and then to reduce the carrying amounts of the other assets in the segment 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.

Notes to the consolidated financial information continued

2. Accounting policies continued

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 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 when the significant risks and rewards of ownership have been transferred to the buyer, which is determined to be at the point of despatch.

Revenues from the assembly of engineering components under stage payment arrangements are not considered material.

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 Operating segments

The Group comprises the following three operating segments which are defined by trading activity:

Flowtechnology — distribution and assembly of engineering components, principally to distributors and end users in the UK, Ireland and the Benelux.
Power Motion Control — based in the UK and Eire, distribution and assembly of engineering components and hydraulic systems to distributors and end users in the international market.
Process – distribution of engineering components to the process sector, principally in the UK.

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

2.18 Financing income and expenses

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

2.19 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. Accounting policies continued

2.20 Adopted IFRS not yet applied

New standards and interpretations currently in issue (as at 1 February 2017) but not effective, for accounting periods commencing on 1 January 2016 are:

- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 14 Regulatory Deferral Accounts (IASB effective date 1 January 2016)*
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (effective 1 January 2019)
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date 1 January 2017)*
- Amendments to IAS 7: Disclosure Initiative (effective date 1 January 2017)*
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date 1 January 2018)*
- Amendments to IFRS 4: Applying IFRS 9 financial instruments with IFRS 4 Insurance Contracts (effective date 1 January 2018)*
- Annual Improvements to IFRSs 2014-2016 Cycle – Relating to IFRS 1 First time adoption of IFRS and IAS 28 Investment in associates and joint ventures (effective date 1 January 2017)*
- Annual Improvements to IFRSs 2014-2016 Cycle – Relating to IFRS 12 Disclosure of interest in other entities (effective date 1 January 2018)*
- IFRIC Interpretation 22 Foreign currency transactions and advance considerations (effective date 1 January 2018)*

* Not adopted by the EU (as at 1 February 2017)

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future reporting periods.

IFRS 9 'Financial Instruments'

The new standard for financial instruments (IFRS9) introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and their impairment. IFRS 9 also provides new guidance on the application of hedge accounting. IFRS 9 is effective from periods beginning on or after 1 January 2018. Management is yet to fully assess the impact of the Standard and is therefore unable to provide quantified information, but at this point believes there will be minimal impact.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 will replace IAS 18, IAS 11 and several revenue-related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered by existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options and other common complexities.

IFRS 15 is effective from periods beginning on or after 1 January 2018. Management has started to assess the impact of the new Standard and does not believe that will be any material impact.

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 and three related interpretations. It completes the IASB's long running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right of use asset and a lease liability. IFRS 16 is effective from periods beginning on or after 1 January 2019. Management is yet to fully assess the impact of the Standard and is therefore unable to provide quantified information. However, in order to determine the impact the Group are in the process of:

- Performing a full review of all agreements to assess whether any additional contracts will now become leases under IFRS 16's new definition
- Deciding which transitional provision to adopt; either full retrospective application or partial retrospective application without restatement of comparatives
- Assessing the current disclosures of finance leases and operating leases
- Determining which optional accounting simplifications apply to the lease portfolio and if these will be used
- Assessing the additional disclosures that will be required

Notes to the consolidated financial information continued

2. Accounting policies continued

2.21 Equity, reserves and dividend payments

Equity comprises the following:

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

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 Discontinued operations

An operation is classed as discontinued when management have made the decision to either sell the operation or relocate the operation. Discontinued operation costs relate to surplus property costs.

2.23 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 retranslated 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 retranslated 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. Accounting policies continued

2.24 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.

The following judgements have the most significant effect on the financial statements.

Impairment of goodwill

The carrying value of goodwill must be assessed for impairment annually. This requires an estimation of the value in use of the operating segments to which goodwill is allocated. Value in use is dependent on estimations of future cash flows from the operating segment and the use of an appropriate discount rate to discount those cash flows to their present value. The carrying value of goodwill as at 31 December 2016 is £47,927,000 (2015: £46,412,000). 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 £4,780,000 (2015: £4,179,000). Refer to note 11 for further detail.

Provision for impairment of inventories

The carrying value of inventories as at 31 December 2016 is £16,592,000 (2015: £13,254,000) and included a provision against the inventories of £931,000 (2015: £1,005,000). During the year £141,000 (2015: £120,000) of the provision was utilised following the scrapping and sale of obsolete inventory. During the year a further provision of £67,000 (2015: £95,000) was made. The provision for impairment of inventories is based on sales trends for all inventory and management's estimation of recoverability. There is a risk that the provision will not match the inventories that ultimately prove to be impaired.

Share-based payments

A number of accounting estimates and judgements are incorporated within the calculation of the charge to the income statement in respect of share-based payments. These are described in more detail in note 24.

2.25 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.

2.26 Investment in own shares

Own shares held by the Group's Employee Benefit Trust have been classified as deductions from Shareholders' funds.

2.27 Contingent consideration

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

Notes to the consolidated financial information continued

3. Segment reporting

Management currently identifies the Group's three operating segments based on geographic area and trading activity (see note 2.17). These operating segments are monitored by the Group's Chief Operating Decision Maker and strategic decisions are made on the basis of adjusted segment operating results. Inter-segment revenue arises on the sale of goods between group undertakings.

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

Segment information for the reporting periods is as follows:

	For the year ended 31 December 2016					
	Flowtechnology £000	Power Motion Control £000	Process £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Income statement – continuing operations:						
Revenue from external customers	35,113	15,830	2,837	—	—	53,780
Inter-segment revenue	1,645	585	199	(2,429)	—	—
Total revenue	36,758	16,415	3,036	(2,429)	—	53,780
Underlying operating result	7,626	1,823	401	—	(2,397)	7,454
Net financing (costs)/income	(1)	(65)	(39)	—	(505)	(610)
Underlying segment result	7,625	1,758	362	—	(2,902)	6,844
Separately disclosed items (see note 4)	(180)	40	(57)	—	(1,119)	(1,317)
Profit before tax	7,445	1,798	305	—	(4,021)	5,527
Specific disclosure items						
Depreciation	389	112	24	—	—	526
Amortisation	16	488	65	—	—	569
Reconciliation of underlying operating result to operating profit:						
Underlying operating result	7,626	1,823	401	—	(2,397)	7,454
Separately disclosed items (see note 4)	(180)	40	(57)	—	(1,119)	(1,317)
Operating profit/(loss)	7,446	1,863	344	—	(3,516)	6,137

3. Segment reporting continued

	For the year ended 31 December 2015				
	Flowtechnology £000	Power Motion Control £000	Inter-segmental transactions £000	Central costs £000	Total Continuing operations £000
Income statement – continuing operations:					
Revenue from external customers	33,168	11,680	—	—	44,848
Inter-segment revenue	959	231	(1,190)	—	—
Total revenue	34,127	11,911	(1,190)	—	44,848
Underlying operating result	7,571	1,228	—	(1,931)	6,868
Net financing (costs)/income	(65)	3	—	(149)	(211)
Underlying segment result	7,506	1,231	—	(2,080)	6,657
Separately disclosed items (see note 4)	(166)	(505)	—	(706)	(1,377)
Profit before tax	7,339	726	—	(2,786)	5,280
Specific disclosure items					
Depreciation	412	93	—	—	505
Amortisation	—	413	—	—	413
Reconciliation of underlying operating result to operating profit:					
Underlying operating result	7,571	1,228	—	(1,931)	6,868
Separately disclosed items (see note 4)	(166)	(505)	—	(706)	(1,377)
Operating profit/(loss)	7,404	723	—	(2,637)	5,491

The Group's revenues from external customers and its non-current assets (other than financial instruments and deferred tax assets) are divided into the following geographic areas:

	31 December 2016		31 December 2015	
	Revenue £000	**Non-current assets £000**	Revenue £000	Non-current assets £000
United Kingdom	**44,133**	**55,118**	36,329	52,326
Europe	**8,806**	**1,488**	7,760	1,530
Rest of the World	**841**	**—**	759	—
Total	**53,780**	**56,606**	44,848	53,856

All revenue is derived from the sale of goods. No customers of the Group account for 10% or more of the Group's revenue for either of the years ended 31 December 2015 or 2016. Non-current assets are allocated based on their physical location.

Central costs relate to finance expenses associated with Group loans as detailed in note 6 and separately disclosed items, as detailed in note 4.

