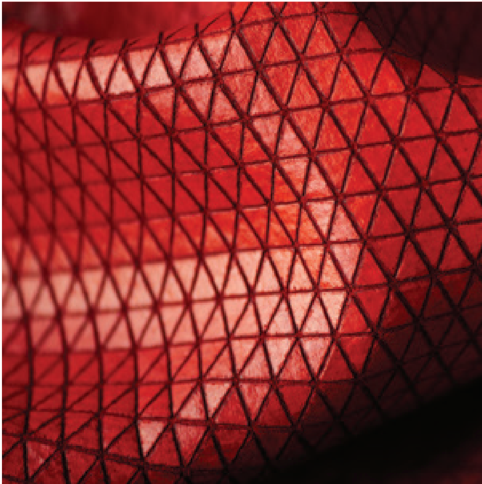
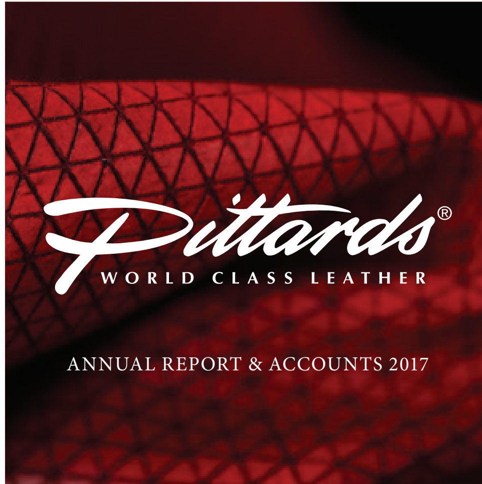
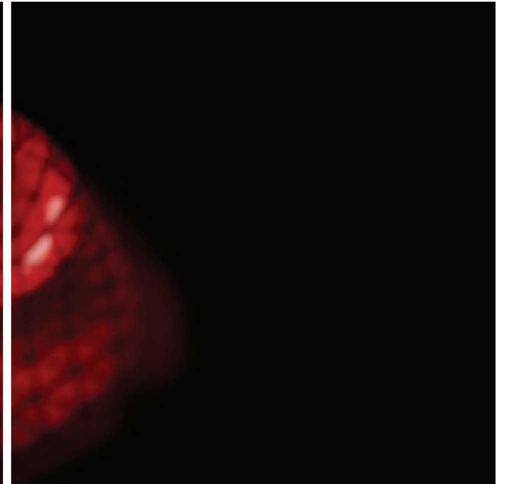


Pittards®
WORLD CLASS LEATHER
ANNUAL REPORT & ACCOUNTS 2017


PITTARDS IS A GLOBAL BRAND SUPPLYING PREMIUM LEATHER AND LEATHER PRODUCTS, WORKING WITH LEADING INTERNATIONAL BRANDS, RETAILERS AND MANUFACTURERS.

Results in brief

	2017 £'m	2016 £'m
Revenue	**30.3**	27.0
Gross profit before exceptional stock provision	**7.1**	6.5
Gross profit margin before exceptional stock provision	**23%**	24%
Profit before exceptional costs and tax	**0.4**	0.2
Exceptional costs	**–**	4.3
Profit/(loss) before taxation	**0.4**	(4.1)
EBITDA	**1.6**	(3.0)
Net assets	**19.8**	21.3
Inventory	**15.3**	17.4
Net debt	**8.0**	10.1
Gearing	**40%**	48%
Basic earnings/(loss) per share	**3.58p**	(29.89p)
Net assets per share	**142.30p**	153.38p

Strategic and operational highlights

- **Review of strategy completed**
- **Pipeline of new business has reached the bulk sampling stage.**

02 Chairman's statement
06 Directors and officers
06 Advisers
07 Strategic report
09 Directors' report
11 Statement of directors' responsibilities in respect of the financial statements
12 Independent auditor's report
17 Consolidated income statement and consolidated statement of comprehensive income
18 Consolidated statement of changes in equity
19 Company statement of changes in equity
20 Balance sheets
21 Statements of cash flows
22 Notes to the consolidated accounts
48 Five year review
48 Financial calendar
49 Notice of Annual General Meeting

Company Number 102384

Chairman's statement

for the year ended 31 December 2017

The Group's financial performance improved in 2017 with an increase in underlying profit before tax, a reduction in the net debt position and a heightened focus on reducing stock levels that is starting to gain traction. In parallel to this, we completed the reshaping of our operations into the two divisions "UK" and "Ethiopia" with respective reporting and management structures and clarified our strategic priorities for the medium term.

