

JAMES LATHAM PLC

ANNUAL REPORT & ACCOUNTS 2019



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Financial Highlights and Calendar

for the year ended 31 March 2019

Financial Highlights



Financial Calendar

| | |
|---|------------------|
| Record date for final dividend 2019 | 2 August 2019 |
| Annual General Meeting 2019 | 21 August 2019 |
| Payment of final dividend | 23 August 2019 |
| Interim 2019/20 results announcement | 28 November 2019 |
| Interim dividend expected payment date | 24 January 2020 |
| Preliminary announcement of 2019/20 results | 24 June 2020 |
| Annual General Meeting 2020 | 2 September 2020 |

Chairman's Statement



Nick Latham

Chairman, James Latham plc

I am pleased to report good trading results for the financial year to 31 March 2019.

Revenue for the financial year to 31 March 2019 was £235.1m, up 9.4% on last year's £214.9m. Volumes increased by 0.9%, with the majority of the growth being on direct business. The cost price of our products increased against the comparative 12 months and fluctuated more than in previous years. However cost prices on some imported plywood have shown price weakness in the last quarter of the year.

Gross profit for the financial year to 31 March 2019 was 17.2% compared with 17.6% in the previous financial year. This figure includes warehouse costs, which have increased due to planned extended working hours, further investment in our racking systems and some increased rents at our leased sites.

Profit before tax is £15.3m, up £0.1m on last year's £15.2m. As reported at the half year, the High Court made a judgment confirming that pension schemes are required to equalise male and female Guaranteed Minimum Pensions ("GMP"). The trustees have assessed this one-off cost and £0.7m has been provided to cover this. In addition, profit before tax includes a profit of £1.1m on the sale of our old Yate site and last year included a profit of £1.3m on the sale of our old site in Wigston.

Profit after tax for the year is £12.4m, down from last year's £12.6 m.

Earnings per ordinary share, adjusted for the effect of the property profit and the one off cost relating to GMP were 61.6p (2018: 57.9p) an increase of 6.4%.

As at 31 March 2019 net assets have increased to £98.0m (2018: £89.8m). Non current assets have increased by £2.7m from 31 March 2018, in part due to the continuing investment in our vehicle fleet and warehouse forklifts, plus also the acquisition of Abbey Wood Agencies Limited. Inventory levels have increased to £42.3m, partly due to the increase in unit cost of the stock as well as our planned Brexit stock. Trade receivables have continued to show good debtors day figures with there being another low bad debt charge of 0.23% of revenue. Cash and cash equivalents of £15.5m (2018: £14.0m), remain strong with good cash flows from operating activities.

At 31 March 2019 the deficit of the defined benefit scheme under IAS19 (revised) was £8.7m, up £0.3m compared with £8.4m last year. The calculation of the pension deficit remains very sensitive to changes in assumptions.

Final dividend

The Board has declared a final dividend of 12.9p per Ordinary Share (2018: 12.1p). The dividend is payable on 23 August 2019 to ordinary shareholders on the company's register at close of business on 2 August 2019. The ex-dividend date will be 1 August 2019.

The total dividend per ordinary share of 17.9p for the year (2018: 16.6p) is covered 3.5 times by earnings (2018: 3.9 times).

Current and future trading

We have had a positive start to the year with sales per working day 4.5 % higher for April and May than the corresponding period last year, excluding Abbey Woods. Margins have also improved compared to the second half of 2018/19. The acquisition and integration of Abbey Woods has gone very well, and we now have a great platform to develop sales in Ireland. We continue to see growth in sales of added value timber and panel products, although volume growth in our core products is proving more challenging. Prices on some of our commodity panels are showing signs of weakness, partly due to over stocking within our industry. I am pleased to report that there is a good level of activity for the majority of both our timber and panel customers. Despite the strong start to the year, there is still uncertainty surrounding the economic outlook, but we remain confident that we are in a strong position to continue to grow the business.

Development strategy

The directors will continue to develop the business, and look for opportunities to grow the business through any suitable acquisitions to support market sectors we are looking to grow and also identify new products in market sectors where we are focussing our efforts. We will continue to invest in our warehouses and extend the working day at our depots to ensure that we meet the delivery needs of our existing and new customers. The focus will be on major racking investment in Purfleet and Thurrock, and Gateshead where we have now gained planning permission to develop the site to improve the yard layout and provide new offices. Our Fareham depot will join Yate and Leeds in working a 24 hour shift system. I am pleased to report that our focus on the A&D specification sector is leading to a growing number of specifications for our products, and this is an area we will continue to develop as we build our future order book.

Directors and staff

Chris Sutton retired from the board at the end of March 2019 after 40 years service, and the board would like to record their enormous thanks for his commitment throughout his time in the business, but particularly as managing director, leading the business during a period of substantial growth. Andrew Wright has taken over as managing director, and will use his wealth of experience to continue to develop the business in the years ahead.

In terms of corporate structure, there is a clear division of responsibilities between the main board, which determines strategy and exercises corporate governance and the trading board of Lathams Ltd, chaired by Andrew Wright, which sets and monitors trading and operations policy. Both boards are well balanced in terms of both experience and skills.

The business is organised to give as much local autonomy to our site directors to implement our sales and purchasing strategy, with our senior timber and panel staff meeting regularly to review and evaluate our key products groups.

I would like to personally thank all the directors and everyone in the group for their support and individual contributions during the course of this successful, but challenging year. Having spent a significant number of days with our site directors, and also days out with our sales representatives seeing our customers, it is fantastic to see the real team spirit that we have in our business, which I believe is a real driver for our continued success.

Nick Latham

Chairman, James Latham plc

26 June 2019

Strategic Report

Introduction

Outline of the Strategic Report

The directors present their Strategic Report for the year ended 31 March 2019. Included within these sections are the four Principles for delivering growth as contained within the Quoted Companies Alliance Corporate Governance Code 2018, demonstrating how we comply with these principles.

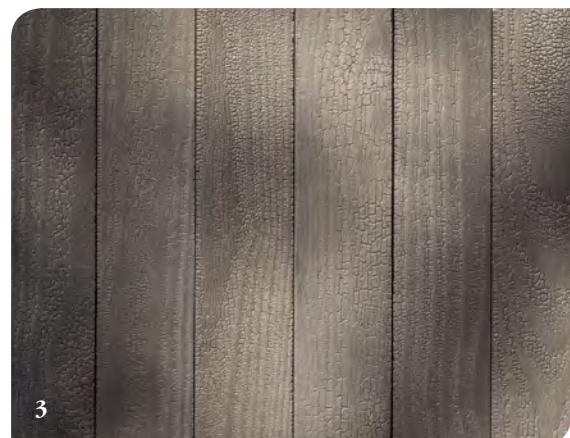
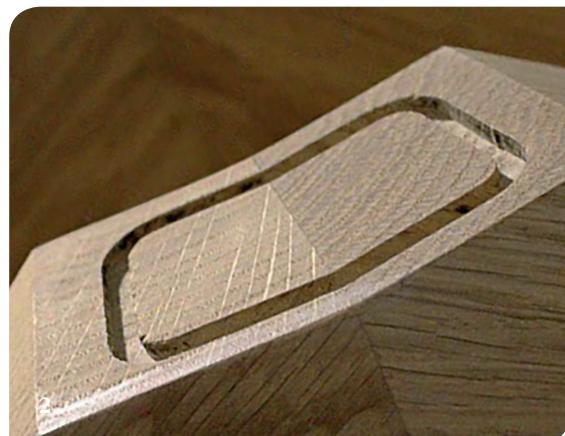
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The Strategic Report was approved by the board of directors on 26 June 2019 and signed on its behalf by:-

Nick Latham

David Dunmow



1 Products on display at our Manchester Show Room. **2** European Oak. **3** Shou Sugi Ban® Charred Cladding.

4 3D pyramid wall displaying different melamines, laminates and wood grains.

James Latham plc and Our Objectives and Strategy

DELIVER GROWTH

Principle 1 – Establish a strategy and business model which promote long term value for shareholders.

Objectives

James Latham plc sets out to be the supplier of choice throughout the UK for joinery, door and kitchen manufacturers, shopfitters and other market sectors, offering a wide range of wood based panel products, natural acrylic stone, door blanks, hardwoods, high grade softwoods, cladding, decking and plastics. We also supply commodity and specialist products to timber and builders' merchants. Environmental concerns about the growth and harvest of timber are key drivers of company policy, with the company aiming to increase each year, the amount of legal and sustainable product supplied into its marketplace.

The company traces its history back to James Latham who traded in exotic hardwood in Liverpool in 1757. His son had established a business in London by 1799. It was taken public in 1965 and the shares are now quoted on the AIM market. The Latham family owns over half of the company shares and three members of the Latham family, now in the 9th generation, work in the business.

The company believes that to provide the service demanded, we need to be close to our customers. We offer national coverage from ten locations in the UK and two locations in the Republic of Ireland, as shown in The Latham Group map on page 73, as well as from various port and storage locations around the UK. Having stock of product in the right place at the right time is important to provide this service. Commodity imports are held in ports including Tilbury, Liverpool and Grangemouth. This stock can be delivered directly to customers for multi-pack orders, or transferred to the depots for onward delivery. Around London we stock Panel Products and Timber Products in separate warehouses whereas a full range of products are held in our other locations around Great Britain. We also hold a range of specialist products in Leeds for national distribution and Leeds also offers an efficient delivery service to the island of Ireland.

The company is well respected in its industry and amongst its customers and suppliers for its principled trading policies and its integrity.

The company's objectives are:

- To maximise shareholder value over the medium term;
- To be the supplier of choice for our customers by understanding and meeting their needs and providing them with the right material at the right time;
- To maintain its presence in timber based products but to expand the product range to the existing customer base from an extended distribution network;
- To increase sales of third party certified legal and sustainable timber products and drive Corporate Social Responsibilities within our company and industry;
- To provide a safe working environment for our staff;
- To improve service levels by improving warehouse facilities to speed order picking over an extended product range; and
- To employ and develop well-trained, knowledgeable and helpful staff.

Strategy for developing the business

The directors recognise that the strength of the group is as a distributor of high quality timber and associated products, purchased using the Timber Trade Federation Responsible Purchasing Policy from legal and sustainable sources of supply, to meet existing and new customer demands on product and service.

Working with existing and potentially new suppliers, we identify products to add to our extensive range. This can include non timber products where they fit into the requirements of our customer base. Our aim is to provide a true one stop shop to our key target markets.

Strategic Report

James Latham plc and Our Objectives and Strategy

Our strategy for developing the business is two fold. Firstly to ensure that we maintain and improve our volumes of commodity products, including MDF, OSB, Plywood, North American Hardwoods, European Hardwoods and African Hardwoods. Secondly, alongside the commodity products we sell an increasing amount of speciality products, including Door Blanks, Melamines, Laminates and other decorative panels, Accoya, Woodex®, Decking and Cladding. Full ranges of the specialist products are stocked and key to our success is having the right stock in the right place at the right time.

Laminates have gained an increased presence and importance as part of our strategic decision to grow our market share in this product. Our ex stock offer and logistics infrastructure have been significantly enhanced and we continue to invest in these areas. We are committed to reaching our aim of providing our customer base with a 24-48 hour service on our complete Laminates collection of new, innovative, exclusive products, supplying some of the biggest Laminate brands in the market. This year we have enhanced our range of AE Core decors, introducing the Serica® range of thermoplastic laminates.

All Latham depots will continue to offer an enhanced range of melamine products ex-stock, including decors from Egger, Kronospan and CLEAF.

Horizon has been added to our portfolio of North American Hardwoods. Their original concept of log intact Oak results in unrivalled colour matching within packs, and the quality of their waney edged Walnut has proved very popular with high end furniture makers and boat builders. Our Timber Director and our North American specialists spent a lot of time with the mill to assess the



Horizon Cherry Staircase.

product and build up this relationship, subsequently training a Horizon champion in each depot. Supported by stocks in each depot and in the ports, the launch of this product has proven a great success.

Sales of technical timber are a key part of our strategic sales development for timber. An enhanced range of products are stocked, including Accoya, WoodEx®, Decking and Cladding.

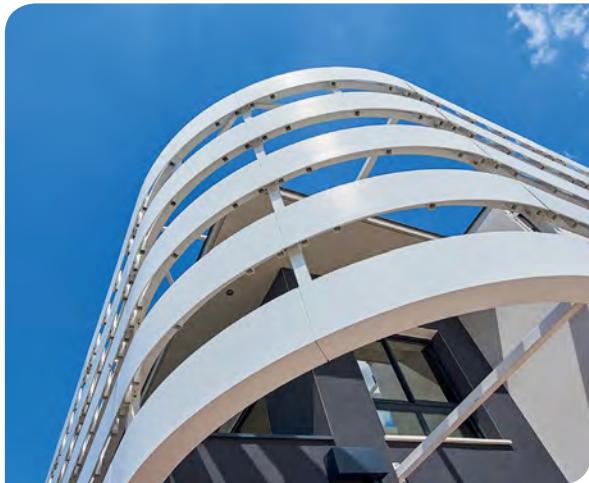
Our Leeds depot acts as the central distribution point for ATP, HI-Macs®, Composite Decking, Kydex®, Laminates and Valchromat. This year we have introduced Avonite solid surface to our product range. This product has 65 striking colours in its range and is used in architectural and design applications across numerous sectors including hospitality, education, public and living spaces and commercial workspace. These are all available on a national basis for prompt delivery to our customer base. We have and will continue to enhance our delivery service and will continue to develop our centrally held stocks.

All depots have a three year rolling business plan to ensure that they monitor opportunities and threats throughout the year, and review their practices to continually improve service levels to our customers. Investment in our facilities are ongoing as we adapt our product ranges and service levels to meet customer demands.



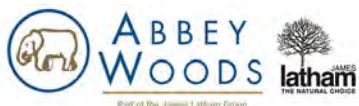
Horizon American White Oak log on its way to the Mill.

James Latham plc and Our Objectives and Strategy



Avonite used for exterior applications.

We will continue to look to develop new markets, both organically through our depot network, or by acquisition where the opportunity arises. This year we completed the acquisition of Abbey Wood Agencies Ltd, a timber distributor with branches in Dublin and Cork. Abbey Woods are the Accoya distributor in Ireland as well as dealing in a wide range of hardwood and decking products. As well as providing the company with a base in Ireland, we are able to bring to Abbey Woods additional products and our wide experience of dealing with timber in the UK.



Our staff are a major asset for the company, and we continue to invest in training to ensure that we have the best operations, sales and technical teams in the industry. Marketing of our products is done through brochures, direct advertising, public relations, social media and exhibitions and we use multiple channels to communicate clearly with our existing and potential customers, fully complying with our responsibilities under the General Data Protection Regulation.

Our Architect and Design showrooms at the Business Design Centre in Islington and our showroom in the Northern Quarter of Manchester has opened up our product offering to a large number of professional specifiers. This has proved to be beneficial, gaining orders and specifications for a wide range of products on display from our key strategic suppliers. We also put in place a programme of presentations to architects for their Continual Professional Development.

We value the personal relationships developed with our suppliers, staff and customers. Working with our staff and suppliers we aim to offer our existing and potential customer base a first class service of fit for purpose, legal and sustainable products, delivered in a timely manner.



Products on display at our Manchester Showroom.

Principle 2 – Seek to understand and meet shareholder needs and expectations.

Nick Latham and David Dunmow are responsible for maintaining good communications with shareholders. This includes our published financial statements and Stock Exchange announcements, which are also posted on to our Investors website, www.lathams.co.uk.

We allocate at least three days a year for Investor Roadshows organised by our broker, SP Angel, where investors have the opportunity to discuss our strategy and their own expectations. In addition we occasionally host shareholder visits to our depots.

Strategic Report

Corporate Responsibility

Principle 3 – Take into account wider stakeholder and social responsibilities and their implication for long-term success.

At James Latham plc, we are conscious of our corporate responsibilities to all our stakeholders and to society as a whole. Environmental matters, health and safety, staff training and equal opportunities are key areas relevant to the group's business. We also maintain contact with and support both the local and the wider community. A substantial amount of management time is devoted to Corporate Social Responsibility issues, as we believe that these enhance our standing with customers and suppliers to the benefit of all stakeholders.

Environmental

The directors of James Latham plc recognise that the company has a responsibility to the environment, customers, suppliers, shareholders and staff to base its commercial activities on well-managed forests and to reduce any negative environmental or social impact of its trading as far as is reasonably practical.

With best practices observed, timber products are the ultimate sustainable and recyclable materials, requiring low energy to process and being thermally efficient in use. Timber from well-managed forests absorbs carbon in growing and locks in carbon in use. It is sustainable, producing a regular crop and puts value into growing forests so helping to reduce land clearance for other uses.

Timber from poorly managed forests destroys biodiversity, leads to soil erosion and damages watercourses. It ruins the lifestyle of traditional forest dwellers. Forest burning adds to carbon emission and harms air quality in the region. Purchasing from those involved in corrupt practices undermines national governance.

It is therefore essential that we ensure our timber is legally harvested and comes from well managed forests. The group recognises that the independent certification of forests and of the supply chain is the best means of providing assurances of this. Where possible it purchases material certified by the Programme for the Endorsement of Forest Certification schemes (PEFC) or the Forest Stewardship Council (FSC). As well as providing assurances on the timber itself, these schemes also provide checks on the welfare of the forest workers and indigenous population.

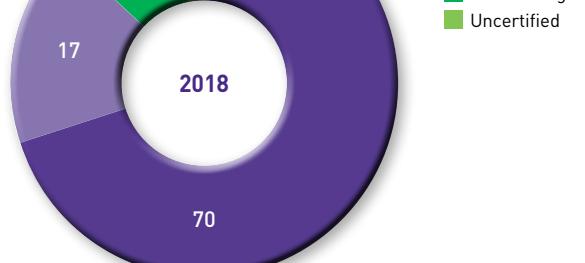
The group has third party audited chain of custody for timber supplied as certified by PEFC, FSC and other schemes. This is to ensure that claims made about certification can be proved.



The group signed up to the WWF UK 'Forest Campaign' committing to purchasing only certified legal and sustainable timber products by 2020 and to publically show progress towards this target. WWF awarded us the top score of three "trees" and we are confident of maintaining the three trees when this year's results are made public.

In some parts of the world, timber certified by one of the internationally recognised schemes is not available. The group is committed to purchasing all timber from legal sources and to seek confirmation that suppliers are operating in accordance with the laws of their country. Where the risk of corruption or illegal logging is high, we seek third party audited proof of legality.

The figures for the relevant calendar years are given below.



Of the Third Party Verified Legal products purchased, 60% arise through the purchase of timber from the United States. The European Union Timber Regulations (EUTR), which came into force in March 2013, places an obligation on the first placer of timber on the European market to ensure that the timber has been legally sourced and traded, to operate a risk assessment process and to take mitigating measures to minimise the risk of illegality. We have a rigorous system for assessing our supply chains and are committed to only purchasing product with negligible risk status. We will not trade in timber species prohibited under Appendix 1 of CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora) legislation and obtain the appropriate documents for the very limited trade we do in all other CITES listed timber species.

Part of the EUTR process to ensure that only legal timber enters the EU is the signing of bilateral agreements with producer countries. This involves the issuing of FLEGT (Forest Law Enforcement, Governance and Trade) licences for all timber traded for that source. The department for business, energy and industrial strategy BEIS carried out an audit of our due diligence system for product safety and standards in December 2018. Having completed their full review their findings were that our system was fully compliant with the European Union Timber Regulation No 995/2010.

Should the UK withdraw from the European Union, then the UK is expected to adopt the EUTR as UKTR. In any case, our systems of monitoring supplies of our timber for environmental reasons will be unchanged.

For a number of years the company has had risk assessment tools in place to monitor suppliers through the Timber Trade Federation Responsible Purchasing Policy and Code of Conduct. The risk assessment seeks to provide the clearest practicable information regarding the sources of raw material used in the manufacture of wood products.

We publish our commitment to the environment regularly in our product guide, specific literature and on our website, www.lathamtimber.co.uk. We give clear guidance to our customers about the importance of buying timber that can be demonstrated to be legal and from well-managed forests. This is condition of contract to supply the UK Government and many environmentally aware customers. Company staff give presentations to customer trade associations and at customer premises.



Informing suppliers and supporting certification

Our senior staff have spoken about the importance of independent certification of forests and supply chains. Company buyers have visited individual suppliers in Europe, Congo Brazzaville, China, Indonesia, Malaysia, the United States, Uruguay, Chile, Brazil, Bolivia and Vietnam giving the same message. Group buyers have visited individual suppliers auditing the source of logs.