Notes to the consolidated financial information continued

4. Operating profit

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

	2016 £000	2015 £000
Impairment loss on other trade receivables and prepayments	**103**	62
(Gain)/loss on foreign currency transactions	**(293)**	(105)
Impairment loss on inventory	**67**	95
Depreciation of owned property, plant and equipment	**515**	491
Depreciation of property, plant and equipment held under finance leases	**11**	14
Amortisation of intangible assets	**569**	413
Gain on release of overprovision for contingent consideration	**(108)**	—
Profit on sale of plant and equipment	**(21)**	(7)
Operating lease rentals:		
– Land and buildings	**584**	491
– Other	**215**	146
Repairs and maintenance expenditure on plant and equipment	**127**	136

Services provided by the Group's Auditor

	2016 £000	2015 £000
Audit of the statutory consolidated and Company financial statements of Flowtech Fluidpower plc	**20**	20
Disclosure below based on amounts receivable in respect of other services to the Company and its subsidiaries		
Amounts receivable by the Company's Auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**80**	62
All other taxation advisory services	**8**	—

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

Separately disclosed items

	2016 £000	2015 £000
Separately disclosed items within administration expenses:		
– Acquisition costs	**419**	299
– Amortisation of acquired intangibles (note 11)	**569**	413
– Share-based payment costs (note 24)	**353**	342
– Restructuring	**84**	323
– Release of over accrued contingent consideration (note 32.1)	**(108)**	—
Total separately disclosed items	**1,317**	1,377

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

5. Directors and employees

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

	Number	
	2016	2015
Assembly and distribution	**145**	132
Administration	**146**	115
	291	247

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	**7,672**	5,669
Social security costs	**751**	547
Contributions to defined contribution pension plans	**217**	166
Share-based payments (note 24)	**353**	342
	8,993	6,724

Key management compensation

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

	2016 £000	2015 £000
Remuneration	**587**	591
Social security costs	**62**	65
Contributions to defined contribution pension plans	**—**	14
Compensation for loss of office	**—**	154
Benefits in kind	**4**	6
Share-based payments	**127**	175
	780	1,005

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

	2016 £000	2015 £000
Highest paid Director's remuneration		
Remuneration	**280**	220
Social security costs	**38**	29
Benefits in kind	**2**	1
Share-based payments	**70**	85
Total highest paid Director's remuneration	**390**	336

Details of Directors' emoluments are included in the Directors' Remuneration Report on pages 52 to 53.

Notes to the consolidated financial information continued

6. Financial income and expense

Finance income for the year consists of the following:

	2016 £000	2015 £000
Finance income arising from:		
Interest income from cash and cash equivalents	**1**	4
Fair value gains on forward exchange contracts held for trading	**—**	18
Total finance income	**1**	22

Finance expenses for the year consist of the following:

	2016 £000	2015 £000
Finance expense arising from:		
Interest on invoice discounting and stock loan facilities	**3**	36
Interest on revolving credit facility	**241**	41
Finance lease interest	**3**	3
Bank loans – current facilities	**116**	132
Other credit related interest	**1**	4
Total bank and other credit interest	**364**	216
Imputed interest on deferred and contingent consideration	**174**	17
Fair value losses on forward exchange contracts held for trading	**73**	—
Total non-credit related interest	**247**	17
Total finance expense	**611**	233

7. Taxation

Recognised in the income statement

Continuing operations:	2016 £000	2015 £000
Current tax expense		
Current year charge	**1,285**	1,231
Overseas tax	**20**	3
Adjustment in respect of prior periods	**12**	(76)
Current tax expense	**1,317**	1,158
Deferred tax		
Origination and reversal of temporary differences	**(118)**	(97)
Adjustment in respect of prior periods	**(7)**	(11)
Change in tax rate	**(46)**	7
Deferred tax credit	**(171)**	(101)
Total tax expense – continuing operations	**1,146**	1,057

7. Taxation continued

Discontinued operations:	2016 £000	2015 £000
Current year credit	(22)	—
Total tax expense – discontinued operations	**(22)**	—
Total tax expense in the income statement	**1,124**	1,057

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2015 or 2016.

Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit for the year	4,290	4,092
Total tax expense	1,124	1,057
Profit excluding taxation	5,414	5,149
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	1,083	1,042
Deferred tax movements not recognised	33	37
Effect of tax rates in foreign jurisdictions	1	(4)
Impact of change in tax rate on deferred tax balances	(46)	1
Income not taxable	(22)	—
Amounts not deductible	70	68
Adjustment in respect of prior periods	5	(87)
Total tax expense in the income statement – continuing and discontinued	**1,124**	1,057

Change in corporation tax rate

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2016 have been calculated based on these rates.

8. Dividends

	2016 £000	2015 £000
Final dividend of 3.50p (2015: 3.33p) per share	1,499	1,426
Interim dividend of 1.84p (2015: 1.75p) per share	788	749
Total dividends	**2,287**	2,175

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2016 of 3.67p (2015: 3.50p) per share which will absorb an estimated £1.6 million of Shareholders' funds. This has not been accrued as it had not been approved at the year end. Subject to approval, it will be paid on 23 June 2017 to Shareholders who are on the register of members on 2 June 2017.

Notes to the consolidated financial information continued

9. Earnings per share

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

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

	Year ended 31 December 2016			Year ended 31 December 2015		
	Earnings £000	Weighted average number of shares	Earnings per share Pence	Earnings £000	Weighted average number of shares	Earnings per share Pence
Basic earnings per share						
Continuing operations	4,381	43,078	10.17	4,223	42,869	9.85
Discontinued operations	(91)	43,078	(0.21)	(131)	42,869	(0.31)
Basic earnings per share	4,290	43,078	9.96	4,092	42,869	9.54
Diluted earnings per share						
Continuing operations	4,381	43,456	10.08	4,223	43,387	9.73
Discontinued operations	(91)	43,456	(0.21)	(131)	43,387	(0.30)
Diluted earnings per share	4,290	43,456	9.87	4,092	43,387	9.43

	2016 £000	2015 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	43,078	42,869
Impact of share options	378	518
Weighted average number of ordinary shares for diluted earnings per share	43,456	43,387

10. Goodwill

The movements in the net carrying amount of goodwill are as follows:

	2016 £000	2015 £000
Gross carrying value		
Balance at 1 January	46,412	44,583
Acquired through business combinations	1,515	1,829
Balance at 31 December	47,927	46,412
Accumulated impairment		
Balance at 1 January	—	—
Impairment charge	—	—
Balance at 31 December	—	—
Carrying amount at 31 December	47,927	46,412

The goodwill acquired during the year relates to the acquisition of Indequip, Hydravalve and TSL Fluid Power; see note 25.

The acquisitions have been recognised in the three operating segments as follows:

	Flowtechnology £000	Power Motion Control £000	Process £000	Total £000
Indequip (note 25.1)	632	—	—	632
Hydravalve (note 25.2)	—	—	728	728
TSL Fluid Power (note 25.3)	—	155	—	155
Total goodwill acquired through business combinations	632	155	728	1,515

10. Goodwill continued

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the operating segments as detailed in note 2.16 as they are expected to benefit from the synergies of the business combinations on which the goodwill arises, as follows:

	2016 £000	2015 £000
Flowtechnology UK	42,308	41,676
Flowtechnology Benelux	848	848
Power Motion Control	4,043	3,888
Process	728	—
Total at 31 December	**47,927**	46,412

Recoverable amounts for operating segments are based on the higher of value in use and fair value less costs to sell. The recoverable amount of each operating segment has been calculated with reference to its value in use.

Growth rates

The value in use is calculated from cash flow projections based on the Group's forecasts for the year ending 31 December 2017, which are extrapolated for a further four years*. The Group's latest financial forecasts, which cover a three year period, are reviewed by the Board.

Discount rates

The pre-tax discount rate used to calculate value is 11% (2015: 10%).This discount rate is derived from the Group's weighted average cost of capital.

Cash flow assumptions

The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market. The growth rates used in the value in use calculation reflect the average growth rate experienced by the Group for the industry.

In respect of the goodwill attributed to the Flowtechnology UK segment, the headroom compared to the carrying value exceeds £21million. Increasing the discount rate to 21% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Flowtechnology UK segment.

In respect of the goodwill attributed to the Flowtechnology Benelux segment, the headroom compared to the carrying value exceeds £4 million. Increasing the discount rate to 74% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Flowtechnology Benelux segment.

In respect of the goodwill attributed to the Power Motion Control segment, the headroom compared to the carrying value exceeds £8 million. Increasing the discount rate to 45% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Power Motion Control segment.

In respect of the goodwill attributed to the Process segment, the headroom compared to the carrying value exceeds £5 million. Increasing the discount rate to 94% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the Process segment.

* Using growth rates as follows: Flowtechnology 3.2%, PMC 2.9% and Process 7.9%. Cash flows beyond the five year period have been extrapolated assuming no further growth.