Our optimism for the future is supported by a pipeline of new business that has reached the bulk sampling stage with new customers within both our existing and target markets.

Highlights – Year ended 31 December 2017:

- Revenue £30.3m (2016: £27.0m)
- Profit before tax £0.4m (2016: underlying profit before tax £0.2m, loss before tax of £4.1m after exceptional stock write down of £4.3m)
- Gearing improved to 40% (2016: 48%), reduction in net debt and increased bank facilities
- Review of strategy completed
- Pipeline of new business has reached the bulk sampling stage.

Strategic update

We have identified which markets present the best opportunities for a balanced, market-led, client and product focused portfolio, that will capitalise upon our production capabilities and expertise, and will drive growth.

The foundations of our business remain the footwear and performance glove markets. The global glove market, worth circa $250m (source: 9Dimen/Industry), is seeing a shift towards casual and active leather gloves which presents us with further opportunities. The strength of our existing customer relationships and expertise give us a competitive advantage.

We are also targeting new customers within our existing markets. Footwear presents the biggest growth opportunity; lifestyle trends are driving the growth of the Athleisure and Outdoor categories in a combined market segment worth around $60 billion (source: SGI 2015 Wholesale). Our established UK footwear leather manufacturing capability and expertise is well placed to meet the needs of leading brands in this sector who are prioritising differentiation and innovation. In addition, global companies are increasingly looking to Ethiopia as a manufacturing location creating a further opportunity for Pittards Ethiopia.

In order to build a balanced portfolio we are also working to develop new customers in new markets. The interiors sector, which has a global market value of around $39 billion (source: Transparency Market Research 2016) is a target market for Pittards. Interiors has increased its share of total leather usage from 7% in 1990 to 27% in 2015 (source: UKLF). Pittards is well placed with its performance leathers to meet the needs of this market place.

Financial review

The Group's financial performance improved year-on-year as we implemented better disciplines, policies and procedures across the business while investing to support our growth plans.

Revenue increased 12% to £30.3m with increased volumes in our existing markets in both the UK and Ethiopia. Profit before tax for the year improved to £0.4m as a result of higher turnover and operational efficiencies. Alongside this we have strengthened our senior management team and invested in modernising our drying process.

The net assets reduction to £19.8m largely reflects movements in foreign exchange, notably the Ethiopian Birr devaluation, which the Board consider will improve the competitiveness of our Ethiopian business.

Stock reduction remains a key priority. Stock levels reduced in the year to £15.3m (2016: £17.4m) primarily due to movements in foreign exchange. In addition, the initiatives and incentives now in place are beginning to reduce slow moving stock across the Group and we anticipate making further progress in 2018.

One of our key financial measures is the Return on Capital Employed. This has increased in 2017 to 4.1% and our near term objective is to deliver returns above our estimated Weighted Average Cost of Capital of approximately 7%.

We have adequate funding to support our growth objectives; total net debt decreased to £8.0m (2016: £10.1m) and we have negotiated both an increase and improvement in our facilities from £12.2m to £13.7m.

Dividends

The Board has decided not to pay a dividend with respect to the year ended 31 December 2017; however, it is the Board's intention to return to the dividend paying list as soon as it deems it appropriate.

Board changes

As previously announced, Jill Williams stood down as non-executive director on 31 December 2017. Jill had been a director of the company for 10 years and the Board would like to thank Jill for her contribution to the Group. There were no further changes to the Board during the year which is positioned to support the management team and drive the strategy to take Pittards into its next stage of growth.

