

Officers and professional advisers



Nigel Richens

Non-Executive Director

Appointed: May 2014

Career: 23 years within the accountancy sector at partner level with PwC. Experienced adviser to listed and private equity-owned businesses across manufacturing, distribution, construction and engineering sectors.

Board committees: Chair of Audit, Remuneration and AIM Compliance and Corporate Governance Committees.

Malcolm Diamond MBE

Non-Executive Chairman

Appointed: May 2014

Career: 37 year career in industry. Strong commercial and marketing experience as well as City investor knowledge and expertise. Experienced Non-Executive having worked across industrial, pharmaceutical and investment sectors.

Current role: Executive Chairman, Trifast plc, Non-Executive Director, Acal Plc.

Board committees: Chair of Nomination Committee and also a member of both the Audit and Remuneration Committees and the AIM Compliance and Corporate Governance Committee.

Sean Fennon

Chief Executive Officer

Appointed: November 2009

Career: 32 years in industry – in design, manufacturing, wholesale, retail and industrial distribution.

Previous role: Managing Director of a large UK industrial distributor, a subsidiary of a large German group.

Board committees: By invitation.



Bryce Brooks

Chief Financial Officer

Appointed: March 2010

Career: Qualified with PwC in 1989.

Previous role: Finance Director in two UK subsidiaries of Marlowe Holdings, an American-owned industrial products distribution group headed by Edmundson Electrical, as well as a group corporate development role.

Board committees: AIM Compliance and Corporate Governance Committee and by invitation.

Registered office

Pimbo Road
Skelmersdale
Lancashire WN8 9RB

Company secretary

Bryce Brooks

Contact

info@flowtechfluidpower.com
www.flowtechfluidpower.com
Tel: +44 (0) 1695 52796

Nominated adviser and broker

Zeus Capital Limited
41 Conduit Street
London W1S 2YQ
and
82 King Street
Manchester M2 4WQ

Joint broker

finnCap Limited
60 New Broad Street
London
EC2M 1JJ

Auditor

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester M3 3EB

Solicitors

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

Company registrars

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Bankers

Barclays Bank PLC
1 Churchill Place
London E14 5HP

Investor relations

TooleyStreet Communications Ltd
Regent Court
Birmingham
West Midlands B3 1UG

Directors' report (other disclosures)

The Directors present their Annual Report, together with the audited Group and Company financial statements for the year ended 31 December 2016. The Group financial statements have been prepared in accordance with International Reporting Standards as approved by the European Union (IFRS). The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced disclosure framework' (FRS 101).

A review of the Group's trading and an indication of future developments are contained in the Strategic Report on pages 10 to 43. Details of revenue and operating profits for each operating segment are contained in note 3 to the consolidated financial statements. The principal subsidiaries contributing to the profits and net assets of the Group are listed in note 12 to the consolidated financial statements.

Flowtech Fluidpower plc is incorporated in England (company registration number 09010518) and has its registered office at Pimbo Road, Skelmersdale, Lancashire WN8 9RB.

Results and dividends

The results for the year ended 31 December 2016 are set out in the consolidated income statement on page 50. The Group has reported an operating profit from its continuing activities of £6.137 million (2015: £5.491m). After accounting for net finance costs, the consolidated income statement shows a profit from continuing operations before taxation of £5.527 million (2015: profit of £5.280m).

The Directors are recommending a final dividend of 3.55p per ordinary share amounting to £1.6 million payable on 23 June 2017 to Shareholders on the Company's register at the close of business on 2 June 2017. The shares will be quoted ex-dividend from 1 June 2017.

Directors

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

- Malcolm Diamond MBE
- Nigel Richens
- Sean Fennon
- Bryce Brooks

Short biographies of each Director are provided on pages 44 and 45.

Those Directors serving at the end of the year, or at date of this report, had an interest in the ordinary share capital of the Company, and its subsidiaries, at 31 December 2016 which is disclosed in the Directors' Remuneration Report on page 53.

Details of the Directors' share options are provided in the Directors' Remuneration Report on page 53.

Material interest in contracts

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

Share capital

Details of the Company's share capital are in note 26 to the consolidated financial statements.

The Company's share capital comprises one class of ordinary shares and as at 12 April 2017 there were in issue 51,411,615 fully paid ordinary shares of 50p each. All shares are fully transferable and rank pari passu for voting and dividend rights.

The Company has been notified of the following interest in more than 3% of the Company's issued share capital at 31 March 2017 (being the last practicable date before the publication of this report):

	Number of shares held	% of issued share capital
Miton Asset Management	6,956,506	13.53%
Premier Asset Managers	6,450,650	12.55%
Hargreave Hale	4,153,233	8.08%
Close Brothers Asset Management	3,916,976	7.62%
City Financial Investment Company	3,783,896	7.36%
Henderson Global Investors	1,918,237	3.73%
Ruffer LLP	1,761,137	3.43%
Ennismore Fund Management	1,716,531	3.34%
Lazard Freres Gestion	1,389,310	2.70%
Legal & General Investment Management	1,294,808	2.52%

Financial instruments and risk management

Information about the use of financial instruments by the Company and its subsidiaries, and the Group's financial risk management policies are given in note 32. It is not the Group's policy to trade in financial instruments.