Notes to the consolidated financial information continued

11. Other intangible assets

	Customer relationships		Brands		Total	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Gross carrying value						
Balance at 1 January	**4,722**	3,125	**—**	—	**4,722**	3,125
Acquired through business combinations – brands (note 25.1)	**—**	—	**96**	—	**96**	—
Acquired through business combinations – customer relationships (note 25.2 and 25.3)	**1,074**	1,597	**—**	—	**1,074**	1,597
Balance at 31 December	**5,796**	4,722	**96**	—	**5,892**	4,722
Amortisation and impairment						
Balance at 1 January	**543**	130	**—**	—	**543**	130
Amortisation	**553**	413	**16**	—	**569**	413
Balance at 31 December	**1,096**	543	**16**	—	**1,112**	543
Carrying amount at 31 December	**4,700**	4,179	**80**	—	**4,780**	4,179

Additions in the year to brands relate to the acquisition of the business of Indequip. The estimated useful life has been determined as five years based on the expected future cash flows that they would generate in arriving at their fair value.

Additions in the year to customer relationships relate to the acquisition of Hydravalve Limited and TSL Fluid Power. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value.

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
Flowtech Mid-Co Limited	UK	Holding company	100%
Fluidpower Limited (formerly Flowtech Limited)	UK	Distributors of engineering components	100%
Flowtechnology Benelux B.V.	Netherlands	Distributors of engineering components	100%
Vitassem Limited	UK	Dormant	100%
IPL Fluidpower Limited	UK	Dormant	100%
Flowtechnology CZ Limited	UK	Assembly of engineering components	100%
Flowtech Europe Limited	UK	Holding company	100%
Flowtechnology Asia Limited	UK	Holding company	100%
Flowtechnology HK Limited	China	Dormant	100%
Fluidpower Shared Services Limited (formerly Flowtech Holdings Limited)	UK	Holding company	100%
Fluidpower MIP Limited (formerly Flowtech MIP Limited)	UK	Holding company	100%
Fluidpower Properties Limited	UK	Dormant	100%
Fluidpower Group Limited	UK	Holding company	100%
Indequip Limited	UK	Dormant	100%
Onsite Fluidpower Limited	UK	Dormant	100%
PMC Fluidpower Limited (formerly Primary Fluid Holdings Limited)	UK	Assembly and distribution of engineering components	100%
Primary Fluid Power Limited	UK	Assembly and distribution of engineering components	100%
KR Couplings Limited	UK	Dormant	100%
Betabite Hydraulics Limited	UK	Dormant	100%
Triplesix Limited	UK	Holding Company	100%
Titan Fluid Power Limited	UK	Dormant	100%
Nelson Hydraulics Limited	UK	Assembly and distribution of engineering components	100%
Hydraulics (Ireland) Limited	UK	Dormant	100%
Process Fluidpower Limited	UK	Holding company	100%
Hydravalve Limited	UK	Distributors of engineering components	100%
Haitima Flow Control UK Limited	UK	Dormant	100%
HUK Valves 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.

On 13 March 2016, the Group acquired 100% of the ordinary shares in Indequip Limited, a newly incorporated company.

On 18 March 2016, the Group acquired 100% of the ordinary shares in Hydravalve Limited, and its dormant subsidiaries Haitima Flow Control UK Limited and HUK Valves Limited.

On 16 May 2016, the Group acquired 100% of the ordinary shares in Fluidpower Group Limited, a newly incorporated company.

On 16 May 2016, the Group acquired 100% of the ordinary shares in Process Fluidpower Limited, a newly incorporated company.

On 19 May 2016, the Group acquired 100% of the ordinary shares in Onsite Fluidpower Limited, a newly incorporated company.

On 27 July 2016, the Group acquired 100% of the ordinary shares in Titan Fluid Power Limited, a newly incorporated company.

On 29 July 2016, the Group acquired 100% of the ordinary shares in Triplesix Limited.

Notes to the consolidated financial information continued

13. Property, plant and equipment

	Land and property £000	Plant, machinery and equipment £000	Motor vehicles £000	Total £000
Cost				
Balance at 1 January 2015	1,075	6,068	103	7,246
Additions	13	677	60	750
Disposals	—	—	(28)	(28)
Acquisitions through business combinations	—	38	107	145
Effect of movements in foreign exchange	—	(28)	—	(28)
Balance at 31 December 2015 and 1 January 2016	1,088	6,755	242	8,085
Additions	43	782	33	858
Disposals	—	—	(61)	(61)
Acquisitions through business combinations (note 25)	—	292	21	313
Effect of movements in foreign exchange	—	100	—	100
Balance at 31 December 2016	**1,131**	**7,929**	**235**	**9,295**
Depreciation and amortisation				
Balance at 1 January 2015	8	4,332	19	4,359
Depreciation charge for the year	25	432	48	505
Disposals	—	—	(19)	(19)
Effect of movements in foreign exchange	—	(25)	—	(25)
Balance at 31 December 2015 and 1 January 2016	33	4,739	48	4,820
Depreciation charge for the year	26	436	64	526
Disposals	—	—	(30)	(30)
Effect of movements in foreign exchange	—	80	—	80
Balance at 31 December 2016	**59**	**5,255**	**82**	**5,396**
Net book value				
At 31 December 2016	**1,072**	**2,674**	**153**	**3,899**
At 1 January 2016	1,055	2,016	194	3,265
At 1 January 2015	1,067	1,736	84	2,887

At year end the net book value of leased plant, machinery and equipment was £121,000 (2015: £46,000). Included in land and property is land at a cost of £145,000 which is not depreciated (2015: £145,000).

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Intangible assets	**—**	—	**(950)**	(844)
Property, plant and equipment	**—**	—	**(182)**	(165)
Financial assets	**—**	1	**—**	—
Provisions	**47**	70	**—**	—
Employee share-based payments	**66**	37	**—**	—
Tax assets/(liabilities)	**113**	108	**(1,132)**	(1,009)
Net deferred tax liability			**(1,019)**	(901)

A deferred tax asset of £84,000 (2015: £50,000) in respect of cumulative share-based payments of £494,000 (2015: £277,000) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

Movement in deferred tax during the year ended 31 December 2016

	1 January 2016 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2016 £000**
Intangible assets (note 25)	(844)	124	(230)	**(950)**
Property, plant and equipment	(165)	42	(59)	**(182)**
Financial assets	1	(1)	—	**—**
Provisions	70	(23)	—	**47**
Employee share-based payments	37	29	—	**66**
	(901)	171	(289)	**(1,019)**

Movement in deferred tax during the year ended 31 December 2015

	1 January 2016 £000	Recognised in profit or loss £000	Acquired during the year £000	**31 December 2016 £000**
Intangible assets	(598)	73	(319)	**(844)**
Property, plant and equipment	(133)	(25)	(7)	**(165)**
Financial assets	1	—	—	**1**
Interest-bearing loans and borrowings	6	(6)	—	**—**
Provisions	35	35	—	**70**
Employee share-based payments	13	24	—	**37**
	(676)	101	(326)	**(901)**

Notes to the consolidated financial information continued

15. Inventories

	2016 £000	2015 £000
Finished goods and goods for resale	**16,592**	13,254

Changes in finished goods recognised as cost of sales in the year amounted to £30,999,000 (2015: £26,140,000). The write down or reversal of inventories to net realisable value amounted to a write down of £67,000 (2015: write down of £95,000). The write downs and reversals are included in cost of sales. The provision made against inventories at the year end was £931,000 (2015: £1,005,000).