Team

I would like to thank all of our employees for their continued hard work and understanding throughout this period of notable change. They have contributed significantly to making 2017 a year of great progress.

Outlook

The Group has entered 2018 with a new divisional structure in place, enhanced financial disciplines, reduced net debt and the resources to support our growth ambitions. We are well placed to leverage promising opportunities from existing and new customers that will accelerate our performance and increase shareholder value.

Stephen Yapp
Chairman
26 March 2018

At a glance

Profit before exceptional costs and tax

£0.4 million

(2016: £0.2 million)

EBITDA

£1.6 million

(2016: £(3.0) million)

Profit before tax

£0.4 million

(2016 LBT: £(4.1) million)

Net debt

£8.0 million

(2016: £10.1 million)

Net assets

£19.8 million

(2016: £21.3 million)

Revenue outside the UK

91%

(2016: 92%)

Gearing

40%

(2016: 48%)

Inventory days of sale

241 days

(2016: 308 days)

PERFECT BALANCE OF COMFORT AND GRIP.

Slazenger Elite Cricket Glove

Slazenger incorporates Pittards WR100X Digital leather into its Elite cricket batting glove. It delivers a combination of perspiration resistance to ensure the palm stays soft and enhances grip for a positive, responsive feel in play.

TRANSFERRING MANUFACTURING SKILLS.

Soul of Africa Ababa Shoe

Building on the cutting and sewing skills developed in the manufacture of gloves, Pittards has progressed a hand sewn footwear operation from start-up to volume production for the Soul of Africa footwear brand in just nine months.

STREET STYLE MEETS SPORT PERFORMANCE.

New Balance 770 Shoe

The New Balance 770 shoe is the epitome of modern casual style. Highly water resistant Pittards WR100X leather ensures it stays comfortable, keeps its good looks and is easy-care.

LIGHTWEIGHT AND DURABLE WALKING COMFORT.

Stadler Innsbruck Shoe

Pittards Keratan leather gives a high level of abrasion resistance at a light weight, yet thanks to the distinctive finish, remains flexible. Heritage hiking brand Stadler uniquely features Keratan in its Innsbruck shoe, which also benefits from our WR100X technology that delivers water resistance and long lasting comfort.

NUMBER ONE IN GOLF.

FootJoy Helix DNA Golf Shoe

Pittards has worked in partnership with leading golf brand FootJoy for over 30 years in the innovation of leathers for gloves and footwear. The athletically styled Helix DNA shoe delivers guaranteed waterproof comfort through a combination of Pittards WR100X lining and outer leathers.

HARD WORKING OUTDOOR ATHLETES NEED HARD WORKING LEATHER.

Outdoor Research Mixalot Glove

The cross-functional Mixalot glove from Outdoor Research features Pittards Gripster leather, which has been engineered to retain grip even when wet. Whether it's a high energy activity or adverse conditions, Pittards technology ensures the glove keeps performing.

Directors and officers

S Yapp FCMA MBA, Chairman, non-executive [B C]
Stephen Yapp (60) joined the Group in June 2015 and was appointed as Chairman in May 2016. He is a director of Downing Strategic Micro-Cap Investment Trust Plc, as well as a number of private companies, having held similar roles in other listed companies over recent years.

G P Davis FCA, non-executive [A B]
Godfrey Davis (69) joined the Group in February 2014. He is non-executive Chairman of Mulberry Group plc. He also holds several other directorships, including Hestercombe Gardens Ltd and King's Schools (Taunton) Ltd.

L M Cretton BA Hons, non-executive [A B]
Louise Cretton (61) rejoined the Group in August 2015 having served for twelve years until 2013 and was subsequently appointed as Audit Committee Chair. She is a director of Market Evaluer LLC and serves as a non-executive director of Croydon Health Services, where she chairs the Finance and Performance Committee.