Supply chain transparency – Modern Slavery Act 2015

We are dedicated to promoting ethical values and integrity in our business behavior by implementing controls through ISO management and due diligence systems. We aim to ensure that trading and operational purchases are free from human trafficking and slavery. We are committed to transparency within our supply chains and are alert to the potential risks. Where risks are identified, adequate mitigation measures will be implemented and monitored. We have updated our modern slavery statement and a copy is available on our website www.lathamtimber.co.uk.

Local environmental issues

We also recognize that alongside our timber environmental policy, we have a responsibility to minimise our local environmental footprint. We have developed an environmental management system which is accredited under ISO14001. This commits us to considering energy efficient options for lighting, heating and ventilation before making purchasing decisions. Two further depots have upgraded their warehouse lighting during the year to new energy efficient LED lighting, which have already shown savings in power bills in our warehouses. Our Yate depot has solar panels on the roof and has purchased replacement electric Combi trucks to combat the noise levels while working at night. This was an initiative devised working with the local community and council.



Our new electric Combi trucks charging up at Yate.

Strategic Report

Corporate Responsibility

Vehicle procurement considerations include reduction of emissions, with an upper limit on CO2 emissions set, and improved fuel efficiency. The London based depots have lorries which are Euro six compliant and can enter the new ULEZ zone without charge.

The company seeks to minimise the use of packaging material and to recycle discarded packaging material and paper where it is practicable to do so, to avoid these materials entering landfill.

We give support, both in staff time and financially, to community projects local to our depots through schools, sports teams and charities. This year for example, our Advanced Technical Panels division has donated blue WISA-Multiwall for the construction of the Phoenix Playground Room, a sensory playground for children with autism. We support the National Forest project in Central England, which started with the planting of 250 trees to celebrate the company's 250 year anniversary in 2007 and continues with further plantings and woodland management activities for customers, suppliers and staff. In February 2019, we sponsored the inaugural 'Wood & Wellness' conference in London, introducing representatives from the National Forest as key speakers.



We sponsor the Innovative Timber Engineering prize at Brighton School of Architecture and Design. Stuart Devoil, our head of marketing, presented the prize to Barnaby Thornton for his engagement with timber as part of the circular economy.

Health and Safety - Providing a safe working environment

The handling of timber and panel products, both manually and mechanically, and the stacking and storage of these products at height, can be dangerous activities. We are very active in assessing and minimising the risks in all areas of the business and educating the workforce to

provide as safe a working environment as possible for all people that come into contact with James Latham plc. We employ a full-time Health and Safety Manager who reports to the board regularly, attends board meetings twice a year and manages health and safety meetings at all depots. We have a 3-year action plan and all sites are subject to audit, with their audit scores and trends being monitored at quarterly management meetings. Management and employees are actively involved in improving our safety record, which is high on everyone's agenda. All employees take a personal responsibility for making sure their actions and behaviour maintain safety for all and we encourage reporting of "near misses" to enable us to constantly improve our safety systems.

This continuous improvement has led this year to an improvement to our policy on segregating plant and people, and we have introduced a "two metre" rule to ensure a safe distance is maintained.

In addition, we recognise that safety extends beyond our warehouses. We regularly monitor vehicle accidents in our lorries and company cars to assess whether further training is required. We operate a programme of lorry driver mentoring and have joined the Road Haulage Association who carry out yearly audits to make sure we are operating safely and efficiently. Our lorries all have tracking devices fitted which provide alerts and information on speed and the route taken, as well as cameras and side scanners to not only provide retrospective footage for training and insurance purposes, but also to provide improved rear and side visibility to our drivers, minimising blind spots. We undertake driving licence verification checks on a regular basis for all our drivers.

Our employees

The group's ability to achieve its commercial objectives and to serve the needs of its customers in a profitable and competitive manner depends on the contribution of its employees. Employees are encouraged to develop their contribution to the business wherever they happen to work. The group regularly keeps employees up to date with financial and other information. Quarterly meetings are held in each location, chaired by a board member, where employees' views concerning the performance of their profit centre are considered. To encourage the involvement of employees in the group's performance, share option schemes are operated together with bonuses linked to performance.

The group's employment policies do not discriminate between employees, or potential employees, on the grounds of age, gender, disability, sexual orientation, colour, ethnic origin or religious belief. Employment would continue for any employees that become disabled.



Wisa Blue Multi Wall at Phoenix School.

The sole criterion for selection or promotion is the suitability of any applicant for the job. The group's pay policy is to ensure that every employee, other than trainees, are at or above the Living Wage.

It is the policy of the group to train and develop employees to ensure that they are equipped to undertake the tasks for which they are employed, and to provide the opportunity for career development equally and without discrimination. Training and development is provided and is available to all levels and categories of staff. Internal courses are run on the technical aspects of our products, along side general management, appraisals, sales and presentation skills courses.

We have a successful program of introducing trainees from school or college. All depots have trainees and we have plans to recruit more during the year. Trainees are put through external courses obtaining qualifications, including NVQs in Sales and Warehousing and the Wood Society exams covering the properties and uses of timber and panel products. Nine members of staff passed with six gaining distinction in the Examination for the TFT Woodexperts Ltd Level 2 Certificate in Wood Science and Timber Technology.

Our Timber Academy is currently training 8 of our timber trainees, who will have work placements with our key suppliers around the globe in order to expand their

knowledge of timber. Knowledge gained from the previous years training has already helped our sales and product development. Another 8 applicants are being considered for this year.

Details of the number of employees and their related costs can be found in note 4 to the accounts.

The e-Tree Initiative

James Latham plc has signed up to the e-Tree initiative organised by our registrars Computershare. e-Tree™ is a programme designed to help companies promote eCommunications to their shareholders, whilst also allowing them to make a valuable contribution to the environment.



As a shareholder in James Latham plc, whenever you opt in to receive your designated communications online, eTree will make a donation to the Woodland Trust. So we are doing our bit, while you are making your life easier.

To register please visit www.investorcentre.co.uk/etreeuk/jameslatham. You will need your shareholder number, which is contained either on your share certificate or on your latest dividend voucher.

Please help us to reduce costs and support a very worthwhile cause.

Strategic Report

Principal Risks and Uncertainties

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation.

All business involves taking risks, both general risks of trading and risks specific to our industry and the market in which we operate. We are able to mitigate these risks by adopting appropriate strategies and maintaining strong systems of internal control. These strategies however do not attempt to eliminate risk, but control the risks that we believe are appropriate to take to generate acceptable shareholder returns, without affecting our ethos on environmental and health and safety.

The risk reporting framework is designed so that information is passed in both directions, up and down the company's structure. A central risk register is maintained by the board and reviewed at least once a year by the Audit Committee. These risks are fed down to the depots, who add their own risks specific to their sites. Risk mitigation is discussed in every board meeting at depot and group level and reported back to the board. Any new or increased risks identified through this process are communicated to all depots for monitoring and action.

We have considered below the current risk factors that are considered by the board to be material. However in a changing world, new risks may appear or immaterial risks may become more important, and the directors will develop appropriate strategies as these risks appear. This year we have identified increased risks concerned with Brexit, Cyber Security and Data Protection and have taken actions to further mitigate these risks.

| Inherent risk | Risk Description | Risk Mitigation |
|---|--|--|
| Market Conditions | The group's sales are predominantly UK based so it is exposed to any slowdown in the UK economy. Negative or uncertain economic conditions could affect our customers' business resulting in them reducing purchases from our group. | The distribution of our customers across the UK economic sectors helps reduce the impact of slowdown in any one sector. Regular financial information helps the board assess current trends. |
| Competition from new and existing businesses | Competitive pressures from existing businesses and new entrants to the market could reduce prices, margins and profitability. Changes in customer purchasing habits may lead to more on-line purchases. | An assessment of the market and competitor activity is discussed at each depot's quarterly board meeting. This includes an assessment of our routes to market as challenges to our depot structure and operations emerge and assessment of our pricing strategies. Investment planned in improving on-line trading platforms. |
| Inventory levels move out of line with sales requirements and market prices. | Product shortages can lead to high prices and over purchasing throughout the trade, resulting in excessive stock holding. Weaker prices lead to stock reduction throughout the supply chain, which magnifies the reduction in demand and then leads to even sharper falls in price. Erratic shipments can result in stock excess and shortages in specific special products. The market for certain product lines changes, resulting in them becoming overvalued and slow moving. | To mitigate this risk, the group has a strict policy of stock level targets by product group and depot. These are monitored monthly by the board which centrally controls the purchase of stocks and takes a group view on the action to be taken to limit the group's exposure to rapidly changing price levels. Live stock level reports and predictive tools are available for our managers to monitor current and future levels. The group's reduced reliance on commodity items has reduced this risk of over exposure to low value, high volume and price sensitive items, although as an important area for us, this risk cannot be completely removed. The board has set strict guidelines relating to purchases where the specification is unique to a particular customer, and has policies in place to ensure that no individual can commit the group to a purchase greater than his/her authorised limit. Slow moving stocks are monitored regularly and action taken to mitigate the risk. |
| Reputational Risk | Over many years the group has built up a reputation for integrity and responsible trading and is aware that this can be easily damaged with the consequential cost to the Latham brand. | Policies are in place which cover standards of behaviour and good governance. On the purchasing side the group has a strong responsible purchasing policy managed by our Environmental Manager to minimise possible damage to its reputation and legal risk from dealing in illegal products. |

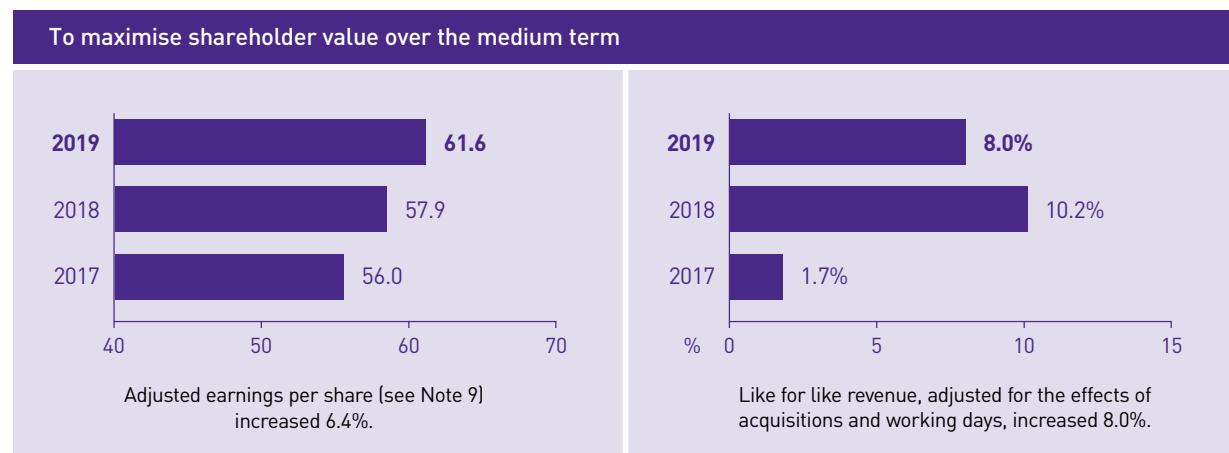
Principal Risks and Uncertainties

| Inherent risk | Risk Description | Risk Mitigation |
|---|---|---|
| Supplier political risks or failure could result in shortages of product | <p>Although far more of the group's purchases now come from Europe and North America, it has significant dealings with countries where the political climate is less stable, resulting in a strategic threat to the supply of product to the group.</p> <p>The group is reliant on certain suppliers for certain product ranges and their inability to meet our demand due to financial or production difficulties could result in stock shortages.</p> <p>The uncertainty over Brexit is adding risk over supplies from mainland Europe.</p> | <p>To mitigate the risk from these pressures, the group's dealings are spread across a large number of countries of supply. The group keeps informed of developments in higher risk producer countries.</p> <p>We maintain close relationships with our suppliers to ensure that we are pre-warned of difficulties of supply. We maintain relationships with suppliers of alternative products.</p> <p>We have plans in place with our European suppliers and have warehouse space allocated in the UK to increase stock levels over any transitional period should supplies be disrupted. We have also established a physical presence within the EU through the acquisition of Abbey Woods Agencies Ltd in Ireland.</p> |
| Defined Benefit pension scheme funding could increase | <p>The group is required by law to maintain a minimum funding level in relation to its obligations to provide pensions to members of the pension scheme. This level of funding is dependent on a series of external factors, such as investment performance, life expectancy and gilt yields. Significant changes in these areas can also have a significant effect on the funding levels. The sensitivity of the funding level to these factors is disclosed in note 18.2 in the notes to the accounts.</p> | <p>The scheme has been closed to new entrants for many years. The board regularly reviews the investment strategy and performance of the pension scheme investments, and has set a cap on pensionable salaries of 1% above CPI.</p> <p>Long term investment strategy is to reduce allocations to growth assets and increase allocations to defensive assets to reduce risk and volatility.</p> |
| Information technology failures impact our ability to trade | <p>The operations of the group depend to a large extent on the availability and reliability of our information technology systems. A failure of systems, either of hardware, software or communications, for an extended period of time could impact our ability to trade.</p> | <p>Our main computer servers are located in a secure site away from the trading operations, hosted in an external data centre. The systems are monitored 24 hours a day and maintenance work carried out on an ongoing basis.</p> <p>Back ups are held offsite in a separate data centre to provide extra resilience. Should there be any failure in the systems in the main datacentre, then the back ups held in the secondary data centre can be made operational. Regular disaster recovery tests are carried out.</p> <p>Software maintenance contracts ensure that our business critical software is up to date, allowing software problems to be resolved quickly.</p> |
| Cyber Security and Data Protection | <p>The risks of Cyber attack, including Ransomware demands are increasing, and may lead to disruption to business and loss of data.</p> <p>Theft of data relating to employees, customers and suppliers could result in a regulatory breach under GDPR.</p> | <p>Cyber training is carried out on a regular basis and for each new employee as part of their induction process. We have also improved and updated our Cyber security systems and had them independently reviewed. Our IT disaster recovery plans include provisions for Cyber Attack.</p> <p>A review of systems was undertaken prior to the implementation of GDPR in 2018 and appropriate policies put in place.</p> |
| Inability to trade from a depot | <p>Inability to trade from a depot due to an incident, internally or externally, could cause loss of revenue and profits.</p> | <p>Disaster recovery plans are in place at group and depot levels. These are reviewed by the Audit Committee and the board, as well as discussed at depot level. Insurance policies are in place to cover increased cost of working. Our distribution network, as well as our inventories held at various ports, allow us to manage customers requirements from a different location.</p> |
| Inability to fill key roles within the organisation | <p>Our staff are key to the success of our business, and our inability to fill key roles could affect our profitability.</p> | <p>The group, through the Remuneration Committee, is committed to having remuneration, training and development policies to make James Latham the employer of choice.</p> <p>Significant time is spent on identifying and training the leaders of the future, with our Trainee and Talent Pool programmes. The group also makes sure that continuity planning is considered by each senior employee.</p> |

Strategic Report

Key Performance Indicators

The group monitors its performance against the following Key Performance Indicators that we believe best reflect our performance and progress in achieving the company objective's outlined on page 5.



Results for the year to 31 March 2019

Revenue for 2018/19 was £235.1m, £20.2m higher than the previous year, reflecting improving volumes especially in our core timber products. Suppliers prices continued to rise with the impact of global demand for imported plywood causing prices to fluctuate, and continuing price rises in MDF and OSB. Most of our customers and markets remain busy and are optimistic about their prospects, although the shopfitting sector has been more difficult linked to a change in consumer habits on the high street and demand from other key market sectors has fluctuated during the year.

The gross margin, the difference between the sales values and the cost prices excluding warehouse costs, was 0.3 percentage points down on the previous year (2018: 0.9 percentage points down). Continuing competitive pressure in the commodity markets as well as the impact on cost prices resulted in some lower margins being achieved and this remains a key focus of ours.

Staff numbers have increased further this year, mainly warehouse staff, some additional sales staff and a proportion of the Abbey Woods staff since acquisition. In addition we continue to invest in trainees, which are important to ensure that we have new talent coming through the business. We have also continued to extend the working day by introducing longer shifts, bringing along with it more warehouse staff. This enables us to efficiently pick orders placed later in the day, pick mixed product orders more efficiently and allow our vehicles to be loaded overnight for prompt starts the next day. Increasingly next day delivery is expected by our customers and our operations have to adapt to deal with this. Mixed product orders are important showing that we can offer a pick and mix service to a wider range of customers.

Overhead cost control though has remained important and we continually look to improve efficiency and productivity. The focus this year has been on our Supply Chain Team to find savings in procuring timber supplies and consolidating more work within this team.

For management purposes, the group is organised into one trading division, importing and distribution of wood based and related materials, carried out in each of the twelve locations trading in the United Kingdom and the Republic of Ireland. Within this one segment performance in terms of revenue and trading margin of the main product types are considered below.



Decospan Quercus range.

The group's strategy continues to be to target specific market sectors on both added value, core and premium grade product and to provide product solutions for our customers.

Our expanded range of melamine, enhanced stock holding of ABET laminates and our exclusive distribution agreement for the added value veneered panel range from Decospan, has helped to boost sales of decorative products. We will continue to invest in these ranges.

We continue to source plywood from our long term strategic partners who offer quality, fit for purpose products. Good growth was achieved in Poplar and Spruce though other products proved more difficult due to general overstocking in the UK and aggressive pricing from our competitors.

The MDF turned around from the previous year with more product being available with shorter lead times. Inevitably this has lead to more competition and margins coming under pressure.

The demand for OSB continued to increase during the year and sales were very encouraging. The next generation of OSB to include fire retardant and passivhaus, which helps reduce a building's ecological footprint, is stocked across the group.

Door blank sales for our Flamebreak, Moralt and Halspan brands have all grown. We offer a solution for applications such as fire, thermal and acoustic blanks. On going testing by ourselves and our suppliers is carried out to ensure compliance with legal and performance requirements. We now have a suite of test evidence for Kydex® encapsulated doors.

Strategic Report

Operating Review

The Advanced Technical Panels team, with their wealth of experience and knowledge, together with their extensive product range had a greatly improved year increasing both sales and margins. Branded products include Buffalo Board®, which continues to be specified. The WISA range of coated Birch Plywood continues to be successful.

The demand for HI-Macs® natural acrylic stone improved in the second half of the year, with some roll out specifications being won by our specification team. The addition of the Avonite range of solid surface products in the final quarter of the year gave a boost to the year end sales.

The market for European Oak was more difficult, partly due to less specified project work, but also lower grades being offered in the market at competitive rates. African volumes showed a small and very welcome increase. Our legal and high quality Sapele continues to demand a premium price.

Demand for Accoya modified wood continues to grow despite supply being constrained by delays in additional processing capacity being brought on line by our supplier. This led to some product shortages for some prime sizes throughout the year. Supplies are expected to improve during 2019, and increased sales will be achieved through our exposure to the Irish market. Strong sales were

achieved in Accoya cladding and the Shou Sugi Ban® range of charred cladding.

Sales growth for WoodEx®, our brand of Engineered Hardwood and Softwood, continued at good rate, with some large ongoing contracts from existing and new customers being secured.

After two years of static sales in North American hardwood, we have seen growth in our high quality premium brands of Oak, Tulipwood and Black Walnut.

Our policy remains to visit strategic and potential new supplies across the globe to strengthen and develop personal long term relationships whilst looking to source new and further processed products. Every supplier is subject to a robust audit by our environmental manager.

LDT, our bulk timber pack operation servicing the merchant and importer sectors, have added to their existing ex-stock product range and are expanding their customer base.



We continue to develop our range of certified Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC) products.



Moralt PassiveHouse doors.



Our stand at the Surface Design Show.

Product of Verified Legal Origin (VLO) is also purchased. Our supplier procurement strategy is largely based on the Timber Trade Federation (TTF) Responsible Purchasing Policy (RPP). Any supplier who does not meet this criteria will not be considered.

The Surface Design Show in February once again generated hundreds of leads, several of which have already led to orders being taken and specifications written. The Business Design Centre showroom was busy throughout the year with many architects and designers visiting. CPD's and supplier presentations were well received. The Manchester Product Specification showroom was officially opened in October and has generated a lot of interest from the North West region.

The James Latham website, www.lathamtimber.co.uk, was updated during the year, providing more detailed product information and news, plus better quality images. Through our marketing activities, we reach over 6 million people. We have seen a very positive response to our social media activities, in particular via Twitter (<https://twitter.com/lathamsltd>). Product literature, including our environmental brochure has been updated and our company newsletter 'Natural Choice' is printed three times a year.