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 and other receivables

	2016 £000	2015 £000
Trade receivables	**12,570**	10,068
Other receivables	**442**	299
Trade receivables and other receivables	**13,012**	10,367

17. Other financial assets

	2016 £000	2015 £000
Current		
Financial assets – forward exchange contracts	**–**	32

18. Cash and cash equivalents

	2016 £000	2015 £000
Cash and cash equivalents:		
Sterling	**3,176**	830
Euro	**564**	930
Dollar	**84**	81
Total cash and cash equivalents	**3,824**	1,841

19. Other interest-bearing loans and 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 32.

	2016 £000	2015 £000
Non-current liabilities		
Secured bank loans	**4,000**	4,857
Finance lease liabilities	**81**	17
Total non-current liabilities	**4,081**	4,874
Current liabilities		
Secured bank loans	**857**	857
Bank overdraft	**—**	116
Revolving credit facility	**12,000**	5,000
Finance lease liabilities	**31**	13
Total current liabilities	**12,888**	5,986
Total	**16,969**	10,860

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Carrying value 2016 £000	Carrying value 2015 £000
Secured bank loan	GBP	Libor + 1.5%	2018	4,857	5,714
Secured revolving credit facility	GBP	Libor + 1.8%	n/a	12,000	5,000
Finance lease liabilities	GBP	Various 4.8% to 31.0%	2019	112	30
				16,969	10,744

The revolving credit facility is up to £15,000,000 and is subject to a non-utilisation fee of 0.7% and is due for renewal in 2018. The bank loans and revolving credit facility are secured by legal charges over certain of the Group's assets which include trade receivables and stock. Group bank accounts are in a netting-off facility and overdrafts are not subject to interest.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2016 £000	**Interest 2016 £000**	**Principal 2016 £000**	Minimum lease payments 2015 £000	Interest 2015 £000	Principal 2015 £000
Less than one year	**40**	**9**	**31**	15	2	13
Between one and five years	**103**	**22**	**81**	19	2	17
More than five years	**—**	**—**	**—**	—	—	—
	143	**31**	**112**	34	4	30

Notes to the consolidated financial information continued

20. Trade and other payables

	2016 £000	2015 £000
Current		
Trade payables	**4,960**	4,321
Accrued expenses	**2,181**	1,299
Social security and other taxes	**1,484**	1,005
	8,625	6,625

21. Contingent consideration

	2016 £000	2015 £000
Non-current liabilities		
Contingent consideration	**212**	898
Total non-current liabilities	**212**	898
Current liabilities		
Contingent consideration	**1,420**	1,250
Total current liabilities	**1,420**	1,250
Total	**1,632**	2,148

The contingent consideration is payable to the former owners of Nelson Hydraulics Limited and Hydravalve Limited on the first and second anniversaries of the acquisition by the Group. Details of acquisitions in the current year are given in note 25.

22. Provisions

	Dilapidation provision £000	Other £000	Total £000
Balance at 1 January 2016	130	86	**216**
Acquisitions through business combinations	82	—	**82**
Amount utilised	—	(86)	**(86)**
Balance at 31 December 2016	212	—	**212**

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

	2016 £000	2015 £000
Current	**—**	86
Non-current	**212**	130
Total	**212**	216

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

23. Other financial liabilities

	2016 £000	2015 £000
Current		
Financial liabilities – foreign exchange contracts	**57**	15

24. Employee benefits

24.1 Pension plans

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in each year was £217,000 (2015: £166,000).

24.2 Share-based employee remuneration

As at 31 December 2016, the Group maintained four share-based payment schemes for employee remuneration: the Management Incentive Plan; the Enterprise Management Incentive Plan, which has two sub plans, Approved and Unapproved; and the Company Share Option Plan.

Management Incentive Plan

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

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

Date of grant	Exercise period	2016 Number	2015 Number
21 May 2014	11 April 2017 to 10 August 2024	**540**	540
1 June 2016	1 June 2019 to 31 May 2021	**3,010**	—

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

	MIP scheme £000	MIP scheme £000
Grant date	21 May 2014	1 June 2016
Vesting period ends	3 April 2017	31 May 2019
Share price at date of grant	£1.00	£1.45
Volatility	30.7%	31.6%
Option life	6.25 years	5 years
Dividend yield	5.15%	5.3%
Risk-free investment rate	2.11%	1.29%
Fair value at grant date	£1.00	£1.99
Exercise price at date of grant	£1.30	£1.51
Exercisable from/to	4 April 2017 to 20 May 2024	1 June 2019 to 31 May 2021
Weighted average remaining contractual life	7 years	5 years

Notes to the consolidated financial information continued

24. Employee benefits continued

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

Enterprise Management Incentive Plan

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

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

Date of grant	Exercise price	Exercise period	2016 Number 000s	2015 Number 000s
Approved Plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**1,635**	1,700
8 August 2014	£1.26	4 April 2017 to 7 August 2024	**138**	138
30 June 2015	£1.36	4 April 2017 to 7 August 2024	**50**	50
			1,823	1,888
Unapproved Plan				
21 May 2014	£1.00	4 April 2017 to 20 May 2024	**467**	472
11 August 2015	£1.32	4 April 2018 to 10 August 2025	**140**	140
1 July 2016	£1.00	4 April 2019 to 30 June 2026	**45**	—
			652	612
			2,475	2,500

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	Weighted average exercise price per share	Number of shares	Weighted average exercise price per share	Total number of shares
Outstanding at 1 January 2016	1,888	1.03	612	1.07	2,500
Granted	—	—	45	1.00	45
Lapsed	—	—	—	—	—
Forfeited	(65)	1.00	(5)	—	(70)
Exercised	—	—	—	—	—
Outstanding at 31 December 2016	**1,823**	**1.03**	**652**	**1.06**	**2,475**
Exercisable at 31 December 2015	—	—	—	—	—
Exercisable at 31 December 2016	—	—	—	—	—

24. Employee benefits continued

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

	Unapproved EMI scheme	Unapproved EMI scheme	Approved EMI scheme	Approved EMI scheme	EMI scheme Unapproved and Approved
Grant date	1 July 2016	11 August 2015	30 June 2015	8 August 2014	21 May 2014
Vesting period ends	3 April 2019	10 August 2018	3 April 2017	3 April 2017	3 April 2017
Share price at date of grant	£1.00	£1.44	£1.34	£1.26	£1.00
Volatility	31.6%	36.6%	36.6%	36.6%	36.6%
Option life	6.5 years	6.5 years	6.25 years	6.25 years	6.25 years
Dividend yield	5.3%	5.0%	5.0%	5.0%	5.0%
Risk-free investment rate	2.11%	1.5%	1.5%	1.5%	1.5%
Fair value at grant date	£1.05	£1.46	£1.35	£1.11	£1.11
Exercise price at date of grant	£1.00	£1.32	£1.36	£1.26	£1.00
Exercisable from/to	4 April 2019 to 20 May 2026	11 August 2018 to 10 August 2025	4 April 2017 to 20 May 2024	4 April 2017 to 20 May 2024	4 April 2017 to 20 May 2024
Weighted average remaining contractual life	9 years	8 years	7 years	7 years	7 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	2016 Number 000s	2015 Number 000s
11 August 2015	£1.43	11 August 2018 to 10 August 2025	**130**	130
1 July 2016	£1.00	4 April 2019 to 30 June 2026	**445**	—
			575	130

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 2016	130	1.43
Granted	445	1.00
Forfeited	—	—
Outstanding at 31 December 2016	575	1.10
Exercisable at 31 December 2015	—	—
Exercisable at 31 December 2016	—	—

Notes to the consolidated financial information continued

24. Employee benefits continued

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

	CSOP scheme 2016	CSOP scheme 2015
Grant date	1 July 2016	11 August 2015
Vesting period ends	3 April 2019	10 August 2018
Share price at date of grant	£1.00	£1.44
Volatility	31.6%	36.6%
Option life	6.5 years	6.5 years
Dividend yield	5.3%	5.0%
Risk-free investment rate	2.11%	1.5%
Fair value at grant date	£1.05	£1.46
Exercise price at date of grant	£1.00	£1.43
Exercisable from/to	4 April 2019 to 20 May 2026	11 April 2018 to 20 May 2025
Weighted average remaining contractual life	9 years	8 years

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

In total, £353,000 (2015: £342,000) of employee remuneration expenses, all of which related to equity-settled share-based payment transactions, has been included in the Consolidated Income Statement.

25. Acquisitions and disposals

25.1 Acquisition of Indequip

On 19 February 2016 the Group acquired the trade and assets of Indequip, a UK-based business. The acquisition was made to enhance the Group's position in the technical pneumatic market.

Details of the provisional fair value of identifiable assets and liabilities acquired, purchase consideration, goodwill and intangible assets are as follows:

	Book value £000	Fair value adjustment £000	Intangible asset recognised on acquisition £000	Provisional fair value £000
Property, plant and equipment	68	(58)	—	10
Intangible assets	—	—	96	96
Inventories	392	(228)	—	164
Trade and other receivables	10	—	—	10
Cash and cash equivalents	—	—	—	—
Trade and other payables	—	—	—	—
Current tax balances	—	—	—	—
Provisions	—	—	—	—
Deferred tax liability	—	—	(19)	(19)
Total net assets	470	(286)	77	261

25. Acquisitions and disposals continued

	£000
Fair value of consideration paid	
Amount settled in cash	893
Total consideration	**893**
Less net assets acquired	(261)
Goodwill on acquisition (note 10)	**632**

Fair values are provisional as subject to management estimations at the reporting date.

Consideration transferred

Indequip was acquired on 19 February 2016 for cash consideration of £893,000.