R H Hankey BSc, FSLTC, LCGI, FCMI, CDipAF [C]
Reginald Hankey (62) was appointed to the Board in January 1998 having joined the Group as Technical Director of the Yeovil Division in 1990. He was appointed Chief Executive on 19 July 2007. He is a director of UK Leather Federation (formerly BLC Research).

M O'Rourke ACMA, Secretary
Matthew O'Rourke (48) joined the Group as Chief Financial Officer and Company Secretary in June 2016.

J Williams LLB Hons, ACA, non-executive [A]
Jill Williams (60) joined the Group as Finance and Planning Manager in 1989. She became Company Secretary in 1991, and Finance Director in June 2007. She stepped down from these roles in 2016 and served as a non-executive director throughout 2017. She resigned as a director effective from 31 December 2017.

A Member of the audit committee
B Member of the remuneration committee
C Member of nominations committee

Registered Office Sherborne Road, Yeovil, Somerset BA21 5BA
Company Number 102384

Advisers

Broker WH Ireland, 4 Colston Avenue, Bristol BS1 4ST

Nominated Adviser WH Ireland, 4 Colston Avenue, Bristol BS1 4ST

Independent Auditors PricewaterhouseCoopers LLP, Chartered Accountants & Statutory Auditors, 2 Glass Wharf, Bristol BS2 0FR

Bankers Lloyds Bank plc, Canons House, Canons Way, Bristol BS99 7LB

Registrars Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Strategic report
for the year ended 31 December 2017

Principal activities

The principal activities of the Group are the design, procurement and production of technically advanced leather for manufacturers and distributors of shoes, gloves, luxury leathergoods, interiors, sports equipment and the retail of leather and leathergoods. The principal activities of its subsidiaries are the production of leather, leathergoods, gloves and shoes.

Business review

Financial results
Overall, the Group's financial performance has improved in 2017 as we have started to see a reflation of volumes in our core markets. The Board remain committed to pursuing a growth strategy across both our core business and new target markets and remains focused on reducing our debt position and stock levels.

Revenue increased 12% to £30.3m, with increased volumes in our existing footwear leather market in the UK and glove manufacturing business in Ethiopia. In addition, we now manufacture shoes in Ethiopia. Ethiopian revenues were also helped in the last quarter of 2017 by the devaluation of the Ethiopian Birr. Performance remains highly sensitive to small changes in volume, demonstrating the importance of strong relationships with our existing customers and the need to acquire new customers in our target markets. This will be delivered through our key strengths of heritage, integrity, quality and innovation.

Gross margin at 23% remains broadly unchanged, with the impact of sales mix and raw material price increases in the UK, being offset by movements in exchange rates during the year.

Operational efficiencies and volume related savings have resulted in an improved cost percentage of 20% from 21% in 2016.

Profit before tax for the year was £0.4m (2016: loss before tax of £4.1m, after an exceptional stock write-down of £4.3m). We have made some targeted investments in people to support our future growth aspirations. Administration costs also include share-based incentive schemes at a cost of £0.1m.

Year end position
Net assets have decreased from £21.3m to £19.8m, largely as a result of movements in foreign exchange, including the devaluation of the Ethiopian Birr by 15% during the latter half of 2017.

Stock has decreased in the year to £15.3m, primarily as a result of movements in foreign exchange. The initiatives and incentives we have put in place have already reduced some of our older, low end problem stock across the Group and we remain committed to continuing this in 2018 and improving our inventory days of sale.

Total net debt (including obligations, finance leases and overdrafts) decreased by £2.1m (21%) during the year, bringing our gearing ratio to 40%, which is within our target level of 50%. This reflects increased cash from operating activities and a reduction in the level of capital investment across the group as we assess our requirements in order to enhance our existing return on capital employed. We are committed to delivering a return on capital employed in excess of weighted average cost of capital over the medium term.

Our mortgage for the Yeovil site has been renewed on improved terms until December 2020. In addition, we have negotiated improved facility levels across the Group.

Business environment
The leather industry is a global business: wherever countries have meat and dairy industries, hides and skins will be produced as by-products.