Market place

The group's business is widely spread throughout many sectors of the UK economy.

| Market sector | Customer group | Lathams sales value % | |
|----------------------|-----------------------------|-----------------------|------|
| | | 2019 | 2018 |
| Construction/housing | Merchants | 15 | 16 |
| | Joiners | 25 | 24 |
| | Builders | 5 | 4 |
| | Kitchen manufacturers | 6 | 6 |
| | Door manufacturers | 4 | 4 |
| Retail | Shopfitters | 5 | 5 |
| | Laminators/Veneerers | 5 | 5 |
| | Furniture manufacturers | 6 | 7 |
| | Vehicle builders/Van liners | 3 | 3 |
| Exhibitions | Exhibition fitters | 2 | 2 |
| Cash sales | | 7 | 7 |
| Other importers | | 7 | 6 |
| Other sectors | | 10 | 11 |
| | TOTAL | 100 | 100 |

End products are used in both the public and private sectors. Our top ten customers account for 10% of sales and our top 25 customers represent 15% of sales.

Strategic Report

Financial Review

Introduction

This report provides a commentary on how the group has performed against the financial objectives during this year, together with a review of its financial risks.

Financial objectives

The board of directors remain committed to the long term improvement in shareholder value and have set ourselves these financial objectives to help achieve this.

- **Improving profitability by maximising gross margins, whilst remaining competitive;**

This year has seen prices generally rise in most of our product ranges but with more volatility than in recent years. The balance between maximising margins and remaining competitive remains difficult but having specialist product managers in both commodity and niche products helps us maintain competitive margins in a more difficult market. By increasing revenue and with the second half margins getting back to last years levels, I believe we have achieved this objective.

- **Identifying expansion and acquisition opportunities, where the return on capital is at least equal to that of the existing group.**

At the end of January this year, we completed the acquisition of Abbey Wood Agencies Limited, giving us our first physical location outside of the United Kingdom and opportunities to get closer to the Irish market.

- **Controlling cashflows to maximise cash available for the business and shareholders.**

This year the focus was on stock control and debtors days, whilst continuing to invest in the business. Cash reserves remain very healthy.

- **Identifying and managing risks, with particular emphasis on the pension scheme liability.**

Risks are considered at the Audit Committee meeting and at board meetings at all levels throughout the group. The risk register is a dynamic document where we monitor new risks and changes in risk. Discussions this year have concentrated on potential supply issues caused by Brexit, Cyber security and Data Protection.

- **Maintaining dividend cover at between 2.5 times and 4 times earnings.**

Dividend cover this year is 3.5 times (2018: 3.9 times).



David Dunmow
Finance Director and Company Secretary

Financial review

A commentary on the group's trading results is set out in the Operating Review on pages 15 to 17, and the key figures are considered below, with emphasis on the financial results.

Operating profit

Revenues increased by 9.4% to £235.1m. The majority of this increase is down to prices and product mix. Volumes have increased by 0.9%. A key focus of the board throughout this year has been managing margins to enable us to remain competitive in commodity products but grow margins in our focus products in which we can provide a value added service. Warehouse costs, which are included in the calculation of gross profit, have received continued investment in manpower to extend the working day to meet customer demands, and the full effect of the increased costs of operating the two new sites opened last year in Leicester and Yate. Most depots have two or more shifts in their working day, with two depots operating a 24 hour system in order to provide the service that our customers demand.

Costs in each location are monitored closely by the board through the quarterly meetings at each depot.

Operating profit increased 0.5% to £14.5m. A profit of £1.1m was achieved on the sale of the Yate site following its relocation. Group net profit before taxation increased to £15.3m from £15.2m last year.



Open day at our Leicester depot.

Taxation

Our strategy in managing and controlling our tax affairs is to ensure compliance with all applicable rules, legislation and regulations under which we operate. We maintain an open and co-operative relationship with the UK Tax Authorities, and pay the correct amount of tax as it falls due.

The taxation charge of £2.9m represents an effective rate of 19.0%, compared with 16.9% last year. No capital gains tax arises on the sale of Yate. The group's profits arise mainly in the UK and the group's tax charge will reflect the UK corporation tax rate.

Pension scheme

At 31 March 2019 the deficit of the defined benefit scheme under International Financial Reporting Standards was £8.7m compared with £8.4m last year. Discount rates, represented by yields on corporate bonds, decreased slightly to 2.4% from 2.6% last year which increased the liabilities. Assets under management have shown a return of 4.3% in line with the benchmarks for these asset classes. In note 18.2 to the accounts on page 59, we have provided some sensitivity analysis around the various assumptions used to illustrate this volatility.

Following the High Court ruling on 26 October 2018 on Guaranteed Minimum Pensions ("GMP") equalisation, a plan amendment is deemed to have occurred. This ruling has increased the scheme's GMP liabilities by £746,000 which has been charged directly to the income and expenditure account this year.

The group is constantly assessing the risks in the pension scheme, and this year has maintained a cap on pensionable salary increases to a maximum of 1% over CPI.

Gross IAS19 deficit £000's

| 2019 | 8,714 |
|------|--------|
| 2018 | 8,382 |
| 2017 | 16,625 |
| 2016 | 9,657 |
| 2015 | 10,430 |

Strategic Report

Financial Review

Cash flow and working capital

At the end of the year cash balances of £15.5m were held, up from £14.0m last year. The cash is being held as short term deposits providing funds for short term working capital fluctuations and allowing us to make capital investments when opportunities arise. Interest rates have remained low throughout the year so we have continued to use our cash to obtain cash settlement terms with most of our major suppliers allowing us to earn £1.4m of discounts received compared with £1.1m last year. Approximately £2m extra has been paid ahead of terms to new suppliers this year to obtain more settlement discount. I am particularly grateful to my bought ledger team for their hard and efficient work in processing suppliers invoices so that these discounts are not missed.

We also spent £0.5m in purchasing back 390,382 £1 8% preference shares, and a resolution will be put to the Annual General Meeting to cancel these shares.

Control of cash flow from customers is closely monitored. The key performance indicator of debtors days, taking into account our credit terms, has reduced from 51.2 days to 50.6 days. Bad debts this year ended up at 0.23% of turnover against a budget of 0.4%, and last year of 0.14%. It was a more difficult year for collection of debt but my credit control team have done exceptionally well this year in getting right the difficult balance of dealing with our customers, dealing with our depots and collecting our debts. They work very closely with our credit insurers to ensure that as many of our major accounts as possible are covered. At the year end we had 92% of accounts owing over £40,000 covered by credit insurance, despite more difficulties in obtaining credit cover.



One of the new lorries purchased this year.

Stock turnover targets are set and monitored on a monthly basis. Senior management and all staff responsible for product areas have access to real time stock levels and targets. We have strengthened our Supply Chain Team to improve stock turn and provide more efficient routes of supply. At 31 March 2019 stock turn is 6.1 times compared with our target of 6.5 times. At the year end we obtained additional warehousing and invested £1m in additional European stocks that we felt may be affected by a disorderly withdrawal from the European Union. This stock is now being unwound and the position will be reviewed again in the coming months as events unfold. There were no significant overstocked areas giving any concern to us at the year end.

Good stock and debtor control has allowed 69% (2018: 74%) of profit before tax to be available as free cash for investment and distribution.

Capital investment

During the year we completed the acquisition of Abbey Wood Agencies Limited, with sites in Dublin and Cork for an initial payment of €1,825,000 (£1,604,000), a further payment in April 2019 of €346,000 (£301,000) to be followed by two payments of €200,000 payable in February 2020 and 2021 dependent on achievement of turnover targets. They specialise in timber products, including being the Accoya distributor in the Republic of Ireland. Their skills and knowledge of the local market will enhance and improve the offering already provided to the Irish market through our Leeds depot.

Cash and Cash Equivalents

| | |
|------|--------|
| 2019 | 15,541 |
| 2018 | 13,989 |
| 2017 | 17,246 |
| 2016 | 16,832 |
| 2015 | 12,501 |

In addition we spent £0.9m on improving our warehouse racking at various sites as well as £1.1m on our normal replacement spend on lorries and Combilift forklifts. We sold the old site at Yate in April 2018 making a profit of £1.1m.

Net assets at the year end were £98.0m (2018 £89.8m). The group's pre-tax return on capital for the year was 16.2% (2018 16.6%), which continues to be above our weighted average cost of capital.

Financial risk management

In the course of our business, the group is exposed to currency risk, interest rate risk, liquidity risk and credit risk. The overall aim of the group's financial risk management strategy is to mitigate any potential negative effects on the group's assets and profitability. The group manages these risks in accordance with group policies.

As the group trades predominantly in the UK, the market price of our products tends to fluctuate in line with currency spot prices. Speculative positions on currencies are not entered into. Our LDT division can have stock

tied up in kilns for six to nine months, and we enter into currency swaps to ensure that this stock is costed at spot price when it becomes available for sale. We will also enter into forward currency agreements to cover where customers are quoted a particular exchange rate.

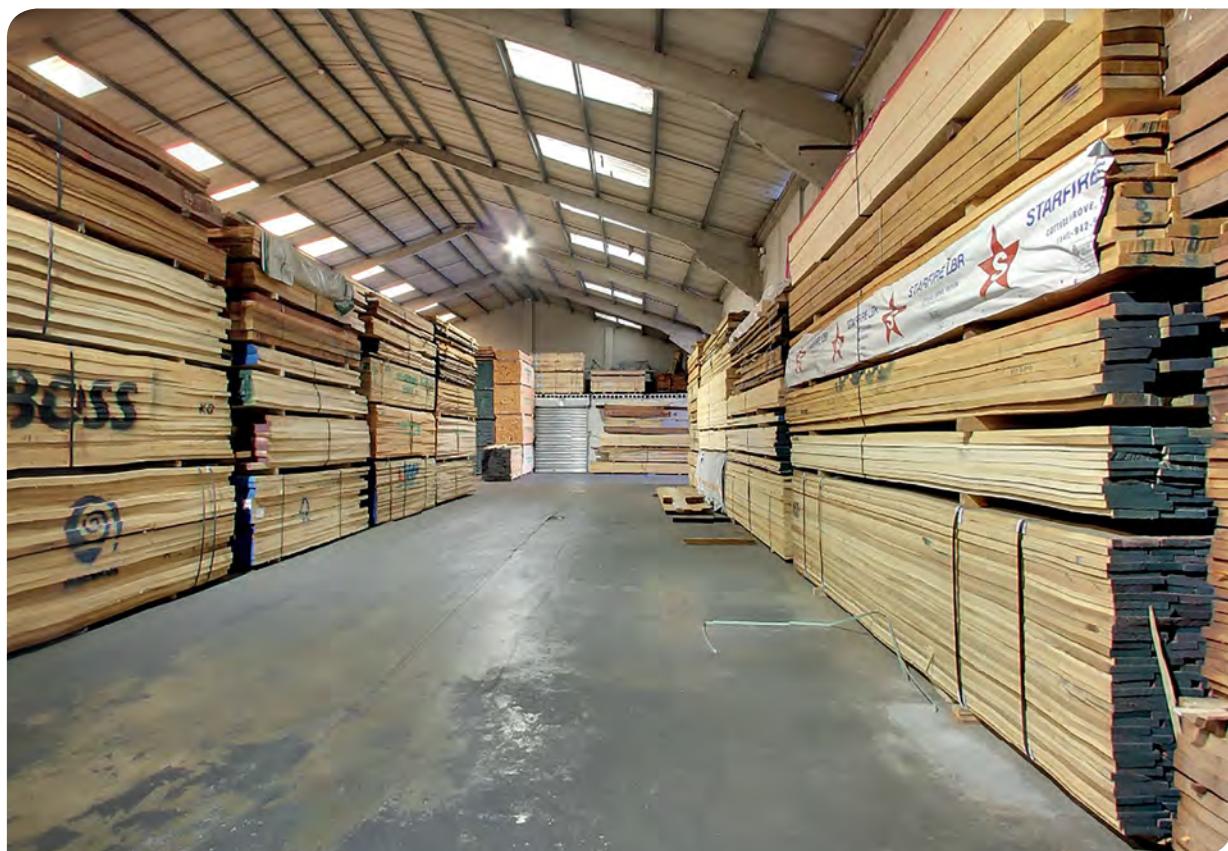
The cash deposits and available bank facilities reduce our liquidity risk. Cash flow forecasts are monitored against actual cash flows to ensure that adequate facilities are maintained to meet the future needs of the business. The board reviews re-forecasted profits and cash flows on a quarterly basis.

Insurance products and external credit reference agencies help reduce our credit risk.

The Audit Committee reviews the group's risk register as part of its regular monitoring process.

David Dunmow

Finance Director



Abbey Wood warehouse.

Corporate Governance

Corporate Governance Report

I believe that good corporate governance, involving risk appraisal and management, prudent decision making, communication with shareholders and other stakeholders and business efficiency, is important for the long term benefit of the stakeholders in our group. As a board we comply with the 10 Principles of Corporate Governance contained within the Quoted Companies Alliance

Corporate Governance Code 2018, and show below how we have applied these principles. I am responsible for ensuring that the group conducts its business paying due regard to each of the 10 principles. These principles have been communicated to the rest of the board through training and discussion at board meetings, and each board member is responsible for ensuring that the message passes down to all our employees.

The 10 Principles are split into three areas, **Deliver Growth, Maintain a Dynamic Management Framework and Build Trust**. I can confirm that we have complied with all the Principles throughout the year.

The four Principles on Delivering Growth are considered within the Strategic Report starting on page 4.

MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK

Principle 5 – Maintain the board as a well-functioning, balanced team led by the chair.

The Board of Directors

The company is currently governed by a board of directors consisting of myself as Chairman, three executive directors and two non-executive directors. Each director has a vote and no individual or small group of individuals dominates the board's decision making. Chris Sutton retired from the board in March 2019 after 40 years service. Chris has been instrumental to the development of Lathams Limited, our trading subsidiary, and has been managing director through a period of significant growth. I am very grateful for Chris' loyal and committed service. Andrew Wright will take on the role of managing director and I am confident that he will continue the great work that Chris started. In addition Meryl Bushell retired as a non-executive director in August 2018 and I am also grateful for her contribution over the past ten years.

In the year to 31 March 2019, the board met six times, with all directors attending each meeting. In addition conference calls are held where matters which cannot wait for the next board meeting can be discussed.

The non-executive directors are Fabian French and Paula Kerrigan. I consider that all non-executives are independent. Paula Kerrigan was appointed in October 2017 so that there was a period of hand over with Meryl Bushell. In addition to the scheduled meetings, the non-executives attended the group annual operational budget and strategy meeting, as well as making individual visits to operational sites.

Principle 6 – Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.

The directors' biographies are shown on page 25. Each executive director has many years experience within the Latham organisation at all levels. Each director has agreed responsibilities on the board, covering all aspects of the business including sales, procurement, operations, finance, HR and IT. As well as responsibilities to the plc board, each executive director is actively involved in the running of Lathams Limited business, the company's trading subsidiary, and keep their skill sets up to date by training, discussions on market trends with customers and suppliers and involvement with trade and environmental organisations. I believe the board works well together, challenging each other to constantly improve and move forward.

Principle 7 – Evaluate board performance based on clear and relevant objectives, seeking continuous improvement.

Each director has a detailed job description showing their responsibilities on the board. I have regular meetings with each director to discuss the progress in the areas they are responsible for, and consider whether any further development or mentoring needs are necessary. Each director is subject to the formal appraisal process used throughout the group.

As a board we periodically review the running of the board, led by the non executive directors, to consider the effectiveness of the board and whether there are any gaps in skills on the board. Succession planning is key so that no member of the board becomes indispensable, which assisted the seamless transfer of responsibilities following the retirements of Chris Sutton and Meryl Bushell during the year.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours.

Our core values are Integrity, Shareholder Value, Empowerment, Sustainability and Customer Focus. The company and the Latham brand is well respected in its industry and amongst its customers and suppliers for its principled trading policies and its integrity.

As such it is important for us to have a corporate culture based on these ethical values and behaviours. The annual report contains reports on corporate responsibility including environmental, health and safety, audit and remuneration committee reports and reports on our attitudes to risk.



Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.

The board has a formal schedule of matters referred to it for decision, with at least one specific strategy meeting being held each year. Agendas and board packs are discussed and circulated in advance of the meetings to ensure that all directors have adequate time to research and take part in discussions on the key issues, as well as giving the non-executive directors time to add matters of their particular interest to the agenda.

The board is responsible for group strategy, corporate responsibility including health and safety and environmental issues, acquisition policy, bribery policy, approval of major capital expenditure and monitoring the key operational and financial risks. It also reviews the strategy and budgets for the trading subsidiaries and monitors the progress towards their long term objectives. All directors have access to the company secretary or to independent professional advice, if required, at the company's expense.

New directors receive training from the company NOMAD on their responsibilities under the AIM rules and a refresher course was run this year. Key financial information is circulated to directors on a monthly basis outside of the board meetings.

The board has decided that the directors will retire by rotation and the executive directors will be re-elected at least every three years.

The Audit Committee

The Audit Committee is chaired by Fabian French, and includes Paula Kerrigan and Andrew Wright. David Dunmow also attends the meetings of the committee. The committee meets at least three times a year to review internal controls within the group, and receive reports from the external auditors and reports of internal audit tests carried out during the year. The duties of the audit committee include, on behalf of the board, a review of effectiveness of the group's financial reporting and internal control policies, and procedures for the identification, assessment and reporting of risk.

It also keeps under review the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditor, including recommending their re-appointment to the board. This includes a review of the non-audit work performed to ensure that such work would not impair their independence or objectivity in carrying out the audit.

Once a year the auditor meets with the non-executive directors only.

The group has established procedures whereby employees of the group may, in confidence, raise concerns relating to matters of potential fraud or other improprieties. These procedures also cover other issues affecting employees including health and safety issues. The audit committee is confident that these 'whistleblowing' arrangements are satisfactory and will enable the proportionate and independent investigation of such matters and appropriate follow-up action to be taken.



Medite Tricoya Extreme.

Corporate Governance

Corporate Governance Report



Hi-Macs® exterior cladding at Fort Kinnaird retail park.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee comprises Paula Kerrigan as Chairman and Fabian French. The meetings were attended by Nick Latham and David Dunmow who provide information to the Committee when required.

The main function of the Committee is to make recommendations to the board regarding the group's policy on the remuneration and conditions of employment of the executive directors of the group, and, where appropriate, senior management, and includes considering nominations to the board. Over the course of the year the committee also considered group diversity including the gender pay gap and succession planning.

The Committee has access to professional remuneration advice from outside of the company.

The Remuneration and Nominations Committee report is contained on page 26.

BUILD TRUST

Principle 10 – Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The directors have a commitment to best practice in the group's external financial reporting in order to present a balanced and comprehensive assessment of the group's financial position and prospects to its shareholders, employees, customers, suppliers and other third parties. This commitment encompasses all published information including but not limited to the year end and half yearly accounts, regulatory news announcements and other public information.

The published accounts contain reports of the Audit and Remuneration and Nomination Committees.

The published information is held on our investor website at www.lathams.co.uk as well as historical financial and meeting information.

Procedures for identifying, quantifying and managing the risks, financial or otherwise, faced by the group have been in place throughout the year under review. The processes for identifying and managing the key risks to the business are communicated regularly to all staff, who are made aware of the areas for which they are responsible. Such processes include strategic planning, maintenance and review of a risk register, the appointment of appropriately qualified staff, regular reporting and monitoring of performance against budgets and other performance targets, and effective control over capital expenditure.

The board has established systems of internal control as appropriate for the size of the group. The day to day operation of the system of internal control is under the control of executive directors and senior management. The system is designed to manage rather than eliminate risk. Any system of internal control can however only provide reasonable, but not absolute, assurance against material misstatement and loss. No material breaches of internal controls were reported during the year.

The directors confirm that they have reviewed the effectiveness of the system of internal control for the year under review and to the date of approval of the Annual Report and Accounts through the monitoring process described above.

Nick Latham

Chairman

26 June 2019

Directors' biographies

Nick Latham BSc *Chairman*

Nick Latham, age 51, has worked in the company for 27 years and was appointed to the board in 2007. He is a director of Lathams Limited and provides advice to the Remuneration Committee. He sits on the main board of the Timber Research and Development Association.

David Dunmow BSc FCA

Finance Director and Company Secretary

David Dunmow, age 55, has worked in the company for 25 years and was appointed to the board as Finance Director in 2000. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He is a director of Lathams Limited and Abbey Wood Agencies Ltd, and provides advice to the Audit and Remuneration Committees. He is a former treasurer of the Timber Trade Federation. He is a Trustee of the James Latham plc Pension and Assurance Scheme.

Andrew Wright *Managing Director*

Andrew Wright, age 54, has worked in the company for 18 years and was appointed to the board in 2015 and was made Managing Director on 1 April 2019. He is a director of Lathams Limited and sits on the Audit Committee.