Acquisition costs amounting to £31,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill

Goodwill of £632,000 is primarily related to expected future profitability and expected cost synergies from the closure of the operational site and transfer of activities into existing Group locations. Goodwill has been allocated to the Flowtechnology operating segment and is not expected to be deductible for tax purposes.

Intangible asset

An intangible asset of £96,000 has been provisionally identified related to the brand identity of Indequip. The estimated useful life has been determined as five years based on the expected future cash flows that it would generate in arriving at their fair value. The components of the brand considered in the valuation comprised the website, catalogue and awareness of brand in the industry. Sales growth over the five-year period has been assumed to be 1% with an attrition rate of 3% for customers. Growth and attrition rates are based on management experience and expectations. Amortisation of the brand is not expected to be deductible for tax purposes.

Fair value adjustments

The value of property, plant and equipment has been decreased by £58,000 to reflect the alignment of the useful life review policy with that of the Group.

The value of inventories has been decreased by £228,000 to reflect the alignment of stock valuation methods with those of the Group.

Indequip's contribution to the group results

Indequip generated a profit after tax of £227,000 for the ten months from 19 February 2016 to the reporting date. If Indequip had been acquired on 1 January 2016, it is estimated revenue for the Group would have been £54,173,000 and profit after tax for the year would have increased by £19,000.

Summary aggregated estimated financial information on Indequip for the period from 1 January 2016 to 19 February 2016, when it became a subsidiary:

	2016 £000
Revenue	393
Profit	19

Notes to the consolidated financial information continued

25. Acquisitions and disposals continued

25.2 Acquisition of Hydravalve Limited

On 18 March 2016, the Group acquired 100% of the share capital of Hydravalve Limited, a UK-based business, thereby obtaining control. The acquisition was made to establish the Group's position in the manufacturing and industrial markets. The total consideration was £2,727,000. This comprised £2,105,000 in cash and £622,000 contingent cash consideration. The additional consideration is based on profit targets for the Company's customer base and is payable on the first and second anniversaries of the acquisition. The fair value of £622,000 has been calculated using management forecasts of Hydravalve's Limited's performance discounted at the Company's weighted average cost of capital.

Details of the provisional fair value of identifiable assets and liabilities acquired, purchase consideration, goodwill and intangible assets are as follows:

	Book value £000	Fair value adjustment £000	Intangible asset recognised on acquisition £000	Provisional fair value £000
Property, plant and equipment	229	39	—	**268**
Intangible assets	—	—	879	**879**
Inventories	1,634	(163)	—	**1,471**
Trade and other receivables	942	(19)	—	**923**
Cash and cash equivalents	(312)	—	—	**(312)**
Finance leases	(71)	(48)	—	**(119)**
Trade and other payables	(606)	—	—	**(606)**
Current tax balances	(216)	—	—	**(216)**
Provisions	—	(72)	—	**(72)**
Deferred tax liability	(41)	—	(176)	**(217)**
Total net assets	1,559	(263)	703	**1,999**

	£000
Fair value of consideration paid	
Amount settled in cash	**2,105**
Fair value of contingent consideration	**622**
Total consideration	**2,727**
Less net assets acquired	**(1,999)**
Goodwill on acquisition (note 10)	**728**

Fair values are provisional as subject to management estimations at the reporting date.

Consideration transferred

Hydravalve Limited was acquired on 18 March 2016 for a total consideration of £2,727,000 comprising £2,105,000 in cash and £622,000 contingent cash consideration. The contingent consideration is due in two instalments on 18 April 2017 and 18 April 2018. It is contingent on the earnings before interest and tax exceeding a target EBIT of £727,000 per annum for the first two years post acquisition. Performance under the target will reduce consideration payable. The maximum contingent consideration payable is £2,000,000. The fair value of £622,000 has been estimated by management using a discount rate of 10.9%, being the weighted average cost of capital of Hydravalve Limited and sales forecasts prepared by management at the time of acquisition, these have been reviewed for performance up to the reporting date.

Acquisition costs and stamp duty amounting to £112,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

25. Acquisitions and disposals continued

Goodwill

Goodwill of £728,000 is primarily related to expected future profitability and expected cost synergies. Goodwill has been allocated to the Process operating segment and is not expected to be deductible for tax purposes.

Intangible asset

An intangible asset of £879,000 has been provisionally identified related to customer relationships. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value. The customer relationships considered in the valuation comprise the sales to significant customers. Long term sales growth over the ten-year period has been assumed to be 1.0% with an attrition rate of 7.5% for customers. Growth and attrition rates are based on management experience and expectations. Amortisation of customer relationships is not expected to be deductible for tax purposes.

Fair value adjustments

The value of property, plant and equipment has been decreased by £9,000 to reflect the alignment of the useful life review policy with that of the Group and increased by £48,000 to recognise a leased asset omitted from the books of the Company prior to acquisition.

The value of inventories has been decreased by £163,000 to reflect the alignment of the Hydravalve stock provisioning policy with that of the Group.

The value of debtors has been decreased by £19,000 to reflect the alignment of the Hydravalve debtor provisioning policy with that of the Group.

The value of lease finance liabilities has been increased by £48,000 to recognise a leased obligation omitted from the books of the Company prior to acquisition.

The value of provisions has been increased by £72,000 to reflect a provision for dilapidation costs relating to properties leased by the Company.

Hydravalve Limited's contribution to the Group results

Hydravalve Limited generated a profit after tax of £337,000 for the nine months from 18 March 2016 to the reporting date. If Hydravalve Limited had been acquired on 1 January 2016, revenue for the Group would have been £54,714,000 and profit after tax for the year would have increased by £16,000.

Summary aggregated financial information on Hydravalve Limited for the period from 1 January 2016 to 18 March when it became a subsidiary:

	2016 £000
Revenue	**934**
Profit	**16**

Notes to the consolidated financial information continued

25. Acquisitions and disposals continued

25.3 Acquisition of Triplesix Limited

On 29 July 2016 the Group acquired the entire share capital of Triplesix Limited, a UK-based business, thereby obtaining control. The acquisition was made to enhance the Group's position in the hydraulic cylinder and rotary actuator market. On 1st October 2016 the trade and assets of Triplesix Limited were transferred its parent PMC Fluidpower Limited.

Details of the provisional fair value of identifiable assets and liabilities acquired, purchase consideration, goodwill and intangible assets are as follows:

	Book value £000	Fair value adjustment £000	Intangible asset recognised on acquisition £000	Provisional fair value £000
Property, plant and equipment	41	(6)	—	**35**
Intangible assets	—	—	195	**195**
Inventories	16	—	—	**16**
Trade and other receivables	193	(47)	—	**146**
Cash and cash equivalents	409	—	—	**409**
Trade and other payables	(64)	—	—	**(64)**
Current tax balances	(63)	—	—	**(63)**
Provisions	—	(10)	—	**(10)**
Deferred tax liability	(8)	—	(35)	**(43)**
Total net assets	524	(63)	160	**621**

	£000
Fair value of consideration paid	
Amount settled in cash	**776**
Total consideration	**776**
Less net assets acquired	**(621)**
Goodwill on acquisition (note 10)	**155**

Fair values are provisional as subject to management estimations at the reporting date.

Consideration transferred

Triplesix Limited was acquired on 29 July 2016 for a total cash consideration of £776,000. Contingent consideration with a maximum value of £750,000 is included within the purchase agreement and is due in four six monthly instalments starting 1 March 2017. It is contingent on the earnings before interest and tax exceeding £112,000 per annum for the first two years' post acquisition. Following review of performance post acquisition and management forecasts for the next year, EBIT targets are not expected to be met and no provision has been made for contingent consideration.

Acquisition costs and stamp duty amounting to £17,000 have been recognised as an expense in the Consolidated Income Statement as part of separately disclosed administration costs.

Goodwill

Goodwill of £155,000 is primarily related to expected future profitability and expected purchasing synergies from Group buying arrangements The employee base brings additional skill sets in three-dimensional design capabilities and a design database which can be utilised across the Group. Goodwill has been allocated to the Power Motion Control operating segment and is not expected to be deductible for tax purposes.

25. Acquisitions and disposals continued

Intangible asset

An intangible asset of £195,000 has been identified related to customer relationships. The estimated useful life has been determined as ten years based on the expected future cash flows that they would generate in arriving at their fair value. The customer relationships considered in the valuation comprise those purchasing bespoke cylinders and actuators, a product group which is new to the segment, but complementary to existing sales streams. Sales growth over the ten year period has been assumed to be 2% with an attrition rate of 10% for customers. Growth and attrition rates are based on a review of sales and customer records. Amortisation of customer relationships is not expected to be deductible for tax purposes.

Fair value adjustments

The value of property, plant and equipment has been decreased by £6,000 to reflect the alignment of the useful life review policy with that of the Group.