The Group operates mainly in the UK, where it sources most of its hides, and in Ethiopia, where it sources the majority of its hairsheep skins. The Group exports on average around 90% of its production into most areas of the world.

Environmental matters
The Group monitors its energy and processed water usage on a regular basis and continues work on improvements to environmental performance.

Strategy
In 2017, we completed the review of our strategy which identified the key objectives in the medium term and the markets with the greatest growth potential and closest strategic fit to enable Pittards to leverage its strengths.

We remain committed to optimising and growing our existing core business of gloves and performance footwear where the fundamentals of integrity, service, innovation and reputation are the foundations of our customer relationships.

In addition, we have identified a new target market of interiors, which is within the hide sector. The hide business stock typically turns faster than skins, and therefore will result in a more balanced product portfolio, alongside a reduction in our inventory days of sale.

Principal risks and uncertainties
Risk management is an important part of the management process throughout the Group, with regular reviews of the key risks identified and the adequacy of the controls in place to mitigate the risks. The current risks considered to be key to the Group are as follows:

- ***Currency***
  The Group is subject to the current volatility in the currency markets, particularly US dollar, Euro and Ethiopian Birr. The Group manages its exposure by maintaining a natural hedge where possible for US dollar and Euro and sells any surplus US dollars when the rate is favourable. The Group is exposed to movements in the Ethiopian Birr particularly on consolidation, as the government adopts a continued devaluation policy. Whilst currency markets are expected to remain volatile for the foreseeable future, the Group will continue to review its strategy in this area.

- ***Political***
  The political environment in Ethiopia is still uncertain and we continue to monitor this situation. Ethiopia is a developing

Strategic report
(continued)

Political (continued)
country with an evolving democracy. It is important that the current period of political changes establishes a new foundation for the further economic development of the country. We continue to mitigate this risk through our ability to dual supply from the UK.

In the UK, there are uncertainties in connection with the country's future relationship with the EU. We continue to monitor this situation and the effects that Brexit could have on the business.

- ***Supply***
  The availability of quality raw materials. This is paramount to our business; the Group owns Ethiopia Tannery Share Company (which is a main supplier of Ethiopian skins) and has strong relationships with other major suppliers of skins and hides in Ethiopia, the UK and around the world.

- ***Energy***
  Continuing escalation in energy and environmental costs. The Group uses industry experts to obtain the best energy rates available and continuous improvements are sought in reducing waste of all kinds from the business.

- ***Working capital***
  The availability of working capital to finance its operations. The Group actively monitors its liquidity position to ensure it has sufficient available funds and working capital to operate and meet its planned commitments. We continue to have excellent working relationships with our banking partners in both the UK and Ethiopia and have sufficient facility levels to meet our planned requirements.

Significant financial reporting judgements
The significant areas of risk and judgement in relation to the Group's financial statements for the year ended 31 December 2017, as discussed at the Audit Committee, are as follows:

- ***Revenue recognition***
  As with most companies, there is a risk that in order to achieve the planned results, revenue may not be recognised in accordance with the Group's policy. The systems of internal control deployed within the Group are designed to mitigate this risk and the adequacy and effectiveness of these controls is regularly reviewed by management.

- ***Inventory valuation***
  Inventory remains a significant item in our balance sheet and a key area of estimation and judgement. Inventory policies are reviewed on a regular basis, with provisions made where required to ensure the inventory is held at an appropriate value.

- ***Deferred tax asset***
  The Company holds a large deferred tax asset in respect of losses incurred within the UK. The Board is confident in the future strategy of the business and the ability to utilise the deferred tax asset over the coming years.

Key performance indicators
In 2017, we enhanced our financial controls and disciplines and have begun a programme to refresh all of our Group policies. In addition, we implemented processes and reports focused more closely on our key operational measures in order to improve the financial performance and position of the business.

The following key performance indicators are considered by the Board to be the most effective for achieving its business objectives:

- ***Profit before exceptional costs and tax***
  The Group's profit before exceptional costs and tax of £0.4m is ahead of the £0.2m achieved in 2016.