Piers Latham BSc *Executive Director*

Piers Latham, age 48 has worked in the company for 26 years and was appointed to the board in 2014. He is a director of Lathams Limited, and Chairman of the Trustees of the James Latham plc Pension and Assurance Scheme.

Fabian French MA *Non-Executive Director*

Fabian French, age 60, was appointed a non-executive director in 2015. He chairs the Audit Committee and sits on the Remuneration and Nominations committee. He is a qualified solicitor and worked in corporate finance for major investment banks. He is currently Chief Executive of UK Community Foundations and is a director of CRGH Investment LLP, Goodenough College Charity, Trebartha Hydro Ltd, and is a previous director of Inspiration in Sport and Mithras Investment Trust Plc.

Paula Kerrigan *Non-Executive Director*

Paula Kerrigan, age 47, was appointed a non-executive director in 2017. She has a wide variety of public company experience and is currently Transformation Director (non-Board) at SuperGroup plc, where she is responsible for sourcing, design, corporate social responsibility and implementing the transformation agenda as SuperGroup expands its global brand presence. She chairs the Remuneration and Nominations Committee and sits on the Audit Committee. She was previously Chief Strategy Officer at the Co-operative Group where she was responsible for developing the strategic direction of the Group and delivering these objectives, and prior to that she spent 15 years at Kingfisher plc where she held a variety of roles including Finance and Strategy Director for B&Q in Asia and Delivering Value Director for B&Q in the UK.



Nick Latham



David Dunmow



Andrew Wright



Piers Latham



Fabian French



Paula Kerrigan

Registrars

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS13 8FB

Bankers

Royal Bank of Scotland
Major Corporate Banking
280 Bishopsgate
London EC2M 4RB

Clydesdale Bank Corporate and Structured Finance
15th Floor
The Leadenhall Building
122 Leadenhall Street
London EC3V 4AB

Stockbrokers and Nominated Adviser

S P Angel Corporate Finance LLP
Prince Frederick House
35-39 Maddox Street
London W1S 2PP

Pension Advisor

Mercer
Tower Place West
London EC3R 5BU

Independent Auditor

RSM UK Audit LLP
25 Farringdon Street
London EC4A 4AB

Registered Office

James Latham plc
Unit 3
Swallow Park
Finway Road
Hemel Hempstead
Herts HP2 7QU

Registered Number 65619

Registered in England and Wales

Corporate Governance

Directors' Remuneration Report

This report has been compiled by the company's Remuneration and Nominations Committee and sets out the company's remuneration policies for its key directors.

Remuneration Policy

The remuneration policy aims to ensure that executive directors are fairly rewarded for their individual contributions to the performance of the group, with due regard for the interests of shareholders in achieving long term growth for the company.

The remuneration package consists of basic salary, benefits (comprising car and private medical provision), pensions, annual bonus schemes, share option schemes and life assurance cover of 4 times gross salary.

Pay rises for group employees are considered once a year, to apply from 1 December. The Remuneration Committee sets an overall maximum percentage pay rise, based on cost of living increases plus awards for promotion where relevant. The executive directors have their pay rises based on the same criteria as all other employees.

Performance related bonuses

Annual bonuses can be earned by executive directors for the achievement of specific financial performance targets set by the group's board of directors and agreed by the remuneration committee. The criterion on which the executive directors' bonuses were based in 2019 was the achievement of £14,150,000 operating profit, as measured in the depots management accounts, an increase of 10.3% over the previous year's targets. Maximum bonuses of 19.5% of basic salary are paid on achieving 120% of the target operating profit. The minimum bonus level is 1.3% paid on achieving 90% of target operating profit. This year 117.4% of the target operating profit was achieved earning 16.9% of basic salary. The criterion for the year ended 31 March 2020 will be based on a similar formula applying to target profits. In addition a Group Bonus scheme pays out a bonus to all eligible members of staff, subject to achieving a minimum level of group profits. This year the scheme is paying 4.70% of basic salary to 375 eligible employees.

Service Contracts

Following a review by the board of directors in 1996, the service contracts of executive directors were amended to incorporate a rolling 2 year notice period. This was considered by the board of directors to be a significant but reasonable reduction in their original 5 year contracts. In 2004, the board of directors agreed that any new service contracts issued to new directors would incorporate a fixed 2 year period, subject to a minimum 6 month notice period.

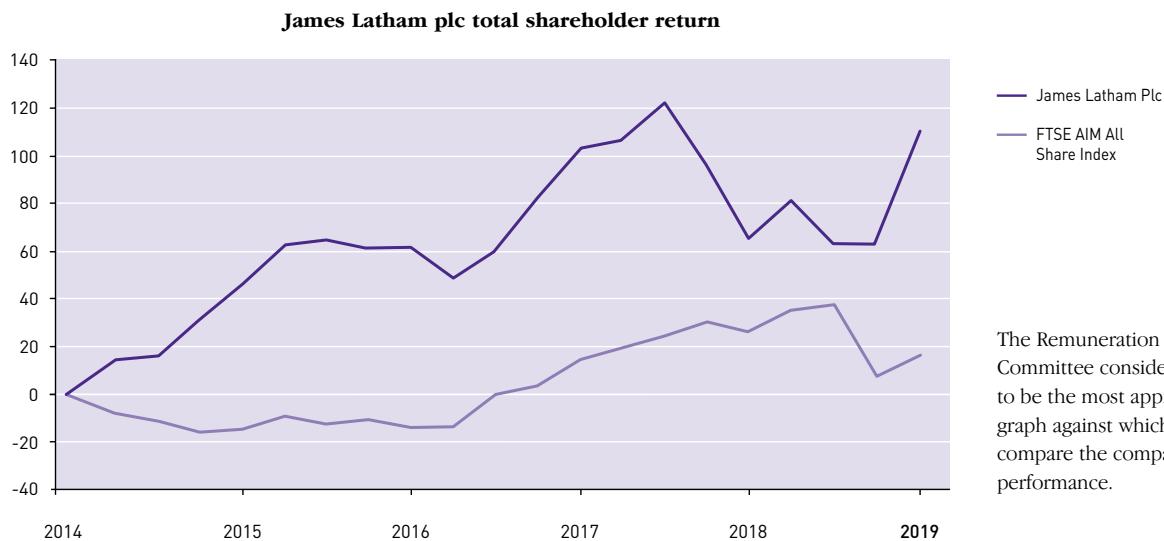
Executive director's contracts have no provisions for pre-determined compensation on termination that exceeds two years salary and benefits in kind.

Remuneration of the non-executive directors

The remuneration of the non-executive directors is determined by the board. The non-executive directors do not receive a pension or other benefits from the group.

Review of past performance

The graph below shows the company's total shareholder return performance against the total shareholder return performance of the AIM All Share Index for the five years ended 31 March 2019.



Directors' emoluments

Details of the individual directors' emoluments for the year were as follows:

| | | Salary | Benefits | Bonus | Total emoluments excluding pensions | Share based payments | Pension contributions | TOTAL |
|-----------------------------|-------------|------------|-----------|------------|-------------------------------------|----------------------|-----------------------|--------------|
| | | and fees | | | | | | |
| Executive | | | | | | | | |
| N.C. Latham | 2019 | 186 | 1 | 41 | 228 | 2 | 24 | 254 |
| | 2018 | 174 | - | 44 | 218 | 2 | 23 | 243 |
| D.A. Dunmow | 2019 | 174 | 13 | 38 | 225 | 2 | 33 | 260 |
| | 2018 | 167 | 12 | 42 | 221 | 2 | 32 | 255 |
| C.D. Sutton | 2019 | 172 | 14 | 28 | 214 | 2 | 31 | 247 |
| (retired 31 March 2019) | 2018 | 165 | 13 | 42 | 220 | 2 | 30 | 252 |
| P.F. Latham | 2019 | 130 | 14 | 31 | 175 | 2 | 21 | 198 |
| | 2018 | 121 | 12 | 30 | 163 | 2 | 20 | 185 |
| A.G. Wright | 2019 | 141 | 15 | 32 | 188 | 1 | 23 | 212 |
| | 2018 | 125 | 13 | 34 | 172 | 1 | 22 | 195 |
| Non-executive | | | | | | | | |
| P.D.L. Latham | 2019 | - | - | - | - | - | - | - |
| (retired 23 August 2017) | 2018 | 29 | - | - | 29 | - | - | 29 |
| M.A. Bushell | 2019 | 14 | - | - | 14 | - | - | 14 |
| (retired 31 August 2018) | 2018 | 33 | - | - | 33 | - | - | 33 |
| P.L.F. French | 2019 | 34 | - | - | 34 | - | - | 34 |
| | 2018 | 33 | - | - | 33 | - | - | 33 |
| P. Kerrigan | 2019 | 31 | - | - | 31 | - | - | 31 |
| (appointed 18 October 2017) | 2018 | 14 | - | - | 14 | - | - | 14 |
| Total | | 882 | 57 | 170 | 1,109 | 9 | 132 | 1,250 |
| 2018 | | 861 | 50 | 192 | 1,103 | 9 | 127 | 1,239 |

Corporate Governance

Directors' Remuneration Report

Directors' shareholdings

There were no contracts with the company or its subsidiaries during the year in which any of the directors had a material interest, other than their service contracts. The directors' holdings of the share capital at the end of the financial year were as follows:

| Directors | 31 March 2019 | | 31 March 2018 | |
|------------------|------------------------------------|--------------------------|----------------------|-------------------|
| | Ordinary shares | Preference shares | Ordinary shares | Preference shares |
| N.C. Latham | Beneficial owner 633,120 | - | 630,296 | - |
| D.A. Dunmow | Beneficial owner 131,401 | - | 128,701 | - |
| P.F. Latham | Beneficial owner 630,351 | 567 | 627,621 | 567 |
| A.G. Wright | Beneficial owner 26,264 | - | 24,312 | - |
| P.L.F. French | Beneficial owner 370,052 | - | 370,052 | - |
| P. Kerrigan | Beneficial owner - | - | - | - |

Directors' share option schemes

Save as You Earn Scheme

Participation by the directors in the James Latham plc Save as You Earn Scheme is as follows:

| | 31 March 2019 | 31 March 2018 |
|-------------|----------------------|----------------------|
| N.C. Latham | 3,185 | 3,185 |
| D.A. Dunmow | 3,185 | 3,185 |
| P.F. Latham | 3,185 | 3,185 |
| A.G. Wright | 1,592 | 1,592 |

Options were granted on 1 September 2016 at 565p per share, and the options are exercisable on 31 August 2019.

Company Share Option Scheme

Participation by the directors in the James Latham plc Approved Company Share Option Scheme 2008 is as follows:

| | Outstanding 1 April 2018 | Granted during the year | Exercised | Outstanding 31 March 2019 | Exercise price | Exercise period |
|-------------|-----------------------------|----------------------------|-----------|------------------------------|-------------------|----------------------|
| N.C. Latham | 1,262 | - | (1,262) | - | £3.96 | 16.12.18 to 15.12.23 |
| | 707 | - | - | 707 | £5.65 | 05.01.20 to 04.01.25 |
| | 586 | - | - | 586 | £6.825 | 18.12.20 to 17.12.25 |
| | 636 | - | - | 636 | £7.075 | 06.12.21 to 05.12.26 |
| | 560 | - | - | 560 | £8.025 | 14.12.22 to 13.12.27 |
| | - | 718 | - | 718 | £6.26 | 03.01.24 to 02.01.29 |
| D.A. Dunmow | 1,262 | - | (1,262) | - | £3.96 | 16.12.18 to 15.12.23 |
| | 707 | - | - | 707 | £5.65 | 05.01.20 to 04.01.25 |
| | 586 | - | - | 586 | £6.825 | 18.12.20 to 17.12.25 |
| | 636 | - | - | 636 | £7.075 | 06.12.21 to 05.12.26 |
| | 560 | - | - | 560 | £8.025 | 14.12.22 to 13.12.27 |
| | - | 718 | - | 718 | £6.26 | 03.01.24 to 02.01.29 |
| P.F. Latham | 1,262 | - | (1,262) | - | £3.96 | 16.12.18 to 15.12.23 |
| | 707 | - | - | 707 | £5.65 | 05.01.20 to 04.01.25 |
| | 586 | - | - | 586 | £6.825 | 18.12.20 to 17.12.25 |
| | 636 | - | - | 636 | £7.075 | 06.12.21 to 05.12.26 |
| | 560 | - | - | 560 | £8.025 | 14.12.22 to 13.12.27 |
| | - | 718 | - | 718 | £6.26 | 03.01.24 to 02.01.29 |
| A.G. Wright | 1,834 | - | (1,834) | - | £2.725 | 05.12.17 to 04.12.22 |
| | 1,262 | - | - | 1,262 | £3.96 | 16.12.18 to 15.12.23 |
| | 707 | - | - | 707 | £5.65 | 05.01.20 to 04.01.25 |
| | 586 | - | - | 586 | £6.825 | 18.12.20 to 17.12.25 |
| | 636 | - | - | 636 | £7.075 | 06.12.21 to 05.12.26 |
| | 560 | - | - | 560 | £8.025 | 14.12.22 to 13.12.27 |
| | - | 718 | - | 718 | £6.26 | 03.01.24 to 02.01.29 |

No performance conditions attach to these options. Mr N.C. Latham, Mr D.A. Dunmow and Mr P.F. Latham made a gain of £3,111 and Mr A.G. Wright made a gain of £6,786 on options exercised during the year.

P. Kerrigan,

Chairman of the Remuneration Committee

26 June 2019

Corporate Governance

Directors' Report

The directors have pleasure in presenting their annual report and the audited accounts for the year ended 31 March 2019. In accordance with section 414c(11) of the Companies Act 2006, included in the Strategic Review is the review of financial risk management and employee policies. This information would have been required by section 7 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 to be contained in the Directors Report.

Results and dividends

Group results for the year ended 31 March 2019 are set out on page 37. The directors recommend the following dividends:-

| Ordinary dividends | £000 |
|---|-------|
| Interim dividend paid, 5.0 pence per ordinary share | 984 |
| Final dividend proposed, 12.9 pence per ordinary share | 2,537 |
| Total ordinary dividends, 17.9 pence per ordinary share | 3,521 |

The directors recommend payment of the final dividend on 23 August 2019 to shareholders on the register of members at the close of business on 2 August 2019.

Balance sheet and post balance sheet events

The balance sheet on page 38 shows the group's financial position. No significant events have occurred since the balance sheet date.

Directors

Chris Sutton retired as Managing Director on 31 March 2019 and was succeeded as Managing Director by Andrew Wright. Meryl Bushell retired as a non-executive director on 31st August 2018. The remaining directors of the company were directors throughout the year. Each director's biographical details are shown on page 25.

In compliance with the Articles of Association, Fabian French, Paula Kerrigan and Nick Latham will retire by rotation and, being eligible, offer themselves for re-election.

Other than their service contracts, no director has a material interest in any contract with the company. Fabian French and Paula Kerrigan, as non-executive directors, do not have a service contract with the company, but each has received a letter of appointment for a two year period. Details of directors' emoluments, pension rights, service contracts and the directors' interests in the ordinary shares of the company are included in the Directors' Remuneration Report on pages 26 to 29.

Article 168 of the company's Articles of Association gives the directors and officers of the company a right to be indemnified out of the assets of the company in respect of any liability incurred in relation to the affairs of the group to the extent the law allows.

The company has undertaken to comply with best practice on approval of directors' conflicts of interest. Under the Companies Act 2006 a director must avoid a situation where there is, or can be, an interest that may conflict with the company's interests. None of the directors had an interest in any contract to which the group was a party during the year.

The company maintained directors' and officers' liability insurance cover throughout the year.

Share capital

Resolutions concerning the ability of the board to purchase the company's own shares and to allot shares and to dis-apply pre-emption rights are again being proposed at the Annual General Meeting.

The investment in own shares is detailed in note 24 on page 63. During the year, 10,000 shares were transferred to James Latham Trustee Limited to be made available for expiring employee share schemes. The company holds 459,200 ordinary shares as treasury shares, with a view to being used for future employee share schemes. The company also purchased 390,382 preference shares during the year and placed them in treasury. A resolution will be put to the AGM for the cancellation of the 391,115 preference shares held in treasury. In addition the Trustees of the James Latham Employee Benefits Trust holds 10,693 shares with a view to being used for employee share schemes.

Share option schemes

On 23 August 2017, the shareholders approved by ordinary resolution the extension of the Save as You Earn scheme for a further 10 years. A 3 year scheme commenced on 1 September 2016 with 183,484 options being issued at an option price of £5.65.

On 21 August 2008, the shareholders approved by special resolution the establishment of the Company Share Option Scheme. During the year 17,960 options were issued at an option price of £6.26. In addition 18,568 options were exercised after being held for five years, 4,584 at an option price of £2.725 and 13,984 at an option price of £3.96.

Employees

The strategic report on page 10 sets out the group's communication policies with their employees and its policy towards disability.

Substantial shareholdings

At 26 June 2019, the company had received notification under the Disclosure Transparency Rules that the holdings and voting rights exceeding the 3% notification threshold were as follows:

| | Number | % |
|----------------------------|---------------|----------|
| Peter Latham | 1,216,289 | 6.17 |
| Close Asset Management Ltd | 1,015,112 | 5.16 |
| Robert Latham | 684,121 | 3.47 |
| Nick Latham | 633,120 | 3.22 |
| Piers Latham | 630,351 | 3.20 |

Payments to suppliers

Operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. The group's policy is to pay suppliers in accordance with these terms. The group's creditor days at 31 March 2019 were 26 days (2018: 32 days). Payment practices and performance data for Lathams Limited is published on the Companies House website.

Corporate Governance

Directors' Report

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. The directors confirm that the business is a going concern and that their assessment of the going concern position has been prepared in accordance with the Guidance on the Going Concern Basis of Accounting and Reporting On Solvency and Liquidity Risks published by the Financial Reporting Council in April 2016.

In arriving at their opinion, the directors considered:-

- The group's cash flow forecasts and revenue projections
- Cash and borrowing facilities available to the group
- Consideration of the principal risks and uncertainties outlined on pages 12 to 13.

Political and charitable donations

During the year the group made no political contributions but made direct donations to various charitable organisations amounting to £10,836 (2018: £2,535). The group also made small donations of our products to a number of good causes and was involved in fund raising activities for the Timber Trades Benevolent Society.

Financial instruments

A summary of the group financial instruments and related disclosures are set out in note 29 to the group accounts and in the Financial Review on pages 18 to 21.

Provision of information to the auditor

In the case of each of the directors who are directors of the company at the date when this report was approved:

- So far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- Each of the directors has taken all the steps that he ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

A resolution to reappoint RSM UK Audit LLP as the company's auditor and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting. RSM UK Audit LLP has indicated its willingness to continue in office.

Annual General Meeting special business

Shareholders receive more than 20 working days notice of the Annual General Meeting, where directors will be available for questions and a trading update. The Annual General Meeting will be held at Unit 1, Swallow Park, Finway Road, Hemel Hempstead, Herts, HP2 7QU on 21 August 2019 at 12.30pm. Last year all resolutions were passed with over 95% in favour.

This year the following items are to be proposed as special business, and the board recommends that the shareholders vote in favour of all resolutions put before the meeting.

Resolution 7. Directors authority to allot shares.

This gives the board the power to allot ordinary shares or other securities, up to an aggregate nominal amount of £1,680,000 (or one third of the current ordinary shares).

Resolution 8. Dis-application of pre-emption rights.

The Companies Act 2006 provides that when ordinary shares are being issued for cash, these shares must first be offered to existing shareholders on a pro rata basis. This resolution empowers the board to allot shares not exceeding 5% of the issued share capital, without offering to existing shareholders. The board only anticipates using this power in conjunction with the employee share schemes.

Resolution 9. Authority for the company to purchase its own shares.

This gives the board the power to purchase up to 10% of the company's shares at a price not more than 105% of the average of the mid market price for the ten business days preceding the date of the purchase.

Resolution 10. Cancellation of 391,115 £1 8% Preference Shares.

This gives the company the authority to cancel the preference shares which are currently held in treasury.

On behalf of the Board of Directors

Nick Latham

Chairman

26 June 2019

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union "EU" and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The group and company financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 of the group and the company and of the profit or loss of the group for that period.

In preparing each of the group and company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRS's adopted by the EU, subject to any material departures disclosed and explained in the company financial statements;
- d. assess the group and company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern;
- e. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company 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 James Latham plc Investors website, www.lathams.co.uk.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board of Directors

Nick Latham

Chairman

26 June 2019

Corporate Governance

Independent Auditor's Report

Opinion

We have audited the financial statements of James Latham plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and company balance sheet, consolidated statement of changes in equity, company statement of changes in equity, consolidated and company cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 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 parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

Group key audit matters

Inventories – stock level and valuation

Risk

The group carried inventory amounting to £42.3m at 31 March 2019. As disclosed in the accounting policies, inventories are held at the lower of cost and net realisable value. The determination of whether inventory will be realised for value less than cost requires management to exercise judgement and apply assumptions. A change in the valuation of inventory could have a material impact on the financial statements.