The value of debtors has been decreased by £47,000 to reflect the alignment of the Triplesix Limited debtor provisioning policy with that of the Group and to provide for significant bad debts apparent at the date of acquisition.

The value of provisions has been increased by £10,000 to reflect a provision for dilapidation costs relating to properties leased by the Company.

Triplesix Limited's contribution to the Group results

Triplesix Limited generated a loss after tax of £10,000 for the seven months from 29 July 2016 to the reporting date. If Triplesix Limited had been acquired on 1 January 2016, revenue for the Group would have been £54,504,000 and profit after tax for the year would have increased by £111,000.

Summary aggregated financial information on Triplesix Limited for the period from 1 January 2016 to 29 July 2016, when it became a subsidiary:

	2016 £000
Revenue	**724**
Profit	**111**

26. Equity

The share capital of the Company consists only of fully paid ordinary shares with a nominal value of 50p per share. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at Shareholders' meetings of the Company.

	Number	£000
Allotted and fully paid ordinary shares of 50p each at 31 December 2016	43,078,282	21,539
Shares authorised for share-based payments	6,666,667	3,333
Total shares authorised at 31 December 2016	**49,744,949**	**24,872**

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At 1 January 2016 and 31 December 2016	**43,078,282**	**21,539**

Notes to the consolidated financial information continued

27. Net cash from operating activities

	2016 £000	2015 £000
Reconciliation of profit before taxation to net cash flows from operations		
Profit from continuing operations before tax	**5,527**	5,280
Loss from discontinued operations before tax	**(113)**	(131)
Depreciation	**526**	505
Financial income	**(1)**	(22)
Financial expense	**611**	232
Profit on sale of plant and equipment	**(21)**	(7)
Amortisation of intangible assets	**569**	413
Equity-settled share-based payment charge	**353**	342
Release of over accrued contingent consideration	**(108)**	—
Operating cash inflow before changes in working capital and provisions	**7,343**	6,612
Change in trade and other receivables	**(1,384)**	1,628
Change in stocks	**(1,486)**	(688)
Change in trade and other payables	**1,126**	(136)
Change in provisions	**(86)**	(60)
Cash generated from operations	**5,513**	7,356
Tax paid	**(1,347)**	(1,413)
Net cash generated from operating activities	**4,166**	5,943

28. Discontinued operations

Discontinued operation costs relate to surplus property costs during the year. Operations were relocated to existing Group properties. Discontinued operation costs in the prior year related to the ongoing surplus property costs of an operation which was closed in 2014.

	2016 £000	2015 £000
Discontinued operations:		
Administrative expenses	**(113)**	(131)
Operating loss	**(113)**	(131)
Taxation (note 7)	**22**	—
Loss from discontinued operations	**(91)**	(131)

There are no material net cash flows attributable to the operating, investing and financing activities of discontinued operations.

29. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £000	2015 £000
Less than one year	**788**	632
Between one and five years	**1,909**	970
More than five years	**3,410**	239
	6,107	1,841

The Group acts as a lessee for land and buildings, plant and machinery and motor vehicles, under operating leases. The Group's significant lease arrangements are for properties, for which there are no significant lease incentives. As at 31 December 2016, the property lease periods range from less than one year to fifteen years. The disclosures above for non-cancellable operating lease rentals have been split out below to show the split between land and buildings and other assets which include motor vehicles.

	2016		2015	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Less than one year	**570**	**218**	519	113
Between one and five years	**1,521**	**388**	810	160
More than five years	**3,410**	**—**	239	—
	5,501	**606**	1,568	273

During the year £799,000 was recognised as an expense in the income statement in respect of operating leases relating to continuing operations (2015: £637,000). Operating lease costs recognised in discontinued operations were £45,000 (2015: nil).

30. Contingent liabilities and commitments

The Group had capital expenditure of £63,000 contracted for but not provided at 31 December 2016 (2015: £77,000).

31. 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 on pages 52 to 53.

Dividends paid to Directors of the plc were as follows:

	2016 £000	2015 £000
Sean Fennon	**12**	11
Bryce Brooks	**5**	5
Malcolm Diamond MBE	**3**	2
Nigel Richens	**3**	2
	23	20

Other than the transactions set out above, the Group has not entered into any transactions with any related parties who are not members of the Group.

Notes to the consolidated financial information continued

32. Financial instruments

32.1 Fair values of financial instruments

Fair values

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

	Carrying amount 2016 £000	**Fair value 2016 £000**	**Level 2 2016 £000**	**Level 3 2016 £000**	Carrying amount 2015 £000	Fair value 2015 £000	Level 2 2015 £000	Level 3 2015 £000
Financial assets held for trading (including all derivatives) (note 17)								
Forward exchange contracts	**—**	**—**	**—**	**—**	32	32	32	—
Total financial assets at fair value through profit or loss	**—**	**—**	**—**	**—**	32	32	32	—
Financial liabilities at fair value through profit or loss (including all derivatives) (note 23)								
Forward exchange contracts	**(57)**	**(57)**	**(57)**	**—**	(15)	(15)	(15)	—
Contingent consideration (note 21)	**(1,632)**	**(1,632)**	**—**	**(1,632)**	(2,148)	(2,148)	—	(2,148)
Total financial liabilities at fair value through profit or loss	**(1,689)**	**(1,689)**	**(57)**	**(1,632)**	(2,163)	(2,163)	(15)	(2,148)

There have been no transfers in either direction during the years ended 31 December 2016 and 31 December 2015.

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

	2016 £000	2015 £000
Balance at 1 January	**2,148**	—
Arising on business combinations	**622**	2,148
Payment of contingent consideration	**(1,031)**	—
Release of over provision of contingent consideration	**(108)**	—
Balance at 31 December	**1,631**	2,148

The release of over provision of contingent consideration relates to the final calculation of the contingent consideration for Albroco Limited acquired in 2014. The consideration was based on gross profit targets. After reviewing performance to date and forecasts management concluded no further payments would be due. Included in contingent consideration paid was £281,000 relating to the Albroco Limited acquisition.

32. Financial instruments continued

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

	Carrying amount 2016 £000	Fair value 2016 £000	Level 2 2016 £000	Level 3 2016 £000	Carrying amount 2015 £000	Fair value 2015 £000	Level 2 2015 £000	Level 3 2015 £000
Loans and receivables								
Cash and cash equivalents (note 18)[1]	**3,824**				1,841			
Trade and other receivables (note 16)[1]	**13,012**				10,367			
Total financial assets not measured at fair value	**16,836**				12,208			
Total financial assets at fair value	**–**	**–**	**–**		32	32	32	
Financial assets	**16,836**				12,240			
Financial liabilities measured at amortised cost								
Other interest-bearing loans and borrowings (note 19)	**(16,969)**				(10,860)			
Trade payables and accruals (note 20)[1]	**(7,141)**				(5,620)			
Total financial liabilities measured at amortised cost	**(24,110)**				(16,480)			
Financial liabilities at fair value								
Forward exchange contracts	**(57)**	**(57)**	**(57)**		(15)	(15)	(15)	
Contingent consideration (note 21)	**(1,632)**	**(1,632)**	**–**	**(1,632)**	(2,148)	(2,148)	–	(2,148)
Total financial liabilities at fair value	**(1,689)**	**(1,689)**	**(57)**	**(1,632)**	(2,163)	(2,163)	(15)	(2,148)
Total financial liabilities	**(25,799)**				(18,643)			
Total financial instruments	**(8,963)**				(6,403)			

1. The Group has not disclosed the fair value for financial instruments such as short term trade receivables and payables, 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's interest rate swap contracts are not traded in active markets. These have been fair valued using observable exchange rates corresponding to the maturity of the contract, through direct confirmation from the provider of the contract.
Contingent consideration	The fair value of contingent consideration at 31 December 2016 relates to the acquisition of Nelson Fluid Power Limited in 2015 and the acquisition of Hydravalve Limited in 2016. It is estimated using a present value technique. The £1,632,000 fair value is measured by reference to the future cash outflows. The cash outflows reflect management's best estimate of the amount payable.
Financial instruments not measured at fair value	**Valuation technique**
Bank loans and other interest-bearing borrowings	Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Notes to the consolidated financial information continued

32. Financial instruments continued

32.2 Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management also consider the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country in which the customers operate. The Group has an established credit policy under which the credit status of each new customer is reviewed before credit is advanced. This includes external evaluations where possible. Credit limits are established for customers and outstanding balances are reviewed regularly by management.