- ***Delivery performance***
  Our delivery performance has improved year on year and we remain focused on further enhancements for our continued success and viability.

- ***Return on Capital Employed***
  The Group's return on capital employed is at 4.1% (2016: 2.9% (pre-exceptional costs)). This is below our weighted average cost of capital which we are addressing in our strategic and operational plans.

- ***Inventory days of sale***
  Stock turn in 2017 has improved to 241 days, from 308 days in 2016 (post the recognition of the exceptional stock provision).

- ***Gearing***
  The Group's gearing has decreased to 40% (2016: 48%), remaining below the target level of 50%.

- ***Borrowings***
  The Group monitors its bank balances against facilities on a daily basis and prepares weekly, monthly and annual cashflow forecasts to ensure that it has sufficient funds to run the business.

This report was approved by the Board on 26 March 2018 and signed on its behalf by:

M O'Rourke
Chief Financial Officer
26 March 2018

Directors' report
for the year ended 31 December 2017

The directors submit their report together with the audited consolidated financial statements of the Group and the Company for the year ended 31 December 2017.

Principal activities
The principal activities of the Group are the design, procurement and production of technically advanced leather for manufacturers and distributors of shoes, gloves, luxury leathergoods, interiors, sports equipment and the retail of leather and leathergoods. The principal activities of its subsidiaries are the production of leather, leathergoods, gloves and shoes.

Future developments
The Group will continue to look for new opportunities to develop the Pittards brand and build on its relationships across the supply chain. It will seek to maximise the benefits from owning facilities in Ethiopia and manufacturing both leather and finished leather products in a lower cost environment.

Dividends and reserves
No interim dividend was paid in respect of 2017 (2016: £nil) and the directors are not recommending the payment of a final dividend (2016: £nil). The Board continue to believe that the payment of dividends is important and therefore intends, when appropriate, to return to the dividend paying list. Whereas this is the Board's intention, payment of a dividend in any future financial year is not guaranteed and will be subject to the company having sufficient distributable reserves at such time to do so.

Going concern
After making enquiries and taking into consideration the factors described in Note 1(b) to the accounts, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Research and development
The Group recognises the importance of continuous product and process development to maintaining its reputation for innovative high performance leathers. It works closely with both customers and suppliers to develop clearly differentiated products using advanced technology. It uses trend information from designers in order to reflect current trends in more fashion orientated products, holds consumer focus groups and attends relevant trade shows to better understand its potential consumers.

Treasury policies
The Group finances its activities with a combination of bank loans, overdrafts, finance leases and hire purchase contracts, as disclosed in Note 27. Other financial assets and liabilities, such as trade receivables and trade payables, arise directly from the Group's operating activities. The Group has not traded in financial instruments during the year.

Overall, some 82% of Group revenue is in US dollars, 12% in Sterling, 3% in Ethiopian Birr and 3% in Euros. Group policy is to sell away surplus US dollars.

35% of the Group's raw material purchases are in US dollars, and this forms a natural hedge against a proportion of the US dollar sales.

The Group's principal borrowings are in pounds sterling, US dollars and Ethiopian Birr (for Ethiopia Tannery Share Company (ETSC), Pittards Product Manufacturing Share Company (PPM) and Pittards Global Sourcing Private Limited Company (PGS)) which are used to manage timing differences in cash flows arising from trading activities as set out in Note 27. The debt is a combination of variable and fixed rate.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans and finance leases, with short and medium term variable rate debt favoured. No specific policy exists with regard to liquidity.

Transactions with customers are either credit insured or under confirmed letters of credit. Where these terms are not possible goods will not be released without payment in advance of despatch, unless the Group sets an internal credit limit based on its previous experience of the customer or external credit rating agencies.

Group policies also restrict the counterparties with which funds may be invested, to those approved by the Board.

As with all companies that operate in this sector, the Group has significant exposure to changes in raw material prices for hides and skins which are a by-product of the meat and dairy industry. The Group manages its risk in this area by using industry wide information on pricing, working closely with its suppliers and committing to purchase on the basis of anticipated and actual forward sales orders. The ownership of ETSC enables this risk in respect of Ethiopian skins and hides to be managed more closely, with greater market information.