Our response

Our audit procedures included attending a sample of the group's year end stock takes and performing procedures to test the robustness of the count process. Testing was also performed to confirm that, for a sample of items, the quantities counted had been correctly reflected within the year end inventory figures, and, by tracing to original purchase documentation, that the carrying value reflected the cost of purchase.

We have also reviewed a sample of post year end sales to test whether net realisable value was greater than cost. To audit the adequacy of the provision against inventory, we reviewed the ageing of inventory at 31 March 2019 and challenged management's assessment of the provision required using information about the sales made in the year and post year end and our previous experience of sales of slow-moving inventory. We also tested cut off of inventory by checking a sample of purchase invoices around the year end to goods received records and a sample of sales invoices around the year end to goods despatched records, and vice versa to determine whether items have been correctly recognised in the appropriate period.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the group financial statements as a whole was calculated as £2.2m which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £196,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £10,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its control environment, including group-wide controls, and assessing the risks of material misstatement. Our group audit scope included the full scope audits of James Latham plc and Lathams Limited for the year ended 31 March 2019, performed to a materiality level determined by reference to the scale of the business concerned. Analytical procedures at group level were performed for non-significant components that represented less than 1% of consolidated result before tax and consolidated net assets at 31 March 2019.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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 the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Corporate Governance

Independent Auditor's Report

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 33, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Clark

Senior Statutory Auditor

For and on behalf of

RSM UK Audit LLP

Statutory Auditor, Chartered Accountants

25 Farringdon Street

London EC4A 4AB

26 June 2019

Financial Statements

Consolidated Income Statement

For the year ended 31 March 2019

| £'000s | Notes | 2019 | 2018 |
|--|-------|----------------|-----------|
| Revenue | 2 | 235,132 | 214,919 |
| Cost of sales (including warehouse costs) | 3 | (194,686) | (177,145) |
| Gross profit | | 40,446 | 37,774 |
| Selling and distribution costs | 3 | (18,082) | (16,277) |
| Administrative expenses | 3 | (7,896) | (7,106) |
| Operating profit | | 14,468 | 14,391 |
| Profit on disposal of property | | 1,052 | 1,276 |
| Finance income | 5 | 71 | 37 |
| Finance costs | 6 | (256) | (488) |
| Profit before tax | 3 | 15,335 | 15,216 |
| Tax expense | 7 | (2,913) | (2,570) |
| Profit after tax attributable to owners of the parent company | | 12,422 | 12,646 |
| Earnings per ordinary share (basic) | 9 | 63.1p | 64.4p |
| Earnings per ordinary share (diluted) | 9 | 63.0p | 64.1p |
| Earnings per ordinary share (basic, excluding GMP equalisation and profit on disposal of property) | 9 | 61.6p | 57.9p |
| Earnings per ordinary share (diluted, excluding GMP equalisation and profit on disposal of property) | 9 | 61.5p | 57.6p |

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

| £'000s | Notes | 2019 | 2018 |
|---|-------|----------------|---------|
| Profit after tax | | 12,422 | 12,646 |
| Other comprehensive income: | | | |
| Actuarial (loss)/gain on defined benefit pension scheme | | (1,360) | 7,948 |
| Deferred tax relating to components of other comprehensive income | | 314 | (1,262) |
| Foreign translation charge | | (31) | - |
| Other comprehensive income for the year, net of tax | | (1,077) | 6,686 |
| Total comprehensive income attributable to the owners of the parent company | | 11,345 | 19,332 |

Financial Statements

Consolidated and Company Balance Sheet

Company Registration Number 65619

| As at 31 March 2019 | | Group | | Company | |
|--|-------|----------------|---------|---------------|--------|
| £'000s | Notes | 2019 | 2018 | 2019 | 2018 |
| Assets | | | | | |
| Non-current assets | | | | | |
| Investments | 23 | - | - | 9,613 | 9,613 |
| Goodwill | 12 | 523 | 237 | - | - |
| Other intangible assets | 10 | 1,989 | 1 | - | - |
| Property, plant and equipment | 11 | 34,159 | 33,831 | 13 | 15 |
| Deferred tax asset | 20 | 1,577 | 1,491 | 96 | 51 |
| Total non-current assets | | 38,248 | 35,560 | 9,722 | 9,679 |
| Current assets | | | | | |
| Inventories | 14 | 42,350 | 40,068 | - | - |
| Trade and other receivables | 15 | 42,613 | 41,508 | 4,634 | 1,351 |
| Cash and cash equivalents | | 15,541 | 13,989 | 94 | 5,531 |
| Assets held for sale | 13 | - | 638 | - | - |
| Total current assets | | 100,504 | 96,203 | 4,728 | 6,882 |
| Total assets | | 138,752 | 131,763 | 14,450 | 16,561 |
| Current liabilities | | | | | |
| Trade and other payables | 16 | 27,113 | 28,648 | 1,123 | 1,437 |
| Interest bearing loans and borrowings | 17 | - | - | 1,120 | - |
| Tax payable | | 1,193 | 1,292 | - | - |
| Total current liabilities | | 28,306 | 29,940 | 2,243 | 1,437 |
| Non-current liabilities | | | | | |
| Interest bearing loans and borrowings | 17 | 597 | 987 | 597 | 987 |
| Retirement and other benefit obligation | 18 | 8,714 | 8,382 | - | - |
| Other payables | 19 | 413 | 291 | 157 | 189 |
| Deferred tax liabilities | 20 | 2,762 | 2,374 | - | - |
| Total non-current liabilities | | 12,486 | 12,034 | 754 | 1,176 |
| Total liabilities | | 40,792 | 41,974 | 2,997 | 2,613 |
| Net assets | | 97,960 | 89,789 | 11,453 | 13,948 |
| Capital and reserves | | | | | |
| Issued capital | 21 | 5,430 | 5,040 | 5,430 | 5,040 |
| Share-based payment reserve | 22 | 259 | 184 | 259 | 184 |
| Own shares | 24 | (923) | (529) | (923) | (529) |
| Capital reserve | | 3 | 3 | - | - |
| Retained earnings | | 93,191 | 85,091 | 6,687 | 9,253 |
| Total equity attributable to shareholders of the parent company | | 97,960 | 89,789 | 11,453 | 13,948 |

The Company's profit for the year was £679,000 (2018: £1,481,000).

These accounts were approved and authorised for issue by the Board of Directors on 26 June 2019 and signed on its behalf by:

N.C. Latham } Directors
D.A. Dunmow }

The consolidated notes on pages 42 to 69 form part of these accounts.

Financial Statements

Consolidated Statement of Changes in Equity

| | Attributable to owners of the parent company | | | | | |
|---|--|-----------------------------------|------------------|-----------------------|-------------------------|--------------------|
| | Issued capital £'000 | Share-based payment reserve £'000 | Own shares £'000 | Capital reserve £'000 | Retained earnings £'000 | Total equity £'000 |
| Balance at 1 April 2017 | 5,040 | 108 | (291) | 3 | 68,398 | 73,258 |
| Profit for the year | - | - | - | - | 12,646 | 12,646 |
| Other comprehensive income: | | | | | | |
| Actuarial gain on defined benefit pension scheme | - | - | - | - | 7,948 | 7,948 |
| Deferred tax relating to components of other comprehensive income | - | - | - | - | (1,262) | (1,262) |
| Total comprehensive income for the year | - | - | - | - | 19,332 | 19,332 |
| Transactions with owners: | | | | | | |
| Dividends | - | - | - | - | (3,014) | (3,014) |
| Exercise of options | - | (19) | - | - | 19 | - |
| Deferred tax on share options | - | - | - | - | (43) | (43) |
| Transfer of treasury shares | - | - | (414) | - | 414 | - |
| Write down on conversion of ESOP shares | - | - | 15 | - | (15) | - |
| Change in investment in ESOP shares | - | - | 161 | - | - | 161 |
| Share-based payment expense | - | 95 | - | - | - | 95 |
| Total transactions with owners | - | 76 | (238) | - | (2,639) | (2,801) |
| Balance at 31 March 2018 | 5,040 | 184 | (529) | 3 | 85,091 | 89,789 |
| Profit for the year | - | - | - | - | 12,422 | 12,422 |
| Other comprehensive income: | | | | | | |
| Actuarial loss on defined benefit pension scheme | - | - | - | - | (1,360) | (1,360) |
| Deferred tax relating to components of other comprehensive income | - | - | - | - | 314 | 314 |
| Foreign translation charge | - | - | - | - | (31) | (31) |
| Total comprehensive income for the year | - | - | - | - | 11,345 | 11,345 |
| Transactions with owners: | | | | | | |
| Dividends | - | - | - | - | (3,363) | (3,363) |
| Exercise of options | - | (19) | - | - | 19 | - |
| Deferred tax on share options | - | - | - | - | 31 | 31 |
| Transfer of treasury shares | - | - | (82) | - | 82 | - |
| Write down on conversion of ESOP shares | - | - | 14 | - | (14) | - |
| Purchase of preference shares | 390 | - | (478) | - | - | (88) |
| Change in investment in ESOP shares | - | - | 152 | - | - | 152 |
| Share-based payment expense | - | 94 | - | - | - | 94 |
| Total transactions with owners | 390 | 75 | (394) | - | (3,245) | (3,174) |
| Balance at 31 March 2019 | 5,430 | 259 | (923) | 3 | 93,191 | 97,960 |

Financial Statements

Company Statement of Changes in Equity

| Attributable to owners of the parent company | | | | | |
|---|-------------------------|--------------------------------------|---------------------|----------------------------|-----------------------|
| | Issued capital £'000 | Share-based payment reserve £'000 | Own shares £'000 | Retained earnings £'000 | Total equity £'000 |
| Balance at 1 April 2017 | 5,040 | 108 | (291) | 10,411 | 15,268 |
| Profit for the year | - | - | - | 1,481 | 1,481 |
| Total comprehensive income for the year | - | - | - | 1,481 | 1,481 |
| Transactions with owners: | | | | | |
| Dividends | - | - | - | (3,014) | (3,014) |
| Exercise of options | - | (19) | - | 19 | - |
| Deferred tax on share options | - | - | - | (43) | (43) |
| Transfer of treasury shares | - | - | (414) | 414 | - |
| Write down on conversion of ESOP shares | - | - | 15 | (15) | - |
| Change in investment in ESOP shares | - | - | 161 | - | 161 |
| Share-based payment expense | - | 95 | - | - | 95 |
| Total transactions with owners | - | 76 | (238) | (2,639) | (2,801) |
| Balance at 31 March 2018 | 5,040 | 184 | (529) | 9,253 | 13,948 |
| Profit for the year | - | - | - | 679 | 679 |
| Total comprehensive income for the year | - | - | - | 679 | 679 |
| Transactions with owners: | | | | | |
| Dividends | - | - | - | (3,363) | (3,363) |
| Exercise of options | - | (19) | - | 19 | - |
| Deferred tax on share options | - | - | - | 31 | 31 |
| Transfer of treasury shares | - | - | (82) | 82 | - |
| Write down on conversion of ESOP shares | - | - | 14 | (14) | - |
| Purchase of preference shares | 390 | - | (478) | - | (88) |
| Change in investment in ESOP shares | - | - | 152 | - | 152 |
| Share-based payment expense | - | 94 | - | - | 94 |
| Total transactions with owners | 390 | 75 | (394) | (3,245) | (3,174) |
| Balance at 31 March 2019 | 5,430 | 259 | (923) | 6,687 | 11,453 |

Financial Statements

Consolidated and Company Cash Flow Statement

For the year ended 31 March 2019

| £'000s | Notes | Group | | Company | |
|--|-------|---------|----------|---------|---------|
| | | 2019 | 2018 | 2019 | 2018 |
| Net cash flow from operating activities | | | | | |
| Cash generated from operations | 25 | 10,267 | 11,251 | (5,099) | (178) |
| Interest paid | | (8) | (1) | (6) | - |
| Income tax paid | | (2,651) | (2,797) | (80) | 182 |
| Net cash inflow/(outflow) from operating activities | | 7,608 | 8,453 | (5,185) | 4 |
| Cash flows from investing activities | | | | | |
| Interest received and similar income | | 71 | 37 | 11 | 2 |
| Acquisition of businesses | | (1,604) | - | - | - |
| Purchase of property, plant and equipment | | (2,362) | (10,840) | (2) | - |
| Proceeds from sale of property, plant and equipment | | 1,743 | 2,186 | - | - |
| Net cash (outflow)/inflow from investing activities | | (2,152) | (8,617) | 9 | 2 |
| Cash flows from financing activities | | | | | |
| Dividend received | | - | - | 2,523 | 2,403 |
| Purchase of treasury shares | | (478) | - | (478) | - |
| Equity dividends paid | | (3,363) | (3,014) | (3,363) | (3,014) |
| Preference dividend paid | | (63) | (79) | (63) | (79) |
| Net cash outflow from financing activities | | (3,904) | (3,093) | (1,381) | (690) |
| Increase/(decrease) in cash and cash equivalents for the year | | | | | |
| | | 1,552 | (3,257) | (6,557) | (684) |
| Cash and cash equivalents at beginning of year | | | | | |
| | | 13,989 | 17,246 | 5,531 | 6,215 |
| Cash and cash equivalents at end of year | | | | | |
| | | 15,541 | 13,989 | (1,026) | 5,531 |
| Balance sheet cash and cash equivalents | | 15,541 | 13,989 | 94 | 5,531 |
| Bank overdraft in current liabilities (note 17) | | - | - | (1,120) | - |
| Cash and cash equivalents at end of year | | | | | |
| | | 15,541 | 13,989 | (1,026) | 5,531 |

Financial Statements

Notes forming part of the Group Accounts

General information

James Latham plc is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 and is listed on the AIM market. The nature of the group's operations and its principal activities are set out in the Strategic Review. The address of the registered office is Unit 3 Swallow Park, Finway Road, Hemel Hempstead, Herts HP2 7QU.

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These consolidated and company accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The accounts have been prepared under the historic cost convention except for forward contract financial instruments measured at fair value. The directors have prepared the financial statements on the going concern basis for the reasons set out on page 32. A summary of the more important group accounting policies, which have been applied consistently across the group, is set out below.

New and amended IFRS standards that are effective for the current year

- IFRS 9 Financial Instruments. IFRS 9 replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments and a new expected credit loss model for calculating impairment on financial assets. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018 and has been adopted in these financial statements.

The group's financial assets (previously classified as loans and receivables) and financial liabilities arising from normal operations such as trade receivables, amounts owed by group undertakings, trade payables and accruals, continue to be recognised under the amortised cost model and there was no adjustment to amounts previously recognised on transition to IFRS 9.

The group has applied the consequential amendments to IFRS7: 'Financial Instruments Disclosures' to both the current and comparative period.

- IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces IAS 18 'Revenue'. The group has adopted IFRS 15 with effect from 1 January 2018 and has assessed the impact of this standard on the Financial Statements. The adoption has not had any impact on the timing of recognition or amounts previously recognised for revenue under IAS 18.

New standards, interpretations and amendments not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations which are issued but not yet effective or endorsed (unless otherwise stated), have not been applied:

- IFRIC 23 – Uncertainty over income tax treatments (effective for periods commencing on or after 1 January 2019).
- Annual improvements 2015-2017 cycle includes amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements' IAS 12 'Income Taxes' and IAS 23 'Borrowing Costs' (effective for periods commencing on or after 1 January 2019).
- Amendments to IFRS 9: Prepayment features with Negative Compensation permits companies to measure certain prepaid financial assets with negative compensation at amortised cost (effective for periods commencing on or after 1 January 2019).
- Amendments to IAS 19 Employee Benefits clarify that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. The amendments also include changes to the recognition of a reduction in a surplus (effective for periods commencing on or after 1 January 2019).
- IFRS 16 'Leases' establishes principles for the recognition, measurement, presentation and disclosure of leases – IFRS 16 is applicable for periods beginning on or after 1 January 2019.

The directors have not yet fully assessed the effect the adoption of IFRS 16 will have on the financial statements in future periods; there is however expected to be a material impact. IFRS 16 will require the Group to recognise a lease liability and a right-of-use asset of most of those leases previously treated as operating leases. This will affect both non-current and current liabilities, fixed assets and the measurement and disclosure of expense associated with the leases which under the new standard will be treated as depreciation and financing expense which were previously recognised as operating expenses over the term of the lease.

Based on the current leases, adoption of the standard is expected to show a balance sheet asset and liability in the region of £5,200,000. The impact on the income statement is expected to be a reduction in profit before tax of £60,000.

Certain other new accounting standards, amendments to existing accounting standards and interpretations which are in issue but not yet effective, either do not apply to the Group or are not expected to have any material impact on the Group's net results or net assets.

(b) Basis of consolidation

The consolidated accounts include the company and all its subsidiary undertakings (from the date of acquisition or to the date of disposal where applicable). Intra group sales and profits are eliminated on consolidation. The accounts of all subsidiary undertakings are made up to 31 March.

A subsidiary is an entity controlled, either directly or indirectly, by the company, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed in the period in which they are incurred.

1.1 Revenue recognition

Revenue comprises net sales to external customers exclusive of Value Added Tax. Revenue is recognised upon delivery to, or collection by, the customer. Revenue is shown net of returns and rebates and after eliminating sales within the group.

1.2 Segmental reporting

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reporting of components of the group that are regularly reviewed by the chief operating decision maker, which the group considers to be the Chairman, to allocate resources to the segments and to assess their performance. Further information is available in note 2.

1.3 Operating profit

Operating profit consists of revenues and other operating income less operating expenses. Operating profit excludes net finance costs.

1.4 Exceptional items

Exceptional items are those items of income and expenditure that by reference to the group are material in size and nature or incidence, that in the judgement of the directors, should be disclosed separately on the face of the financial statements to ensure both that the reader has a proper understanding of the group's financial performance and that there is comparability of financial performance between periods.

1.5 Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rates ruling on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gains or losses arising from the transactions are taken to the income statement.

In order to help manage its exposure to certain foreign exchange risks, the group enters into forward contracts. Gains and losses on forward contracts are recognised at fair value through the income statement.

Financial Statements

Notes forming part of the Group Accounts

1.6 Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. Depreciation on property, plant and equipment is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected life.

It is calculated at the following rates:

| | |
|-------------------------------|----------------------|
| Freehold buildings | - over 50 years |
| Leasehold improvements | - over 5 to 15 years |
| Fixtures and fittings | - over 4 to 10 years |
| Plant, equipment and vehicles | - over 5 to 20 years |

Freehold land is not depreciated.

Estimated residual values and useful lives are reviewed annually and adjusted where necessary.

1.7 Impairment of non-current assets

Goodwill is reviewed annually for impairment. The carrying amounts of the group's other intangible assets and property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value exceeds the recoverable amount, a provision for the impairment loss is established with a charge being made to the income statement.

1.8 Goodwill

Goodwill on consolidation, being the excess of the purchase price over the fair value of the net assets of subsidiary undertakings at the date of acquisition is capitalised in accordance with IFRS 3 (revised) "Business combinations". Goodwill is tested annually for impairment, or more frequently when there is an indication that goodwill may be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed in a subsequent period.

1.9.1 Intangible assets – trademark

Acquired trademarks are shown at historical cost. Trademarks are considered to have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful life of 20 years.

1.9.2 Intangible assets – customer lists

Acquired customer lists are shown at historical cost. Trademarks are considered to have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful life of 10 years.

1.10 Inventories

Inventories are stated at the lower of cost (including an appropriate proportion of attributable supplier rebates and discounts) and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for obsolete or slow moving inventories where appropriate.

The cost of inventories is based on the weighted average principle.

1.11 Financial instruments

Financial assets and financial liabilities are recognised on the group's balance sheet when the group has become party to the contractual provisions of the instrument. Subsequent measurement of all recognised financial assets within the scope of IFRS 9 are required to be measured at amortised cost or fair value on the basis of the group's business model for managing financial assets and their contractual cash flows. Where assets are measured at fair value, gains and losses are recognised through profit or loss (fair value through profit or loss, "FVTPL").

1.11.1 Trade and other receivables

Trade receivables are classified as financial assets at amortised cost and are initially recognised at fair value. They are subsequently measured at their amortised cost using the effective interest method less any provision for impairment. IFRS 9 establishes a new model for recognition and measurement of impairments on financial assets measured at amortised cost using the "Expected Credit Losses" model. The assessment for the expected credit losses has been carried out using the Simplified Model and the impact on amounts previously recognised as an impairment provision against trade receivables is immaterial.