The concentration of credit risk for trade receivables at the balance sheet date by geographic region was:

	2016 £000	2015 £000
UK	**11,025**	8,717
Europe	**1,272**	1,230
Rest of the World	**273**	121
	12,570	10,068

Credit quality of financial assets and impairment losses

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

	Gross 2016 £000	**Impairment 2016 £000**	Gross 2015 £000	Impairment 2015 £000
Not past due	**12,222**	**84**	9,380	76
Past due 0-30 days	**393**	**6**	615	8
More than 30 days	**195**	**150**	260	103
	12,810	**240**	10,255	187

Some of the unimpaired trade receivables are past due as at the reporting date. These past due debtors are not resultant from any major disputes with customers. There have been no other indicators that would cast doubt over the creditworthiness of such customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The movement in the allowance for impairment in respect of trade receivables during each year was as follows:

	2016 £000	2015 £000
Balance at 1 January	**187**	158
Net change due to acquisitions and disposals of subsidiaries	**66**	35
Provision utilised	**(116)**	(68)
Increase in provision	**103**	62
Balance at 31 December	**240**	187

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.

32. Financial instruments continued

32.3 Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Management monitor and manage liquidity for the Group and ensure that the Group has sufficient headroom in its committed facilities to meet unforeseen or abnormal requirements. Available headroom is monitored via the use of detailed cash flow forecasts. Particular focus is given to management of working capital.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Year ended 31 December 2016	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
Non-derivative financial liabilities					
Secured bank loan	**4,857**	**4,979**	**945**	**4,034**	**—**
Finance lease liabilities	**112**	**143**	**40**	**40**	**63**
Revolving credit facility	**12,000**	**12,066**	**12,066**	**—**	**—**
Trade payables	**4,960**	**4,960**	**4,960**	**—**	**—**
Derivative financial liabilities					
Other forward exchange contracts:					
Net payment	**57**	**57**	**57**	**—**	**—**
	21,986	**22,205**	**18,068**	**4,074**	**63**

Year ended 31 December 2015	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to 2 years £000	2 to 5 years £000
Non-derivative financial liabilities					
Secured bank loan	5,714	5,942	963	945	4,034
Finance lease liabilities	30	34	15	15	4
Revolving credit facility	5,000	5,033	5,033	—	—
Trade payables	4,321	4,321	4,321	—	—
Derivative financial liabilities					
Other forward exchange contracts:					
Net payment	15	15	15	—	—
	15,080	15,345	10,347	960	4,038

There are no contractual maturities over five years.

32.4 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.

While currently the Group's term bank debt is floating Libor linked, the Board reviews its option to fix the rates attached to this debt through the use of interest rate swap derivatives.

Notes to the consolidated financial information continued

32. Financial instruments continued

Market risk — foreign currency risk

The main currency related risk to the Group comes from forward purchasing of inventories and from its foreign operations. This risk is mainly managed by entering into forward currency contracts. The Group does not apply hedge accounting in respect of these forward currency contracts; the changes in fair value have been recognised in the profit or loss.

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 2016	**Sterling £000**	**Euro £000**	**US Dollar £000**	**Total £000**
Cash and cash equivalents	**3,176**	**564**	**84**	**3,824**
Trade and other receivables	**11,704**	**968**	**340**	**13,012**
Secured bank loans	**(5,000)**	**—**	**—**	**(5,000)**
Revolving credit facility	**(12,000)**	**—**	**—**	**(12,000)**
Finance lease liabilities	**(111)**	**—**	**—**	**(111)**
Trade payables	**(2,729)**	**(2,032)**	**(199)**	**(4,960)**
Forward exchange contracts	**—**	**(540)**	**—**	**(540)**
Net exposure	**(4,960)**	**(1,040)**	**225**	**(5,775)**

31 December 2015	Sterling £000	Euro £000	US Dollar £000	Total £000
Cash and cash equivalents	830	930	81	1,841
Trade and other receivables	9,528	793	46	10,367
Secured bank loans	(5,714)	—	—	(5,714)
Revolving credit facility	(5,000)	—	—	(5,000)
Finance lease liabilities	(30)	—	—	(30)
Trade payables	(2,499)	(1,686)	(136)	(4,321)
Forward exchange contracts	—	(36)	—	(36)
Net exposure	(2,885)	1	(9)	(2,893)

Sensitivity analysis

A 10% weakening of the following currencies against the pound sterling at 31 December 2016 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 2015.

	Profit or loss and equity	
	2016 £000	2015 £000
€	**95**	4
$	**(20)**	5

A 10% strengthening of the following currencies against the pound sterling at 31 December 2016 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.

32. Financial instruments continued

The analysis is performed on the same basis for the year ended 31 December 2015.

	Profit or loss and equity	
	2016 £000	2015 £000
€	**(116)**	(4)
$	**25**	(6)

Market risk – interest rate risk

Profile

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

	2016 £000	2015 £000
Fixed rate instruments		
Financial liabilities	**112**	30
Variable rate instruments		
Financial liabilities (carrying value)	**16,857**	10,714

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 2015.

	2016 £000	2015 £000
Equity		
Increase of 100 basis points	**(168)**	(107)
Decrease of 100 basis points	**168**	107
Profit or loss		
Increase of 100 basis points	**(168)**	(107)
Decrease of 100 basis points	**168**	107

32.5 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 19 provides details of loans and overdrafts. Short and medium term funding requirements are provided by a revolving credit facility. Longer term funding is sourced from a combination of these facilities. The Group's objectives when managing capital including short to medium term working capital and amortising, long term borrowings are to safeguard its ability to continue as a going concern and 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. There are no specific ratios used by the Group in assessing its management of capital levels.

Notes to the consolidated financial information continued

32. Financial instruments continued

The Group is subject to covenants in respect of its bank loans and facilities. The Group remains compliant. There were no changes in the Group's approach to capital management during each year.

Management assess the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Group's various classes of debt. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares, or sell assets to reduce debt.

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.

33. Subsequent events

Hydraulics and Transmissions Limited was acquired on 20 January 2017 for an initial consideration of £0.75 million in cash with contingent consideration of £1 million anticipated to be paid over the next two years. The cash consideration was funded out of existing Group resources. The Company provides fluid power solutions predominantly to the mobile market segment and is based in Ludlow, Shropshire. The acquisition will add significantly to the Group's procurement relationship with key global suppliers of hydraulic components. The business now forms part of the PMC division.

The Group will disclose the book value of the identifiable assets and liabilities and their fair values in the 2017 interim financial statements as required under IFRS 3 "Business Combinations". The initial accounting and fair value exercise is incomplete at the time of this announcement due to the proximity of the accounting date.

On 30 March 2017 Flowtech Fluidpower plc raised approximately £10m (before expenses) via the placing of 8,333,333 new ordinary shares at 120 pence per share.

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

Company income statement

	Note	2016 £000	2015 £000
Continuing operations			
Administrative expenses		**(194)**	(470)
Operating loss	C	**(194)**	(470)
Financial income	F	**5,000**	4150
Financial expenses	F	**(116)**	(132)
Net financing income		**4,884**	4,018
Profit from continuing operations before tax		**4,690**	3,548
Taxation	G	**(34)**	34
Profit for the year attributable to the owners of the parent		**4,656**	3,582

Company statement of financial position

	Note	2016 £000	2015 £000
Fixed assets			
Investments	J	**57,541**	57,251
Deferred tax assets	O	**—**	34
Total fixed assets		**57,541**	57,285
Current assets			
Trade and other debtors	K	**36,546**	21,777
Cash and cash equivalents	L	**11**	1
Total current assets		**36,557**	21,778
Creditors: amounts falling due within one year			
Interest-bearing loans and borrowings	M	**12,857**	857
Trade and other creditors	N	**1,753**	583
Total creditors: amounts falling due within one year		**14,610**	1,440
Net current assets		**21,947**	20,338
Total assets less current liabilities		**79,488**	77,623
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	M	**4,000**	4,857
Total creditors: amounts falling due after more than one year		**4,000**	4,857
Net assets		**75,488**	72,766
Capital and reserves			
Called up share capital	P	**21,539**	21,539
Share premium account		**46,880**	46,880
Share-based payment reserve		**622**	332
Retained earnings		**6,447**	4,015
Total equity		**75,488**	72,766

The financial statements on pages 103 to 104 were approved by the Board of Directors on 4 April 2017 and were signed on its behalf by:

Bryce Brooks
Director
Company Registration Number: 09010518

Company statement of changes in equity

	Share capital £000	Share premium £000	Share-based payment reserve £000	Retained earnings £000	**Total equity £000**
Balance at 1 January 2015	21,414	46,664	96	2,613	**70,787**
Profit for the year	—	—	—	3,582	**3,582**
Total comprehensive income for the year	—	—	—	3,582	**3,582**
Transactions with owners					
Issue of share capital	125	216	—	—	**341**
Share options – cost	—	—	—	(5)	**(5)**
Share options – granted to subsidiary employees	—	—	236	—	**236**
Equity dividends paid (note E)	—	—	—	(2,175)	**(2,175)**
Total transactions with owners	125	216	236	(2,180)	**(1,603)**
Balance at 1 January 2016	21,539	46,880	332	4,015	**72,766**
Profit for the year	—	—	—	4,656	**4,656**
Total comprehensive income for the year	**—**	**—**	**—**	**4,656**	**4,656**
Transactions with owners					
Share options – cost	—	—	—	63	**63**
Share options – granted to subsidiary employees	—	—	290	—	**290**
Equity dividends paid (note E)	—	—	—	(2,287)	**(2,287)**
Total transactions with owners	—	—	290	(2,224)	**(1,934)**
Balance at 31 December 2016	**21,539**	**46,880**	**622**	**6,447**	**75,488**

Notes to the company financial information

A. Authorisation of Financial Statements and Statement of Compliance with FRS 101

The financial statements of Flowtech Fluidpower plc for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 4 April 2017 and the Statement of Financial Position was signed on the Board's behalf by Bryce Brooks. 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 2016.