Social responsibility

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

Employees

Details of the number of employees and related costs can be found in note 5 to the consolidated financial statements. The Group is committed to providing staff and management with training designed to develop attitudes and skills and give opportunities for advancement. The Group promotes good communication and consultation with regular management meetings, staff briefings, and a staff consultative committee to involve staff in the progress of the Group and its future.

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

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

Employee share scheme incentives

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

At 31 December 2016 the total shares in the Company held by the Enterprise Management Incentive Plans were 2,474,721 representing 5.7% of the issued capital. Further details are provided in note 24 to the consolidated financial statements.

Flowtech Fluidpower plc operates a share-based Company Share Option Plan scheme (CSOP) for the benefit of its staff and senior management. The aim of the share-based CSOP scheme is to align the interests of employees with those of the Company's Shareholders. Employees may exercise their options at any time between May 2018 and May 2025.

At 31 December 2016 the total shares in the Company held by the Company Share Option Plan was 575,000, representing 1.3% of the issued capital. Further details are provided in note 24 to the consolidated financial statements.

Health, safety and environmental management

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

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

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

Directors' report (other disclosures) continued

Annual general meeting

The Annual General Meeting will be held on 25 May 2017 at 10am at the offices of our joint brokers, finnCap, 60 New Broad Street, London, EC2M 1JJ.

Going concern

UK company law requires the Directors to consider whether it is appropriate to prepare the financial statements on the basis the Company and the Group are going concerns. Throughout the financial statements there are various disclosures relating to going concern. This Directors' Report summarises the key themes and references those areas where greater disclosure is given.

The Group meets its day-to-day working capital requirements through its bank facilities. The year end amounts outstanding on each are discussed within note 19. The Directors have carefully considered the banking facilities and their future covenant compliance in light of the current and future cash flow forecasts and they believe that the Company and the Group are appropriately positioned to ensure the conditions of its funding will continue to be met and therefore enable the Company and the Group to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Sensitised forecasts have been prepared for two years and have been reviewed by the Directors to ensure that the profit and cash generation derived from these forecasts are sufficient to ensure that the existing bank facilities are sufficient to meet the Group's requirements. This is discussed further within liquidity risk in note 32.3 and is the key factor in relation to going concern.

As a result of this review, the Directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and have continued to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditor

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

Auditor

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

By order of the Board

Bryce Brooks

Chief Financial Officer and Company Secretary
4 April 2017

Statement of directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Reporting Standards as adopted by the European Union (IFRS). The Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including FRS101 'Reduced disclosure framework'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the consolidated financial statements state whether IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements respectively;
- for the parent Company financial statements state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors confirm that:

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

Corporate governance report

The Board is accountable to the Company's Shareholders for good governance. The following statement describes the key corporate governance policies that have been adopted by the Company. The Company is not required to follow, and does not comply with, the UK Corporate Governance Code. Nevertheless, the Board is committed to high standards of corporate governance which it considers are critical to business integrity and to maintaining investors' trust.

The board

At the date of signing these accounts, the Board has two Executive Directors and two Non-Executive Directors including the Chairman.

Biographical information for each of the Directors are set out on pages 44 to 45. The Board confirms that, having taken into consideration the results of the performance evaluation undertaken in the year, the Director being proposed for re-election has demonstrated commitment to his responsibilities and continues to perform effectively.

Role of the board

During the year the Board has met formally on nine occasions and undertaken several telephone discussions to cover specific matters such as acquisitions, strategy, fundraising and appointment of advisers. At the Board meeting, the CEO reports on the overall business performance and any matters which need to be brought to the attention of the Board. The CFO reports on the financial performance and any other secretarial matters. Health and safety compliance is reviewed at every meeting. Specific topics covered this year have been the risk register, IT and accounting function integration post acquisition and MAR compliance. Minutes of the previous Board meeting are approved.

There are four Board committees; the Audit, Remuneration, Nomination and the AIM Compliance and Corporate Governance Committees.

Collectively and individually, the Directors monitor the performance of the Board and its members on a range of measures. Due to its small size and the cost of the process, a formal evaluation of Board performance by an outside agency is not thought to be appropriate. All Directors have access to independent advice at Company expense if it is felt it is required.

The nomination committee

The Nomination Committee reviews the size, structure and composition of the Board and ensures adequate succession planning for both the Board and senior management team. The Committee meets as required. No meetings were required in the year.

The remuneration committee

The Remuneration Committee meets at least once a year to determine and agree remuneration packages and other employee benefits. Details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 52 to 53.

The AIM compliance and corporate governance committee

The AIM Compliance and Corporate Governance Committee meets twice a year. It is responsible for establishing, reviewing and monitoring the Group's procedures and controls for ensuring compliance with the AIM Rules and the timely disclosure of information to satisfy the Group's legal and regulatory obligations.