The Company's group receivables represent trading balances and interest free amounts advanced to other group companies with no fixed repayment terms. The measurement of impairment losses depends on whether the financial asset is 'performing', 'underperforming', or 'non-performing' based on the company's assessment of increases in the credit risk of the financial asset since its initial recognition and any events that have occurred before the year end which have a detrimental impact on cash flows. In assessing whether credit risk has increased significantly, the company compares the risk of default at the year-end with the risk of default when the investment was originally recognised using reasonable and supportable past and forward-looking information that is available. No impairment has been recognised against amounts due from fellow subsidiaries at 31 March 2019.

1.11.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank and other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The carrying amount of these assets approximates their fair value.

1.11.3 Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

1.11.4 Bank borrowings

Interest-bearing bank loans are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges, including premiums payable on settlement or redemption, are recognised in the income statement over the term of the instrument using an effective rate of interest.

1.11.5 Trade payables

Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

1.11.6 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

1.11.7 Derivative financial instruments

The group's activities expose the entity primarily to foreign currency and interest rate risk. The group uses foreign exchange forward contracts and fixed rate bank loans to help manage these exposures. The group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Foreign currency forward contracts and fixed rate bank loans are not designated effective hedges and so are marked to market at the balance sheet date, with any gains or losses being taken through the income statement.

1.12 Current and deferred income tax

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

Deferred tax expected to be payable or recoverable on differences at the balance sheet date between the tax bases and liabilities and their carrying amounts for financial reporting purposes is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible differences can be utilised.

Deferred tax is calculated at the rates of taxation which are expected to apply when the deferred tax asset or liability is realised or settled, based on the rates of taxation enacted or substantively enacted at the balance sheet date.

1.13 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

1.14 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

Financial Statements

Notes forming part of the Group Accounts

1.15 Retirement benefit costs

Retirement benefit costs are accounted for in accordance with IAS 19 (revised) "Employee benefits". Full details of the basis of calculation of the net pension liability disclosed in the balance sheet at 31 March 2019, and of the amounts charged/credited to the income statement and equity, are set out in note 18 to the accounts.

The cost of the defined benefit scheme is determined using the projected unit credit method with actuarial valuations being carried out at the end of each reporting period. The current service cost represents the increase in the present value of the plan liabilities expected to arise from employee service in the current period. Past service costs resulting from enhanced benefits are recognised in the income statement on a straight-line basis over the vesting period, or immediately if the benefits have vested. Interest cost represents a net interest cost on the net defined benefit liability. Gains and losses on curtailments or settlements are recognised in the income statement in the period in which the curtailment or settlement occurs.

Actuarial gains and losses, which represent differences between the expected and actuarial returns on the plan assets and the effect of changes in actuarial assumptions, are recognised in the statement of recognised income and expense in the period in which they occur.

The defined benefit liability recognised in the balance sheet comprises the present value of the benefit obligation, minus any past service costs not yet recognised minus the fair value of the plan assets, if any, at the balance sheet date. The deficit is classified as a non-current liability.

Pension payments to the group's defined contributions schemes are charged to the income statement as they arise.

1.16 Finance leases

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and the reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

1.17 Share-based payment

The group has applied the requirements of IFRS 2 "Share-based payment" which requires the fair value of share-based payments to be recognised as an expense.

Certain employees receive remuneration in the form of share options. The fair value of the equity instruments granted is measured on the date at which they are granted by using the Black-Scholes model, and is based on the group's estimate of the number of options that will eventually vest. The fair value is expensed in the income statement over the vesting period.

1.18 Treasury shares

Treasury shares are shown at historical cost, and deducted from retained earnings directly in equity.

1.19 Employee Share Ownership Plan (ESOP)

Own shares represent the company's own shares that are held by the group sponsored ESOP trust in relation to the group's employees share schemes. Own shares are deducted at cost in arriving at shareholders' equity and gains and losses on their sale or transfer are recognised directly in equity. ESOP is treated separately and consolidated in the group and company accounts.

1.20 Accounting estimates and judgements

The directors consider the critical accounting estimates and judgements used in the financial statements and concluded that the main areas of judgements are:

- i. Post-employment benefits
- ii. Stock obsolescence provision
- iii. Acquisition accounting and business combinations

These estimates are based on historical experience and various other assumptions that management and the board of directors believe are reasonable under the circumstances and are discussed in more detail under their respective notes. For post-employment benefits, the directors take advice from a qualified actuary. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes could differ from those assumptions and estimates.

The key estimates regarding the acquisition is in respect of the valuation of the customer lists. When valuing the intangibles acquired in a business combination, management estimate the expected future cashflows from the asset and select a suitable discount rate in order to calculate the present value of those cashflows.

Financial Statements

Notes forming part of the Group Accounts

2. Business and geographical segments

For management purposes, the group is organised into one trading division, that of timber importing and distribution, carried out in each of the twelve locations trading predominantly in the United Kingdom and the Republic of Ireland.

| | 2019 £'000 | 2018 £'000 |
|--|----------------|----------------|
| The geographical turnover is as follows: | | |
| Republic of Ireland | 3,447 | 2,031 |
| Rest of Europe | 250 | 278 |
| Rest of the World | 623 | 1,070 |
| United Kingdom | 230,812 | 211,540 |
| | <u>235,132</u> | <u>214,919</u> |

In each location, turnover and gross margin is reviewed separately for Panel Products (including ATP) and Timber (including Flooring and LDT). Most locations sell both products groups, except in the London region where for operational efficiency Panel Products and Timber are sold from separate locations. Resources are allocated and employees incentivised on the basis of the results of their individual location and not on the basis of a product group.

Whilst there are regional differences in the relative importance of product groups and classes of customer, each location is considered to have similar economic characteristics and so can be aggregated into one segment. We therefore consider there is one business segment and one geographic segment.

3. Profit before tax

| | 2019 £'000 | 2018 £'000 |
|---|----------------|----------------|
| Profit for the year has been arrived at after taking account the following charges/(credits): | | |
| Employee remuneration (note 4) | 18,102 | 16,530 |
| Net foreign exchange (gains) | (110) | (408) |
| Cost of inventories recognised as an expense and included in 'cost of sales' in the consolidated income statement | 185,015 | 168,839 |
| Depreciation of property, plant and equipment (note 11) | 2,008 | 1,941 |
| Profit on disposal of property, plant and equipment | (27) | (168) |
| Amortisation (note 10) | 28 | - |
| Operating lease rentals - vehicles and plant | 601 | 583 |
| - property | 655 | 539 |
| | <u>1,256</u> | <u>1,122</u> |
| Fees payable to the company's auditors for the audit of the consolidated and parent company accounts | 10 | 10 |
| Fees payable to the company's auditors and its associates for other services | | |
| The audit of the company's subsidiary pursuant to legislation | 68 | 67 |
| Tax services | 11 | 11 |
| Other | 12 | 11 |
| Fees in relation to the audit of the James Latham plc | | |
| Pension and Assurance Scheme | 8 | 8 |
| Other expenses | 14,283 | 12,565 |
| Total cost of sales, distribution costs and administrative expenses | <u>220,664</u> | <u>200,528</u> |

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Notes forming part of the Group Accounts

4. Information regarding employees

The monthly average number of persons, including directors, employed by the group during the year was as follows:

Management and administration
Warehousing
Selling
Distribution

| | Group | | Company | |
|-------------------------------|----------------|----------------|----------------|----------------|
| | 2019 Number | 2018 Number | 2019 Number | 2018 Number |
| Management and administration | 60 | 59 | 25 | 25 |
| Warehousing | 125 | 122 | - | - |
| Selling | 138 | 134 | - | - |
| Distribution | 72 | 70 | - | - |
| | 395 | 385 | 25 | 25 |

The aggregate payroll costs of these employees were as follows:

Wages and salaries
Social security costs
Apprenticeship levy
Pension costs
Share-based payment

| | £'000 | £'000 | £'000 | £'000 |
|-----------------------|---------------|--------|--------------|-------|
| Wages and salaries | 14,164 | 13,378 | 1,352 | 1,310 |
| Social security costs | 1,462 | 1,385 | 154 | 144 |
| Apprenticeship levy | 55 | 51 | 6 | 5 |
| Pension costs | 2,327 | 1,621 | 1,970 | 920 |
| Share-based payment | 94 | 95 | 94 | 95 |
| | 18,102 | 16,530 | 3,576 | 2,474 |

Of the above payroll costs, £4,109,000 (2018: £3,734,000) is included in cost of sales, £9,612,000 (2018: £8,496,000) is included in selling and distribution costs, and £4,381,000 (2018: £4,300,000) is included in administrative expenses in the income statement.

5. Finance income

| | 2019 £'000 | 2018 £'000 |
|---------------------|---------------|---------------|
| Interest receivable | 71 | 37 |

The interest received is on bank deposits.

6. Finance costs

| | 2019 £'000 | 2018 £'000 |
|------------------------------------|---------------|---------------|
| On bank loans and overdrafts | 8 | 1 |
| On pension liability | 185 | 408 |
| On 8% Cumulative Preference shares | 63 | 79 |
| | 256 | 488 |

The interest payable on bank loans and overdrafts is payable on balances with a maturity analysis of less than 6 months at the balance sheet date and interest on all other interest payments are based on balances with a maturity analysis of over five years at the balance sheet date.

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7. Tax expense

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| The charge for taxation on profit comprises: | | |
| Current year: | | |
| UK corporation tax at 19% (2018: 19%) | 2,552 | 2,572 |
| Deferred taxation - pension | 190 | 50 |
| - IBAs derecognised in current year | (14) | (16) |
| - other | 185 | (36) |
| | <u>2,913</u> | <u>2,570</u> |
| Profit before taxation | <u>15,335</u> | <u>15,216</u> |
| Tax at 19% (2018: 19%) | <u>2,914</u> | <u>2,891</u> |
| Tax effect of expenses/credits that are not deductible/ taxable in determining taxable profit | (172) | (269) |
| IBAs derecognised in current year | (14) | (16) |
| Other | 185 | (36) |
| Total tax charge | <u>2,913</u> | <u>2,570</u> |

8. Dividends

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Ordinary dividends: | | |
| Final 12.1p per share paid 24 August 2019 (2017: 10.85p) | 2,379 | 2,129 |
| Interim 5.0p per share paid 25 January 2019 (2018: 4.5p) | <u>984</u> | <u>885</u> |
| | <u>3,363</u> | <u>3,014</u> |

The Directors proposed a final dividend for 2019 of 12.9p per share, that, subject to approval by the shareholders, will be paid on 23 August 2019 to shareholders on the register on 2 August 2019.

Based on the number of shares currently in issue, the final dividend for 2019 is expected to absorb £2,537,000.

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Notes forming part of the Group Accounts

9. Earnings per ordinary share

Earnings per ordinary share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

| | 2019 £'000 | 2018 £'000 |
|--|----------------|----------------|
| Net profit attributable to ordinary shareholders | 12,422 | 12,646 |
| Net profit attributable to ordinary shareholders adjusted for GMP equalisation cost and profit on disposal of property | 12,116 | 11,370 |
| | <hr/> | <hr/> |
| | Number '000 | Number '000 |
| Issued ordinary share capital | 20,160 | 20,160 |
| Less: weighted average number of own shares held in treasury investment | (464) | (494) |
| Less: weighted average number of own shares held in ESOP Trust | (22) | (26) |
| | <hr/> | <hr/> |
| Weighted average share capital | 19,674 | 19,640 |
| Add: dilutive effects of share options issued | 28 | 85 |
| | <hr/> | <hr/> |
| Weighted average share capital for diluted earnings per ordinary share calculation | 19,702 | 19,725 |
| | <hr/> | <hr/> |

10. Intangible assets – Group

| | Trademark £'000 | Customer Lists £'000 | Total £'000 |
|--------------------------|--------------------|-------------------------|----------------|
| Cost: | | | |
| At 1 April 2017 | 1 | - | 1 |
| Additions | <hr/> | <hr/> | <hr/> |
| At 1 April 2018 | 1 | - | 1 |
| Additions on acquisition | - | 2,016 | 2,016 |
| At 31 March 2019 | 1 | 2,016 | 2,017 |
| Amortisation | <hr/> | <hr/> | <hr/> |
| At 1 April 2017 | - | - | - |
| Charge for the year | - | - | - |
| At 1 April 2018 | - | - | - |
| Charge for the year | - | 28 | 28 |
| At 31 March 2019 | - | 28 | 28 |
| Net book value | | | |
| At 31 March 2019 | 1 | 1,988 | 1,989 |
| At 31 March 2018 | 1 | - | 1 |
| At 31 March 2017 | 1 | - | 1 |

The amortisation charge is included in the income statement under administrative expenses.

The registered trademarks of the company are Woodex®, Buffalo® Board and Bausen® Flooring. The Customer Lists relates to the purchase of Abbey Wood Agencies Limited during the year. The cost of the Customer Lists represents the fair value of the assets at the time of the purchase.

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Notes forming part of the Group Accounts

11. Property, plant and equipment

11.1 Group

| | Group | | | |
|---|-------------------------|--------------------------------|-------------------------------------|---------------|
| | Freehold property £'000 | Short leasehold property £'000 | Plant, equipment and vehicles £'000 | Total £'000 |
| Cost: | | | | |
| At 1 April 2017 | 23,363 | 615 | 13,174 | 37,152 |
| Additions | 6,873 | - | 4,684 | 11,557 |
| Reclassification as non-current asset held for sale | (765) | - | - | (765) |
| Disposals | (767) | - | (2,519) | (3,286) |
| At 1 April 2018 | 28,704 | 615 | 15,339 | 44,658 |
| Additions | 55 | - | 2,307 | 2,362 |
| Acquisition | - | - | 34 | 34 |
| Disposals | (5) | - | (576) | (581) |
| At 31 March 2019 | 28,754 | 615 | 17,104 | 46,473 |
| Depreciation: | | | | |
| At 1 April 2017 | 2,924 | 325 | 7,591 | 10,840 |
| Reclassification as non-current asset held for sale | (127) | - | - | (127) |
| Disposals | (182) | - | (1,645) | (1,827) |
| Charge for the year | 376 | 37 | 1,528 | 1,941 |
| At 1 April 2018 | 2,991 | 362 | 7,474 | 10,827 |
| Acquisition | - | - | 34 | 34 |
| Disposals | (1) | - | (554) | (555) |
| Charge for the year | 402 | 37 | 1,569 | 2,008 |
| At 31 March 2019 | 3,392 | 399 | 8,523 | 12,314 |
| Net book value | | | | |
| At 31 March 2019 | 25,362 | 216 | 8,581 | 34,159 |
| At 31 March 2018 | 25,713 | 253 | 7,865 | 33,831 |
| At 31 March 2017 | 20,439 | 290 | 5,583 | 26,312 |

Included in freehold property is land with a book value of £8,519,000 (2018: £8,519,000) which is not depreciated.

The depreciation charge is included in the income statement as follows:

| | 2019 £'000 | 2018 £'000 |
|--------------------------------|--------------|--------------|
| Cost of sales | 1,302 | 1,216 |
| Selling and distribution costs | 599 | 627 |
| Administrative expenses | 107 | 98 |
| | 2,008 | 1,941 |

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Notes forming part of the Group Accounts

| 11.2 Company | Plant, equipment and vehicles |
|-------------------------|-------------------------------|
| | £'000 |
| Cost: | |
| At 1 April 2017 | 361 |
| Additions | - |
| At 1 April 2018 | 361 |
| Additions | 2 |
| At 31 March 2019 | 363 |
| Depreciation: | |
| At 1 April 2017 | 341 |
| Charge for the year | 5 |
| At 1 April 2018 | 346 |
| Charge for the year | 4 |
| At 31 March 2019 | 350 |
| Net book value | |
| At 31 March 2019 | 13 |
| At 31 March 2018 | 15 |
| At 31 March 2017 | 20 |

| 12. Goodwill | Gateshead | Abbey Wood | Goodwill |
|--|------------|------------|------------|
| | £'000 | £'000 | £'000 |
| Cost: | | | |
| At 1 April 2017 and 31 March 2018 | 362 | - | 362 |
| Additions | - | 286 | 286 |
| At 31 March 2019 | 362 | 286 | 648 |
| Impairment | | | |
| At 1 April 2017 and 31 March 2019 | 125 | - | 125 |
| Net book value | | | |
| At 31 March 2019 | 237 | 286 | 523 |
| At 31 March 2018 | 237 | - | 237 |
| At 31 March 2017 | 237 | - | 237 |

The Gateshead goodwill arose upon the acquisition of part of the trade and net assets of F.H. Thompson Limited in the year ended 31 March 2005.

The Abbey Wood goodwill arose upon the acquisition of the shares and assets of Abbey Wood Agencies Limited which is now a trading subsidiary of Lathams Limited. The date of acquisition was 1 February 2019.

In accordance with the group's accounting policy the carrying value of goodwill is reviewed annually for impairment. The review entails an assessment of the present value of projected return from an asset over a period of 5 years. The discount rate used in the group's estimated weighted average cost of capital is currently 6%.

The review performed at the year end did not result in the impairment of goodwill as the estimated recoverable amount exceeded the carrying value. The recoverable amount of the cash generating unit to which the goodwill has been allocated is determined based on value-in-use calculations.

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Notes forming part of the Group Accounts

13. Assets held for sale

| | Freehold property £'000 |
|---|----------------------------|
| Cost: | |
| At 1 April 2017 | - |
| Reclassification as non-current asset held for sale | 765 |
| At 1 April 2018 | 765 |
| Disposal | (765) |
| At 31 March 2019 | - |
| Depreciation: | |
| At 1 April 2017 | - |
| Reclassification as non-current asset held for sale | 127 |
| At 1 April 2018 | 127 |
| Disposal | (127) |
| At 31 March 2019 | - |
| Net book value | |
| At 31 March 2019 | - |
| At 31 March 2018 | 638 |
| At 31 March 2017 | - |

The asset held for sale related to the vacated Yate property, where the business has been relocated to the new Yate site. The sale was completed on 4 April 2018 realising net proceeds of £1,720,000 and a profit on sale, net of costs of £1,052,000.

14. Inventories

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Finished goods and goods for resale | 43,006 | 40,635 |
| Less: provisions for slow moving and obsolete stock | (656) | (567) |
| | 42,350 | 40,068 |

The inventories impairment charge for the year ended 31 March 2019 was £582,000 (2018: £438,000). Impairment charges reversed during the year were £493,000 (2018: £422,000). The reversal of inventories arises from sales in the year of the slow moving and obsolete stock previously provided.

Inventories are pledged as securities against bank overdrafts (see note 17).

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Notes forming part of the Group Accounts

15. Trade and other receivables

| | Group | | Company | |
|------------------------------|---------------|---------------|---------------|---------------|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Trade receivables | 39,592 | 38,718 | 54 | 7 |
| Other receivables: | | | | |
| Other receivables | 1,011 | 994 | 10 | 18 |
| Amounts owed by subsidiaries | - | - | 3,189 | - |
| Tax receivable | - | - | 1,360 | 1,280 |
| Prepayments | 2,010 | 1,796 | 21 | 46 |
| | 3,021 | 2,790 | 4,580 | 1,344 |
| | 42,613 | 41,508 | 4,634 | 1,351 |

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

The group has recognised an impairment against specifically identified expected credit losses ("ECLs") at year end of £367,000 (2018: £132,000). In line with the Group's historical experience, and after consideration of current credit exposures, the Group does not expect to incur any ECL's above those specifically identified and so has not recognised any non-specific ECL's in the current year (2018: nil).

At 31 March 2019, £38,484,000 (2018: £38,624,000) of trade and other receivables were denominated in sterling, £1,973,000 (2018: £771,000) were denominated in Euros and £144,000 (2018: £317,000) were denominated in US dollars and £2,000 (2018: £nil) were denominated in Canadian dollars. The Company balances are all denominated in sterling.

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Notes forming part of the Group Accounts

16. Trade and other payables

| | Group | | Company | |
|------------------------------------|---------------|---------------|---------------|---------------|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Trade payables | 18,808 | 20,120 | 41 | 78 |
| Other taxation and social security | 4,788 | 5,308 | 679 | 606 |
| Amounts owed to subsidiaries | - | - | - | 392 |
| Other payables | 1,512 | 1,469 | 270 | 276 |
| Accruals and deferred income | 2,005 | 1,751 | 133 | 85 |
| | 27,113 | 28,648 | 1,123 | 1,437 |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 26 days (2018: 32 days). The directors consider that the carrying amount of trade payables approximates to their fair value.