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. The 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.

B. Accounting policies continued

Cash and cash equivalents

Cash and cash equivalents comprise cash, bank balances net of bank overdrafts and short term deposits held with banks by the Company, and are subject to insignificant risk of changes in value.

Interest-bearing borrowings

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

Derivative financial instruments

Derivative financial instruments held by the Company include forward foreign currency contracts and are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Derecognition of financial liabilities

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

Share-based payments

The fair value of employee share plans is calculated using a variation of the Black–Scholes model. In accordance with IFRS 2 'Share-based payment', the resulting cost is charged to the profit and loss account over the vesting period of the plans.

Where the individuals are employed by the parent Company, the fair value of options granted is recognised as an employee expense with a corresponding increase in equity. Where the individuals are employed by a subsidiary undertaking, the fair value of options to purchase shares in the Company that have been issued to employees of subsidiary companies is recognised as an additional cost of investment by the parent Company. An equal amount is credited to other equity reserves.

Financing income and expenses

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

Taxation

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

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

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

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

Dividends

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

Pensions

Company employees are members of defined contribution pension schemes where the obligations of the Company are charged to the profit and loss account as they are incurred.

Notes to the company financial information continued

C. Operating loss

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

	2016 £000	2015 £000
Acquisition costs	151	166
Share-based payment costs (note 24)	63	86
Restructuring	60	218

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

D. Services provided by the Company's Auditor

During the period the Company obtained the following services provided by the Company's Auditor at the costs detailed below:

	2016 £000	2015 £000
Audit of the statutory financial statements of Flowtech Fluidpower plc	20	20

E. Directors and 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:

	2016 £000	2015 £000
Administration	4	4

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Remuneration	587	591
Social security costs	62	65
Contributions to defined contribution pension plans	—	14
Compensation for loss of office	—	154
Benefits in kind	4	6
Share-based payments	127	175
	780	1,005

E. Directors and employees continued

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

	2016 £000	2015 £000
Highest paid Director's remuneration		
Remuneration	**280**	220
Social security costs	**38**	29
Benefits in kind	**2**	1
Share-based payments	**70**	85
Total highest paid Director's remuneration	**390**	336

Details of Directors' emoluments are included in the Directors' Remuneration Report on pages 46 to 47.

F. Financial income and expense

Finance income for the year consists of the following:

	2016 £000	2015 £000
Finance income arising from:		
Dividends received from group undertakings	**5,000**	4,150
Total finance income	**5,000**	4,150

Finance expenses for the year consist of the following:

	2016 £000	2015 £000
Finance expense arising from:		
Bank loans – current facilities	**116**	132
Total finance expense	**116**	132

G. Taxation

Recognised in the income statement

	2016 £000	2015 £000
Deferred tax		
Origination and reversal of temporary differences	**2**	(34)
Adjustment in respect of prior periods	**32**	—
Total tax expense/(income) in the income statement	**34**	(34)

No income tax was recognised in other comprehensive income or directly in equity for either of the years ended 31 December 2015 or 2016.

Notes to the company financial information continued

G. Taxation continued

Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit for the year	4,656	3,582
Total tax expense	34	(34)
Profit excluding taxation	**4,690**	3,548
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	938	718
Deferred tax movements not recognised	11	17
Group relief	15	40
Impact of change in tax rate on deferred tax balances	1	1
Income not taxable	(1,000)	(840)
Amounts not deductible	37	30
Adjustment in respect of prior periods	32	—
Total tax expense in the income statement	**34**	(34)

Change in corporation tax rate

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2016 have been calculated based on these rates.

H. Dividends paid and proposed

	2016 £000	2015 £000
Final dividend of 3.50p (2015: 3.33p) per share	1,499	1,426
Interim dividend of 1.84p (2015: 1.75p) per share	788	749
	2,287	2,175

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2016 of 3.67p (2015: 3.50p) per share which will absorb an estimated £1.6 million of Shareholders' funds. It will be paid on 23 June 2017 to Shareholders who are on the register of members on 2 June 2017.

I. Share-based payments

Details of share-based payments are shown in note 24 to the consolidated financial statements.

J. Investments

Cost and net book value	Investments in subsidiaries' unlisted shares £000	Subsidiaries' share-based payment reserves £000	Total £000
At 1 January 2016	56,919	332	57,251
Additions	—	290	290
At 31 December 2016	**56,919**	**622**	**57,541**

K. Trade and other debtors

	2016 £000	2015 £000
Current:		
Prepayments and accrued income	379	354
Amounts owed by group undertakings	36,167	21,423
Total trade and other debtors	**36,546**	21,777

L. Cash and cash equivalents

	2016 £000	2015 £000
Sterling	11	1
Total cash and cash equivalents	**11**	1

M. Interest bearing loans and borrowings

	2016 £000	2015 £000
Non-current liabilities:		
Secured bank loans	4,000	4,857
Total non-current liabilities	**4,000**	4,857
Current liabilities:		
Revolving credit facility	12,000	—
Secured bank loans	857	857
Total current liabilities	**12,857**	857
Total interest bearing loans and borrowings	**16,857**	5,714

The secured bank loan is repayable in instalments over the period to 8 May 2018 and is secured by legal charges over certain assets of the Flowtech Group which include trade receivables and stock.

The revolving credit facility is up to £15,000,000 and is subject to a non-utilisation fee of 0.7% and is due for renewal in 2018. The bank loans and revolving credit facility are secured by legal charges over certain of the Group's assets which include trade receivables and stock. The revolving credit facility was disclosed in the financial statements of the Company's subsidiary Fluidpower Limited in the prior year.

N. Trade and other creditors

	2016 £000	2015 £000
Social security and other taxes	22	24
Accruals and deferred income	104	233
Amounts owed to other group undertakings	1,627	326
Total trade and other creditors	**1,753**	583

Notes to the company financial information continued

O. Deferred taxation

Deferred tax assets comprise:

	2016 £000	2015 £000
Provisions	—	34
Total deferred tax	—	34
At start of year	34	—
Deferred tax credit in profit and loss account for the year	(34)	34
At end of year	—	34

A deferred tax asset of £38,000 (2015: £27,000) in respect of cumulative share-based payments of £223,000 (2015: £138,000) has not been recognised due to uncertainty surrounding the availability of future profits, against which these payments can be utilised.

P. Share capital

Allotted, called up and fully paid:

	Number	£000
Allotted and fully paid ordinary shares of 50p each		
At 1 January and 31 December 2016	43,078,282	21,539

Potential issue of shares

Details of the potential issue of shares relating to employee share-based payment schemes are shown in note 24 to the consolidated financial statements.

Q. Contingent liabilities and commitments

The Company has no capital expenditure contracted for but not provided at 31 December 2016.

R. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with entities that are wholly owned subsidiaries of the Flowtech Fluidpower plc Group. A loan of £338,000 made to the Flowtech Fluidpower Employee Benefit Trust to enable it to buy shares in the Company in the prior year remains outstanding. There are no other related party transactions other than those relating to Directors that have been disclosed in note 31 to the consolidated financial statements.

S. Company principal subsidiaries

The principal subsidiaries of the Company are listed in note 12 to the consolidated financial statements.

T. Ultimate controlling party

The Directors consider that there is no ultimate controlling party.

Flowtech Fluidpower plc
Registered office
Pimbo Road
Skelmersdale
Lancashire
WN8 9RB

www.flowtechfluidpower.com

Email: info@flowtechfluidpower.com