The audit committee

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

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

During the year the Audit Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements, preliminary announcements and interim results statement prior to Board approval and reviewing the external Auditor's reports thereon;
- reviewing the external Auditor's plan for the audit of the Group financial statements, confirmations of auditor independence and proposed audit fee and approving terms of engagement for the audit;
- considering the effectiveness and independence of the external Auditor and recommending to the Board the re-appointment of Grant Thornton UK LLP as external Auditor;
- considering the review of material business risks;
- reviewing Group Directors' expenses;
- monitoring of reporting and follow up of items reported by employees;
- considering the significant risks and issues in relation to the financial statements and how these were addressed including:
 - impairment reviews of goodwill
 - valuation of intangibles and share based payments
 - provisions
 - fraud risk
 - going concern, covenants and cash headroom;

- considering the adequacy of accounting resource and the development of appropriate systems and controls;
- reviewing the risk register with specific focus on cyber exposure and approving an employee training programme on cyber risks;
- review of progress in introducing best practice systems and procedures Group wide
- reviewing the plans and progress to interface and integrate IT systems post acquisition; and
- considering policies on non-audit engagements for the Company's Auditor.

Internal controls

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

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

The Audit Committee considered the need to establish a formal internal audit function. It was decided that it was not appropriate at present due the centralised control structure and daily monitoring of results, stock levels and cash balances. This matter will be revisited as the Group expands. There are adequate resources to conduct ad hoc investigations should the Audit Committee so require.

Communication with shareholders

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

The Group's website www.flowtechfluidpower.com is the primary source of information for the Group and includes an overview of the activities of the Group and details of all recent announcements.

Directors' remuneration report

The remuneration committee

The Remuneration Committee consists of the Non-Executive Directors of the Company. The role of the Remuneration Committee will be to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees, Executives and Directors, including all share-based compensation. The remuneration of the Non-Executive Directors is approved by the Board of Directors. As Chairman of the Committee, I have been asked by the Board to report to you on all remuneration matters on its behalf.

Remuneration policy

The remuneration policy of the Group is:

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

The Committee makes recommendations to the Board.

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

Benefits in kind are the provision of medical insurance premiums. The pension contributions represent the Group's contribution to defined contribution schemes.

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

All of the Executive Directors participate in the EMI option schemes and one of the Executive Directors participates in an unapproved EMI option scheme. These options will be exercisable on the publication of the Company's financial results for the year ended December 2016 and will lapse if the Directors leave employment for any other reason than being a 'good leaver' as defined within the scheme rules, or at the end of the tenth anniversary of the date of grant. Further details are provided in note 24 to the consolidated financial statements.

Directors' detailed emoluments

	Salary and fees £000	Benefits £000	Bonus £000	Share-based payments £000	Total 2016 £000	Total 2015 £000
Executives						
Sean Fennon	220	2	60	70	352	306
Bryce Brooks	148	2	40	57	247	199
Paul Watson (resigned 22 October 2015)	—	—	—	—	—	320
Non-Executives						
Malcolm Diamond MBE	76	—	—	—	76	75
Nigel Richens	43	—	—	—	43	40
	487	4	100	127	718	940

Directors' share interests

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

	As at 31 December 2016 No. of ordinary shares	As at 31 December 2015 No. of ordinary shares
Executives		
Sean Fennon	219,000	209,000
Bryce Brooks	94,000	91,000
Non-Executives		
Malcolm Diamond MBE	50,000	35,000
Nigel Richens	50,000	35,000

All changes in the year relate to purchases on 12 and 13 May 2016 for an average price of 141.2 pence per share.

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

Executives	As at 31 December 2016				As at 31 December	
	A shares £1 ordinary	B shares £1 ordinary	C shares £1 ordinary	D shares £1 ordinary	2015	B shares £1 ordinary
Sean Fennon	340	3,100	5	—	340	3,100
Bryce Brooks	180	3,100	—	5	180	3,100
Paul Watson (resigned 22 October 2015)	—	—	—	—	180	3,100

A and B shares were issued on admission to AIM at a cost of £10 per share on 21 May 2014. The C and D shares were issued at a cost of £400 per share on 1 June 2016. All shares were issued as part of an employee share-based remuneration scheme called the 'Management Incentive Plan'. For further details refer to note 24.

Directors' share options

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

Executives	Scheme	As at 31 December 2015	Exercised	Cancelled	As at 31 December 2016
Sean Fennon	EMI (Approved)	249,999	—	—	249,999
Sean Fennon	EMI (Unapproved)	222,223	—	—	222,223
Bryce Brooks	EMI (Approved)	249,999	—	—	249,999

All options were granted on admission to AIM on 21 May 2014. The shares were issued as part of an employee share-based remuneration scheme called the "Enterprise Management Incentive Plan". Further details are provided in note 24 to the consolidated financial statements.

On behalf of the Board

Nigel Richens

4 April 2017