At 31 March 2019, £16,708,000 (2018: £18,370,000) of trade and other payables were denominated in sterling, £1,288,000 (2018: £1,456,000) in US dollars, £2,324,000 (2018: £1,699,000) in Euros and £nil (2018: £64,000) in Canadian dollars. The company balances are all denominated in sterling.

Based on the balance sheet value of trade and other payables, as shown above, a 10% change in the currency exchange rate would lead to an increase or decrease in income and equity of £361,000 (2018: £322,000).

17. Interest bearing loans and borrowings

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Current liabilities | | | | |
| Bank overdraft | - | - | 1,120 | - |
| | - | - | 1,120 | - |
| Non-current liabilities | | | | |
| Cumulative preference shares of £1 each (note 21) | 597 | 987 | 597 | 987 |
| Total | 597 | 987 | 597 | 987 |

The loans and borrowings were all denominated in sterling.

The group would normally expect that sufficient cash is generated in the operating cycle to meet the contractual cash flows as discussed above through effective cash management.

The cumulative preference shares are held on an ongoing basis and pay dividends at 8% per annum.

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Notes forming part of the Group Accounts

18. Retirement and other benefit obligation

| | Group | |
|--|---------------|---------------|
| | 2019 £'000 | 2018 £'000 |
| Retirement benefit obligations (note 18.2) | 8,714 | 8,382 |

18.1. Group pension schemes

James Latham plc operates a group contributory defined benefit pension scheme. The scheme is a funded scheme. Benefits are provided based on earnings in the last twelve months before retirement, plus average bonuses received over the last three years. The assets of the scheme are held separately from those of the company. 53% of the assets are invested in equities, with 48% under passive management by Blackrock and 5% in a Fund of Hedge funds managed by Mesirow. 36% are held in bonds and gilts, with 21% in a Buy and Maintain Fund managed by Mercers, 7% in an Absolute Return Fund managed by Wellington and 8% in an Index Linked fund managed by Blackrock, with the remaining 9% in a HLV Property Fund managed by Aviva and 2% in cash.

The group contributory defined benefit pension scheme is closed to new entrants, and a defined contribution group scheme has been established for the pension provision of all other employees, including those contributing through auto enrolment.

The pension charge for the year for all schemes was £2,327,000 (2018: £1,621,000). Of the charge, £396,000 (2018: £206,000) is included in cost of sales, £1,320,000 (2018: £668,000) is included in selling and distribution costs, and £611,000 (2018: £747,000) is included in administrative expenses in the income statement. These charges include a one off past service cost of £746,000 relating to the recent High Court case on GMP equalisation.

Contributions are determined by a qualified actuary on a basis of triennial valuations using the projected unit funding method. The most recent available valuation was at 31 March 2017. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

It was assumed that the investment return would be 4.1% per annum pre-retirement and 2.5% per annum post-retirement, that the salary increases would average 3.4% per annum and that the present and future pensions would increase at the rate of 3% per annum in respect of service to 1 January 1991. Pensions accruing between 1 January 1991 and 28 February 1999 are required to increase at the greater of: (a) 4%, and (b) 3% on the GMP and 5% on the excess over the GMP. Pensions accruing after 1 March 1999 increase at Limited Price Indexation which has been assumed to average 2.4% in the future. Limited Price Indexation was replaced by the Consumer Price Index (CPI) for payrises occurring after 1 January 2014.

18.2. Group defined benefit pension scheme

The group operates a defined benefit scheme. The current practice of increasing pensions in line with inflation is included in the measurement of the defined benefit obligation.

The retirement benefit liability recognised in the balance sheet is the present value of the defined benefit obligations, less the fair value of the scheme assets, adjusted for past service costs. Actuarial gains and losses are immediately recognised in the statement of other comprehensive income.

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Change in benefit obligation | | |
| Benefit obligation at beginning of year | 66,439 | 72,992 |
| Service cost | 623 | 723 |
| Past service cost | 746 | - |
| Interest cost | 1,700 | 1,796 |
| Actuarial loss/(gain) | 2,441 | (6,767) |
| Benefits paid | (2,119) | (2,288) |
| Premiums paid | (11) | (17) |
| Benefit obligation at end of year | 69,819 | 66,439 |
| Analysis of defined benefit obligation | | |
| Schemes that are wholly or partly funded | 69,819 | 66,439 |
| Change in scheme assets | | |
| Fair value of scheme assets at beginning of year | 58,057 | 56,367 |
| Interest income | 1,515 | 1,388 |
| Return on plan assets (excluding interest income) | 1,081 | 1,181 |
| Employers contributions (incl. employer direct benefit payments) | 2,582 | 1,433 |
| Administrative expenses | - | (7) |
| Benefits paid from plan | (2,119) | (2,288) |
| Expenses paid | (11) | (17) |
| Fair value of scheme assets at end of year | 61,105 | 58,057 |
| Amounts recognised in the balance sheet | | |
| Present value of funded obligations | 69,819 | 66,439 |
| Fair value of scheme assets | 61,105 | 58,057 |
| Net liability | 8,714 | 8,382 |

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Notes forming part of the Group Accounts

18.2. Group defined benefit pension scheme (continued)

| | 2019 £'000 | 2018 £'000 |
|--|---------------|----------------|
| Components of pension expense | | |
| Current service cost | 623 | 723 |
| Past service cost | 746 | - |
| Interest cost | 1,700 | 1,796 |
| Income on plan assets | (1,515) | (1,388) |
| Expenses paid | - | 7 |
| Total pension expense recognised in the income statement | 1,554 | 1,138 |
| Actuarial loss/(gain) immediately recognised | 1,360 | (7,948) |
| Total recognised in the statement of other Comprehensive income | 1,360 | (7,948) |
| Cumulative amount of actuarial loss immediately recognised | 11,544 | 10,184 |

| | 2019 | 2018 |
|--|---------------|---------------|
| Plan assets | | |
| The asset allocations at the year end were as follows: | | |
| Equities | 53.3% | 58.1% |
| Bonds | 36.2% | 31.1% |
| Property | 8.9% | 9.0% |
| Other | 1.6% | 1.8% |
| | 100.0% | 100.0% |

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Amounts included in the fair value of assets for | | |
| Equity instruments | 32,575 | 33,712 |
| Bond instruments | 22,109 | 18,027 |
| Property occupied | 5,417 | 5,252 |
| Other assets used | 1,004 | 1,066 |
| | 61,105 | 58,057 |

18.2. Group defined benefit pension scheme (continued)

| | 2019 | 2018 |
|---|-------|-------|
| Weighted average assumptions used to determine benefit obligations: | | |
| Discount rate | 2.40% | 2.60% |
| Rate of compensation increase | 3.20% | 3.05% |
| Inflation (RPI) | 3.20% | 3.05% |
| Inflation (CPI) | 2.20% | 2.05% |
| Rate of pension increases (CPI capped at 5%) | 2.20% | 2.10% |
| Weighted average life expectancy for mortality tables used to determine benefit obligations: | | |
| Male member age 65 (current life expectancy) | 23.5 | 23.6 |
| Female member age 65 (current life expectancy) | 25.4 | 25.6 |
| Male member age 45 (life expectancy at age 65) | 24.9 | 25.1 |
| Female member age 45 (life expectancy at age 65) | 27.0 | 27.2 |
| Weighted average assumptions used to determine pension expense: | | |
| Discount rate | 2.60% | 2.50% |
| Rate of compensation increase | 3.05% | 3.15% |

Sensitivity analysis of the key assumptions

The valuation of the scheme's liabilities is dependant on the assumptions used. The sensitivity of the valuation of the liability to changes in the assumptions is shown in the table below:

| | Impact on deficit (Decrease)/increase | £'000 |
|---------------------------------------|--|---------|
| Discount rate increases by 0.25% | (2,883) | (2,883) |
| Inflation rate increases by 0.25% | 2,057 | 2,057 |
| Life expectancy increases by one year | 2,851 | 2,851 |

History of plan assets and defined benefit obligation

| | 2019 £'000 | 2018 £'000 | 2017 £'000 | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|---------------|---------------|---------------|
| Present value of defined benefit obligation | 69,819 | 66,439 | 72,992 | 60,164 | 64,421 |
| Fair value of plan assets | 61,105 | 58,057 | 56,367 | 50,507 | 53,991 |
| Net liability | 8,714 | 8,382 | 16,625 | 9,657 | 10,430 |

Contributions

The group expects to contribute £2,540,000 to the pension scheme for the year ending 31 March 2020.

18.3. Defined contribution pension payments

The group operates a defined contribution scheme managed by Aviva. The group has agreed to match contributions by eligible employees up to a maximum of 7.5%.

Pension contributions paid to the defined contribution scheme for the year totalled £940,000 (2018: £879,000).

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19. Other payables (non-current liabilities)

| | Group | | Company | |
|------------------------------|---------------|---------------|---------------|---------------|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Accruals and deferred income | 413 | 291 | 157 | 189 |

20. Deferred tax

20.1 Group

The net deferred tax asset/(liability) is made up of the following elements:

| | Post-employment benefits £'000 | Revalued properties £'000 | Roll over gains on assets £'000 | Other (*) £'000 | Intangible assets £'000 | Total £'000 |
|---|-----------------------------------|------------------------------|------------------------------------|--------------------|----------------------------|----------------|
| As at 1 April 2017 asset | 2,904 | - | - | - | - | 2,904 |
| As at 1 April 2017 liability | - | (81) | (1,577) | (827) | - | (2,485) |
| (Charge)/credit to the income statement | (35) | - | - | 37 | - | 2 |
| (Charge)/Credit direct to equity | (1,378) | 24 | - | 50 | - | (1,304) |
| At 31 March 2018 asset | 1,491 | - | - | - | - | 1,491 |
| At 31 March 2018 liability | - | (57) | (1,577) | (740) | - | (2,374) |
| Charge to the income statement | (176) | - | - | (185) | - | (361) |
| Credit direct to equity | 262 | 57 | - | 83 | - | 402 |
| Acquisitions | - | - | - | - | (343) | (343) |
| At 31 March 2019 asset | 1,577 | - | - | - | - | 1,577 |
| At 31 March 2019 liability | - | - | (1,577) | (842) | (343) | (2,762) |

* Includes accelerated capital allowances, industrial buildings allowances and trading losses.

20.2 Company

The deferred tax asset is made up as follows:

| | Post-employment benefits £'000 | Accelerated capital allowances £'000 | Total £'000 |
|---------------------|-----------------------------------|---|----------------|
| As at 1 April 2017 | 77 | 2 | 79 |
| Charge for the year | (28) | - | (28) |
| At 31 March 2018 | 49 | 2 | 51 |
| Charge for the year | 45 | - | 45 |
| At 31 March 2019 | 94 | 2 | 96 |

Deferred tax has been calculated using rates that are expected to apply when the asset or liability is expected to be realised or settled, based on rates that were substantively enacted at the balance sheet date.

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21. Share capital

| Ordinary shares | 2019, 2018 and 2017 | | | |
|----------------------------------|---------------------|--------------|-------------------|--------------|
| | Authorised | | Issued | |
| | Number | £'000 | Number | £'000 |
| Ordinary shares of 25 pence each | 28,000,000 | 7,000 | 20,160,000 | 5,040 |

| Preference shares | 2019, 2018 and 2017 | | | |
|--|---------------------|--------------|-----------------------|------------|
| | Authorised | | Issued and fully paid | |
| | Number | £'000 | Number | £'000 |
| 8% Cumulative Preference Shares of £1 each | 1,500,000 | 1,500 | 987,000 | 987 |

In the year ended 31 March 2019, 390,382 Cumulative Preference Shares were purchased by the Company for consideration of £478,218. At 31 March 2019 these shares are held by the Company, the Company waived the right to receive the 8% dividend during the year. The Company will cancel these shares following the 2019 Annual General Meeting. In the meantime the shares held are categorised as follows:

| Share Capital | 2019 | 2018 |
|------------------------|--------------|--------------|
| | £'000 | £'000 |
| Ordinary share capital | 5,040 | 5,040 |
| Preference shares | 390 | - |
| | 5,430 | 5,040 |

The balance of the Preference shares are included in non-current liabilities (as interest bearing loans and borrowings) – See note 17. The Cumulative Preference shares carry the right to receive the 8% dividend in priority to all other shares and the right of a return on assets in priority to all other shares. They do not carry the right to further participate in profits or assets, nor to vote at a General Meeting unless the resolution directly or adversely varies any of their rights or privileges. There were no movements in the Ordinary share capital of the company in either the year ended 31 March 2019 or 2018.

22. Equity-settled share option schemes

Equity-settled share option schemes

Details of the share options outstanding during the year are as follows:

| | 2019 | | 2018 | |
|------------------------------------|-------------------------|-------------------------------------|-------------------------|-------------------------------------|
| | Number of share options | Weighted average exercise price (£) | Number of share options | Weighted average exercise price (£) |
| Outstanding at beginning of year | 255,135 | 5.64 | 291,842 | 5.21 |
| Granted during the year | 17,960 | 6.26 | 13,820 | 8.03 |
| Forfeited during the year | (8,458) | 5.93 | (22,237) | 5.31 |
| Exercised during the year | (18,979) | 3.70 | (28,290) | 2.59 |
| Outstanding at the end of the year | 245,658 | 5.83 | 255,135 | 5.64 |

The weighted average share price for options exercised during the year was £6.86 (2018: £8.45).

Financial Statements

Notes forming part of the Group Accounts

22. Share-based payment (*continued*)

Details of the options outstanding at 31 March 2019 are shown below. 14,000 (2018: 11,000) of these options were exercisable at the year end.

| | 2019 | | 2018 | |
|--|--------------------|----------------|-------------|---------|
| | CSOP | SAYE | CSOP | SAYE |
| Range of exercise prices | £1.65-£8.03 | £5.65 | £1.65-£8.03 | £5.65 |
| Number of shares | 84,401 | 161,257 | 89,261 | 165,874 |
| Weighted average expected remaining life (years) | 3.0 | 0.4 | 3.0 | 1.4 |

The Black-Scholes option model is used to calculate the fair value of the options and the amount to be expensed. No performance conditions apply to any of the share option schemes.

The inputs into the Black-Scholes model, expressed as weighted averages for options granted during the year are as follows:

| | 2019 | | 2018 | |
|---------------------------|----------------|------|---------|------|
| | CSOP | SAYE | CSOP | SAYE |
| Share price at grant date | £6.26 | - | £8.03 | - |
| Option exercise price | £6.26 | - | £8.03 | - |
| Expected volatility | 23.0% | - | 20.5% | - |
| Option life | 5 years | - | 5 years | - |
| Risk free interest rate | 1.2% | - | 1.3% | - |
| Fair value | £1.44 | - | £1.68 | - |

Expected volatility was determined by calculating the historical volatility of the group's share price over the previous 3 years. The option life is based on options being exercised in accordance with usual patterns. Options are forfeited if the employee leaves the group before options vest. For the CSOP scheme, the options can be exercised up to 5 years after the vesting date, and with the SAYE scheme, this period is 6 months. The risk free interest rate is based on 10 year UK Government Bonds. For the nil price share options, dividends will be reinvested into additional shares in the plan.

The group recognised total expenses of £94,000 (2018: £95,000) related to equity settled share-based payment transactions in the year.

Share Incentive Plan

The Company also runs an approved Share Incentive Plan in which eligible employees can buy Partnership Shares at mid-market price on the date of the grant. The shares are held in the employee benefits trust for a 5-year period. The number of shares held in trust of this plan at 31 March 2019 was 163,299 (2018: 161,845).

Financial Statements

Notes forming part of the Group Accounts

23. Fixed asset investments – Company

| | Subsidiary undertakings £'000 |
|-----------------------------------|----------------------------------|
| Shares: | |
| At 1 April 2017 and 31 March 2019 | 9,613 |

Details of subsidiary companies are given below:

| Name | Country of incorporation | Class of shares | Percentage of ownership | Principal activity |
|---|--------------------------|-----------------|-------------------------|---|
| Lathams Limited | England and Wales | £1 Ordinary | 100% | Importing and distribution of timber and panel products |
| Abbey Wood Agencies Limited * | Republic of Ireland | €1.27 Ordinary | 100% | Importing and distribution of timber and panel products |
| Abbey Lumber Limited * | Northern Ireland | £1 Ordinary | 100% | Importing and distribution of timber and panel products |
| James Latham Trustee Limited | England and Wales | £1 Ordinary | 100% | Corporate Trustee Company |
| LDT Westerham Limited | England and Wales | £1 Ordinary | 100% | Dormant |
| Bäusen Limited | England and Wales | £1 Ordinary | 100% | Dormant |
| James Latham (Midland and Western) Limited* | England and Wales | £1 Ordinary | 100% | Dormant |
| Advanced Technical Panels Limited* | England and Wales | £1 Ordinary | 100% | Dormant |
| Latham Timber Centres (Bridgwater) Limited | England and Wales | £1 Ordinary | 100% | Dormant |
| James Latham (Warehousing) Limited | England and Wales | £1 Ordinary | 100% | Dormant |

* Indirectly held.

All companies operate within the United Kingdom and the Republic of Ireland. The registered office of these companies is at Unit 3, Swallow Park, Finway Road, Hemel Hempstead, Hertfordshire, HP2 7QU, except for Abbey Wood Agencies Limited, whose registered office is at Unit 143, Grange Drive, Baldyole Industrial Estate, Baldyole, Dublin, D13 W9V2, and Abbey Lumber Limited whose registered office is at Forsyth House, Cromac Square, Belfast, BT2 8LA.

24. Own shares

| | Ordinary shares £'000 | Preference shares £'000 | Total £'000 |
|-----------------------------|--------------------------|----------------------------|----------------|
| At 1 April 2017 | | | |
| Cost | 291 | - | 291 |
| Transfer of treasury shares | 414 | - | 414 |
| Transfer to employees | (176) | - | (176) |
| At 31 March 2018 | 529 | - | 529 |
| Transfer of treasury shares | 82 | - | 82 |
| Purchase of treasury shares | - | 478 | 478 |
| Transfer to employees | (166) | - | (166) |
| At 31 March 2019 | 445 | 478 | 923 |

The investment in own shares represents 10,693 25p Ordinary shares (2018: 31,993 25p Ordinary shares) held on behalf of the James Latham plc Employee Benefits Trust, a discretionary trust. This represents 0.05% (2018: 0.16%) of the issued share capital. The maximum number of shares held during the year was 31,993 (0.16%). Dividends have been waived and all income and expenditure of the trust has been dealt with through the group's income statement. None of these shares have been allocated to employees.

At 31 March 2019 459,200 (2018: 469,200) 25p Ordinary shares were held by the company as Treasury Shares. These shares are held with a view to being used for employee share schemes. During the year 10,000 shares were issued to the James Latham Employee Benefits Trust.

Financial Statements

Notes forming part of the Group Accounts

25. Cash generated from operations

| | Group | | Company | |
|---|----------------------|---------------|----------------------|---------------|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Profit before tax | 15,335 | 15,216 | (2,195) | (1,053) |
| Adjustment for finance income and expense | 185 | 451 | (5) | 2 |
| Depreciation and amortisation | 2,036 | 1,941 | 4 | 5 |
| Profit on disposal of property, plant and equipment | (1,079) | (1,444) | - | - |
| Increase in inventories | (2,282) | (4,560) | - | - |
| (Increase)/decrease in receivables | (1,105) | (1,432) | (2,802) | 30 |
| (Decrease)/increase in payables | (1,825) | 1,526 | (347) | 582 |
| Retirement benefits non cash amounts | (1,213) | (703) | - | - |
| Translation non cash amounts | (31) | - | - | - |
| Share-based payments non cash amounts | 94 | 95 | 94 | 95 |
| Own shares non cash amounts | 152 | 161 | 152 | 161 |
| Cash generated from operations | 10,267 | 11,251 | (5,099) | (178) |

Analysis of net debt

| | As at 1 April 2018 £'000 | Cashflow £'000 | Non cash movement £'000 | As at 31 March 2019 £'000 |
|---------------------------|-----------------------------------|-------------------|-------------------------------|--|
| Cash and cash equivalents | 13,989 | 1,552 | - | 15,541 |

26. Leasing commitments

Future aggregate minimum payments under various operating lease contracts for vehicles, plant and property payable by the group are as follows:

| | Group | | Company | |
|--|----------------------|---------------|----------------------|---------------|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Vehicles and Plant | | | | |
| No later than one year | 654 | 504 | 17 | 12 |
| Later than one year but no later than five years | 523 | 607 | 23 | 20 |
| | 1,177 | 1,111 | 40 | 32 |
| Property: | | | | |
| No later than one year | 796 | 595 | 243 | 221 |
| Later than one year but no later than five years | 2,945 | 2,349 | 974 | 884 |
| Later than five years | 243 | 456 | 243 | 405 |
| | 3,984 | 3,400 | 1,460 | 1,510 |

27. Related party transactions

27.1 Group

The group has a related party relationship with its subsidiaries and with its directors. Transactions between group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The remuneration of the key management of the group, who are the company's directors, is set out below.

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Salaries and other short-term employee benefits | 1,109 | 1,103 |
| Social security costs | 146 | 139 |
| Pension costs | 132 | 127 |
| Share-based payments | 9 | 9 |
| | <hr/> 1,396 | <hr/> 1,378 |

There are 4 (2018: 5) directors to whom retirement benefits are accruing under defined benefit schemes, and 4 (2018: 5) directors that exercised share options during the year.

Emoluments for the highest paid director totalled £228,000 (2018: £221,000). The highest paid director also exercised 1,262 CSOP share options during the year at a gain of £3,000. The highest paid director had an accrued defined benefit pension of £59,000 (2018: £54,000) at the balance sheet date.

The remuneration of the key management of the group, who are the company's directors is set out below and shown in the Directors' Remuneration Report on pages 26 to 29.

The company undertakes the following transaction with the active subsidiary companies:

- Paying interest totalling £6,000 (2018: £nil).
- Receiving an annual management charge to cover services provided of £2,121,000 (2018: £2,056,000).
- Corporation tax for the Parent and Subsidiary and paid through the parent company and recharged to the subsidiary. The timing of the repayment will affect the balances outstanding.

Details of balances outstanding with subsidiary companies are shown in Notes 15 and 16.

Other than the payment of remuneration, there have been no related party transactions with the directors.

28. Capital commitments

At 31 March 2019, there were capital commitments contracted for but not provided in the accounts of £1,266,000 (2018: £171,000).

Financial Statements

Notes forming part of the Group Accounts

29. Financial instruments

The group and company's activities expose the group to a number of risks including market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. These risks are managed through an effective risk management programme. Further details are set out in the Financial Review on pages 18 to 21.

Maturity analysis

The table below analyses the financial liabilities on a contractual gross undiscounted cash flow basis into maturity groupings based on period outstanding at the balance sheet date up to the contractual maturity date.

| GROUP | Less than | Between | Between | More than | Total |
|---|-------------------|---------------------------------|---------------------------|------------------|---------------|
| | 6 months £'000 | 6 months and 1 year £'000 | 1 and 5 years £'000 | 5 years £'000 | |
| 2019 | | | | | |
| Trade payables | 18,808 | - | - | - | 18,808 |
| Accruals | 1,830 | 175 | 180 | - | 2,185 |
| Other payables | 1,512 | - | - | - | 1,512 |
| Cumulative preference shares of £1 each | - | - | - | 597 | 597 |
| Total | 22,150 | 175 | 180 | 597 | 23,102 |
| 2018 | | | | | |
| Trade payables | 20,120 | - | - | - | 20,120 |
| Accruals | 1,719 | - | - | - | 1,719 |
| Other payables | 1,469 | - | - | - | 1,469 |
| Cumulative preference shares of £1 each | - | - | - | 987 | 987 |
| Total | 23,308 | - | - | 987 | 24,295 |
| COMPANY | | | | | |
| COMPANY | Less than | Between | Between | More than | Total |
| | 6 months £'000 | 6 months and 1 year £'000 | 1 and 5 years £'000 | 5 years £'000 | |
| 2019 | | | | | |
| Trade payables | 41 | - | - | - | 41 |
| Accruals | 133 | - | - | - | 133 |
| Other payables | 270 | - | - | - | 270 |
| Cumulative preference shares of £1 each | - | - | - | 597 | 597 |
| Total | 444 | - | - | 597 | 1,041 |
| 2018 | | | | | |
| Trade payables | 78 | - | - | - | 78 |
| Accruals | 53 | - | - | - | 53 |
| Amounts owed to subsidiaries | 392 | - | - | - | 392 |
| Other payables | 276 | - | - | - | 276 |
| Cumulative preference shares of £1 each | - | - | - | 987 | 987 |
| Total | 799 | - | - | 987 | 1,786 |

29. Financial instruments (continued)

Foreign currency risk

Approximately 41% of the group's purchases are denominated in foreign currencies, principally the US dollar and the Euro. Forward contracts are used where we have agreed exchange rates with our customers and we also use other currency derivatives to help manage our short term exposure on a weakening sterling from time to time. However, no more than 25 percent of the currency requirements will be covered by forward contracts or other currency derivatives.

Whilst purchases in foreign currencies are a significant figure, fluctuations in currency exchange rates do not have a major impact on the results. As the group trades mainly in the UK, the market price of our products tends to fluctuate in line with spot prices.

Included in group cash and cash equivalents at 31 March 2019 was £195,000 in US Dollars (2018 £201,000), £525,000 in Euros (2018: £78,000) and £56,000 in Canadian dollars (2018: £nil), at variable interest rates.

Based on the balance sheet value of cash and cash equivalents, as shown above, a 10% change in the currency exchange rate would lead to an increase or decrease in income and equity of £78,000 (2018: £28,000).

There is no foreign currency held in the company accounts.

Interest rate risk

The interest rate exposure arises mainly from its interest bearing deposits. Deposits held at floating rates expose the entity to cash flow risk whilst deposits held at fixed rate expose the entity to fair value risk.

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

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Fixed rate instruments | | | | |
| Cumulative preference shares of £1 each | (597) | (987) | (597) | (987) |
| Variable rate instruments | | | | |
| Cash and cash equivalents | 15,541 | 13,989 | 94 | 5,531 |
| Bank overdraft | - | - | 1,120 | - |

Interest rate risk is limited to the cash and cash equivalents, bank overdraft and bank loans.

Based on the balance sheet value of cash and cash equivalents, bank overdraft and bank loans, as shown above, a 1% change in interest base rates would lead to an increase or decrease in income and equity of £155,000 (2018: £140,000) in the group and £10,000 (2018: £55,000) in the company.

Financial Statements

Notes forming part of the Group Accounts

29. Financial instruments (*continued*)

Credit risk exposure

Credit risk arises on our financial asset investments, trade receivables and cash and cash equivalents. Credit exposure is managed on a group basis and appropriate credit limits are set for each customer taking into account credit reports received from outside agencies, and previous credit history. Credit insurance is taken out to cover approved individual debtors with balances over £40,000. Where limits are required above £40,000 that cannot be backed by insurance, a sub-committee of the board will review reports on the customer, and agree additional limits if appropriate. Bad debts are 0.23% of sales this year, compared with our target of 0.4%. The carrying amount of financial assets recorded in the accounts, which is net of impairment losses, represents the maximum exposure to credit risk. The maximum exposure to credit risk at the reporting date was:

| Financial assets measured at amortised cost | Group | | Company | |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Trade receivables | 39,592 | 38,718 | 54 | 7 |
| Other receivables | 1,011 | 994 | 10 | 18 |
| Amounts owed by subsidiaries | - | - | 3,189 | - |
| Cash and cash equivalents | 15,541 | 13,989 | 94 | 5,531 |
| Total | 56,144 | 53,701 | 3,347 | 5,556 |

Liquidity risk

The group closely monitors its cash position to ensure that it has sufficient funds to meet the obligations of the group as they fall due. Short term bank deposits are executed only with organisations with a long term rating of at least A- from the major rating agencies.

The following table shows the financial liabilities measured at amortised cost:

| | Group | | Company | |
|------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2019 £'000 | 2018 £'000 | 2019 £'000 | 2018 £'000 |
| Trade payables | 18,808 | 20,120 | 41 | 78 |
| Other payables | 1,512 | 1,469 | 270 | 276 |
| Amounts owed by subsidiaries | - | - | - | 392 |
| Accruals | 2,185 | 1,719 | 133 | 53 |
| Bank overdraft | - | - | 1,120 | - |
| Total | 22,505 | 23,308 | 1,564 | 799 |

Capital management

The group manages its capital risk by ensuring that its capital, which represents share capital, retained earnings, investments in own shares and cash, is sufficient to support the ongoing needs of the business, and is organised to try and minimise the cost of capital over the medium term. The group's current strategy is to maintain sufficient cash balances to satisfy ongoing needs.

Finance income

An analysis of finance income is set out in note 5 to the consolidated accounts.

Finance costs

An analysis of finance costs is set out in note 6 to the consolidated accounts.

Financial Statements

Notes forming part of the Group Accounts

30. Business Combinations

On 1 February 2019 the Group acquired 100% of the issued share capital of Abbey Wood Agencies Limited, a company incorporated in the Republic of Ireland whose principle activity is the importing and distribution of timber. The acquisition will provide the company with a base in Ireland and enable us to supply additional products to their existing customer base.

| | 2019 £'000 |
|------------------------------------|---------------|
| The fair values are as follows: | |
| Intangible assets – customer lists | 2,016 |
| Inventories | 1,054 |
| Trade and other receivables | 1,715 |
| Cash | 321 |
| Trade and other payables | (2,788) |
| Deferred tax liability | (343) |
| Net assets acquired | 1,975 |
| Goodwill | 286 |
| Consideration | <u>2,261</u> |

The consideration of £2,261,000 (€2,571,000) was satisfied by cash payments of €1,825,000 during the year with a further €346,000 to be paid in April 2019, €200,000 to be paid in February 2020 and €200,000 in February 2021. The two payments of €200,000 are dependant upon turnover targets that are expected to be achieved.

Deferred tax at 17% has been provided on the value of intangible assets. Acquisition costs of £47,000 were incurred and have been charged to the income statement.

Since the acquisition date, Abbey Wood Agencies Limited has contributed £1,073,000 to group revenues and £20,000 to group profit. If the acquisition had occurred on 1 April 2018, group revenue would have been £241,514,000 and group profit would have been £12,602,000.

Notice of Annual General Meeting

Notice is hereby given that the one hundred and twentieth Annual General Meeting of the Company will be held at Unit 1 Swallow Park, Finway Road, Hemel Hempstead, Herts, HP2 7QU on Wednesday 21 August 2019 at 12.30pm. Resolutions 1 to 7 inclusive will be proposed as ordinary resolutions, and resolutions 8 to 10 will be proposed as special resolutions.

Ordinary business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 March 2019 together with the Independent Auditor's report thereon.
2. To declare the final dividend recommended by the directors on the ordinary shares of the Company.
3. To re-elect Fabian French as a director, who retires by rotation.
4. To re-elect Paula Kerrigan as a director, who retires by rotation.
5. To re-elect Nick Latham as a director, who retires by rotation.
6. To re-appoint RSM UK Audit LLP, Chartered Accountants, as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company, at a remuneration to be determined by the directors.

Special business

7. Directors authority to allot shares: To consider, and if thought fit, pass the following resolution: "THAT in substitution for all existing authorities, to the extent unused, the directors be and they are generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot equity securities up to an aggregate nominal amount of £1,680,000 provided that this authority shall expire at the earlier of the conclusion of the Company's next Annual General Meeting or 15 months from the date of the passing of this resolution and that the Company may before such expiry make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements notwithstanding that the authority conferred has expired. The expression 'equity securities' and 'allotment' shall bear the same meanings respectively given to the same in section 560 Companies Act 2006."

8. Disapplication of pre-emption rights: To consider, and if thought fit, pass the following resolution: "THAT subject to the passing of the previous Resolution 7, pursuant to section 571 of the Companies Act 2006, section 561 of the Companies Act 2006 shall not apply to any allotment or agreement to allot equity securities pursuant to the authority conferred by Resolution 7:

- (a) this power shall be limited to:
 - (i) the allotment of equity securities in connection with or subject to an offer or invitation, open for acceptance for a period fixed by the Directors, to the holders of Ordinary Shares on the register on a fixed record date in proportion (as nearly as maybe) to their respective holdings or in accordance with the rights attached thereto (including equity securities which, in connection with such offer or invitation, are the subject of such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with the fractional entitlements which would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory or otherwise how so ever); and
 - (ii) other than pursuant to paragraph (a) (i) of this Resolution, the allotments of equity securities for cash up to an aggregate nominal amount of £252,000; and
- (b) this power shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 15 months from the date after passing of this Resolution except that the Directors may allot equity securities under this power after that date to satisfy an offer or agreement made before this power expired."

Notice of Annual General Meeting

9. Authority of the Company to purchase its own shares:
To consider and, if thought fit, pass the following resolution: "THAT the Company be and is generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693 (4) of the Companies Act 2006) of its Ordinary Shares of 25p each provided that:
 - (a) the maximum aggregate number of Ordinary Shares which may be purchased is 2,016,000 (representing 10% of the issued share capital of the Company);
 - (b) the price at which Ordinary Shares may be purchased shall not be more than 105% of the average of the closing middle market price for the Ordinary Shares as derived from the AIM section of the London Stock Exchange Daily Official List for the five business days preceding the date of purchase and shall not be less than 25p per Ordinary Share (in both cases exclusive of expenses); and
 - (c) this power shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 15 months from the date of the passing of this resolution."
10. To cancel 391,115 £1 8% Preference Shares which are currently held by the Company as Treasury Shares.

By Order of the Board
D.A. Dunmow
Company Secretary

Registered Office: Unit 3, Swallow Park, Finway Road,
Hemel Hempstead, Hertfordshire HP2 7QU

26 June 2019

Notes:

The Report and Accounts are sent to all members of the Company.

Holders of preference shares are not entitled to be present, either personally or by proxy, or to vote at any general meeting so long as the dividends on such preference shares are regularly paid or unless a resolution is to be proposed for winding up the Company, reducing its capital or selling its undertaking or adversely affecting the rights of the holders of preference shares.

A member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend, speak and vote on his/her behalf. A proxy need not be a member of the Company.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

A proxy form is enclosed. To be valid, it must be lodged with the Company's Registrars at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY, not later than 48 hours before the fixed time for the Meeting.

Copies of directors' contracts of service, the register of interests of directors, the Company's memorandum of association and the articles of association will be available for inspection at the Registered Office during normal business hours from the date of the above notice until the close of the meeting.

In accordance with Regulation 41 of the Uncertified Securities Regulations 2001, only those members eligible to vote and entered on the Company's register of members as at 12.30pm on Monday 19th August 2019 are entitled to attend and vote at the meeting; or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the adjourned meeting.

At 25th June 2019, the Company's issued share capital consisted of 20,160,000 shares of which 459,200 shares are held in Treasury. Each share not held in Treasury carries one vote. The total number of voting rights are therefore 19,700,800.

Notice of Annual General Meeting

Share dealing service for shareholders

We continue to operate a telephone share dealing service with our registrar, Computershare Investor Services PLC, which provides shareholders with a simple way of buying or selling James Latham plc ordinary shares on the London Stock Exchange. The commission is 1% plus £50. There are no forms to complete and the share price at which you deal will generally be confirmed to you whilst you are still on the telephone. The service is available from 8am to 4.30pm Monday to Friday excluding bank holidays on telephone number 0370 703 0084. Please ensure you have your Shareholder Reference Number (SRN) ready when making the call. The SRN appears on your share certificate. In addition an internet share dealing service is available by logging into your account on www-uk.computershare.com/investor. The fee for this service will be 1% of the value of each sale or purchase of shares, subject to a minimum of £30. There are no additional charges for limit orders (available for sales only). No stamp duty is currently payable on share transfers.

Detailed terms and conditions are available on request, please phone 0370 707 1093.

This is not a recommendation to buy, sell or hold shares in James Latham plc. If you are unsure of what action to take contact a financial adviser authorised under the Financial Conduct and Markets Act 2000. Please note that share values may go down as well as up, which may result in you receiving less than you originally invested.

In so far as this statement constitutes a financial promotion for the share dealing service provided by Computershare Investor Services it has been approved by Computershare Investor Services PLC for the purpose of Section 21(2) (b) of the Financial Conduct and Markets Act 2000 only. Computershare Investor Services PLC is regulated by the Financial Conduct Authority.

Where this has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as information only.

James Latham Distribution Sites

1 **James Latham Dudley** ●●
Unit 3, Yorks Park, Blowers Green Road,
Dudley, West Midlands DY2 8UL
Tel: 01384 234444
Fax: 01384 233121
Email: panels.dudley@lathams.co.uk
Email: timber.dudley@lathams.co.uk

2 **James Latham Fareham** ●●
Unit 6, Matrix Park, Talbot Road,
Fareham, Hampshire PO15 5AP
Tel: 01329 854800
Fax: 01329 849585
Email: panels.fareham@lathams.co.uk
Email: timber.fareham@lathams.co.uk

3 **James Latham Gateshead** ●●
Nest Road, Felling Industrial Estate
Gateshead, Tyne & Wear NE10 0LU
Tel: 0191 469 4211
Fax: 0191 469 2615
Email: panels.gateshead@lathams.co.uk
Email: timber.gateshead@lathams.co.uk

4 **James Latham Leeds** ●●
Topcliffe Close, Off Topcliffe Lane,
Capitol Park East, Tingley, Leeds,
West Yorkshire WF3 1DR
Tel: 0113 387 0830
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Email: panels.leeds@lathams.co.uk
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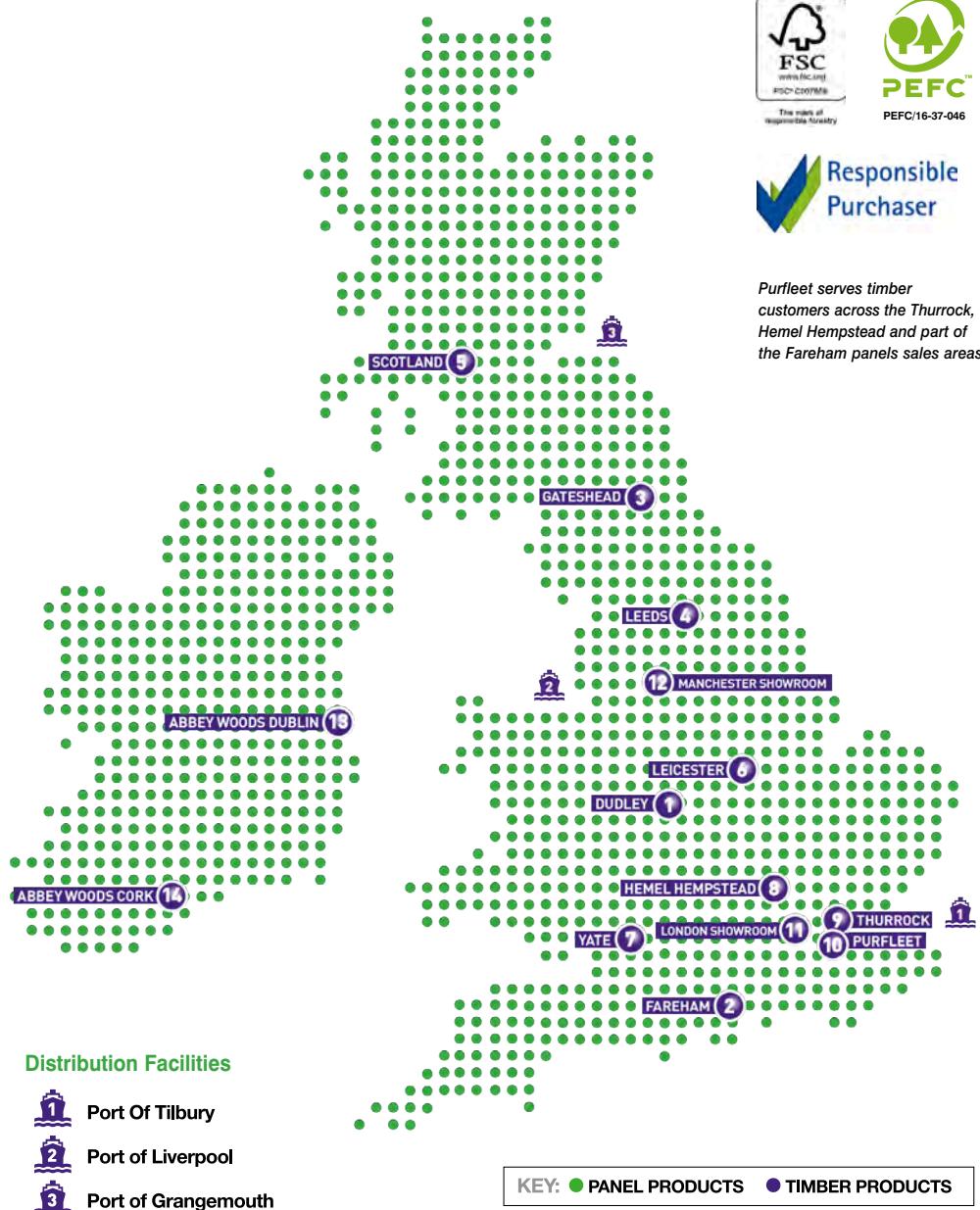
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