Creditor payment policy
The Group does not follow a particular code for the payment of suppliers. It is the Group's policy in respect of major suppliers to settle terms of payment when the terms of each transaction are agreed, to ensure the supplier is made aware of the terms of payment and to abide by the terms of payment. For small local suppliers the policy is to pay within 45 days of invoice and for other suppliers to pay within 60 days. Trade payables at the year end represented 42 days' purchases (2016: 48 days).

Disabled employees
Every consideration is given to the employment, training and career development of the disabled and those who have become disabled during employment, having regard to their particular aptitudes and abilities. Applications for employment by disabled persons are given full and fair consideration.

Employee consultation and involvement
The Group recognises the need for good communications with employees and places great importance on employee involvement. Matters of particular interest or importance are communicated to all employees through special briefing meetings.

Directors' report

(continued)

Substantial interests

In addition to those disclosed under directors' interests, the Company has been notified of the interests under section 793 Companies Act 2006 as at 26 March 2018 shown in the table below. No significant movements impacting the profile of the key shareholders have been noted since 31 December 2017.

Directors

The persons named on page 6 are the directors during the year and up to the date of approval of the Annual Report and Accounts. S Yapp and L Cretton retire by rotation and offer themselves for re-election. J Williams stepped down as a non-executive director on 31 December 2017.

Directors' interests

The directors at the end of the year and their interests in the shares of the Company were as shown in the table below. No changes took place in the interests of directors in the shares of the Company between 31 December 2017 and 26 March 2018.

The share options included in the table below relate to the 2015 Long Term Incentive Plan (LTIP). On 26 September 2016, an LTIP was granted to all Board directors detailed below. The vesting period is four years and is dependent upon the attainment of a minimum specific share price at the exercise date. The directors are entitled to shares based on the excess value generated at the exercise date, with the total value generated split based on the following percentages:

	% entitlement
LM Cretton	5%
GP Davis	5%
RH Hankey	40%
M O'Rourke	20%
S Yapp	30%

Jill Williams resigned from the Board during the year (effective 31 December 2017), with a shareholding of 40,093. The share options previously held under the 2015 LTIP scheme (84,465) lapsed on resignation.

Annual general meeting

An ordinary resolution (number 5) will be proposed to enable the Company to issue and allot shares up to an aggregate nominal value of £694,434.

A special resolution (number 6) will be proposed to enable the Company to make market purchases of its own shares.

A special resolution (number 7) will be proposed to give the directors authority to allot equity securities for cash to a maximum nominal amount of £694,434 without the need to first offer such securities to existing shareholders in proportion to their existing shareholdings in accordance with the Companies Act 2006.

The authority for all the above resolutions expires on the date falling 15 months after the passing of the resolutions or the conclusion of the Annual General Meeting in 2019 (whichever is earlier).

Independent auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

This report was approved by the Board on 26 March 2018 and signed on its behalf by:

M O'Rourke
Chief Financial Officer
26 March 2018

Substantial interests	Holding of 50p shares	% Holding
Downing LLP	2,964,313	21.34%
Artemis Investment Management LLP discretionary	2,437,500	17.55%
John A Rendell	1,950,000	14.04%
Pension Protection Fund	790,747	5.69%
Ruffer Investment Management	613,457	4.43%
Rath Dhu Ltd	500,000	3.60%
Denton & Co Trustees Limited	433,333	3.12%
Armstrong Investments Ltd	425,000	3.06%

	At end of year		At beginning of year or date of appointment	
Dircetors' interests	Fully paid 50p shares	Share options	Fully paid 50p shares	Share options
LM Cretton	12,000	–	12,000	–
GP Davis	72,667	–	72,667	–
RH Hankey	240,033	155,945	225,333	155,945
M O'Rourke	8,606	–	–	–
S Yapp	60,231	47,337	35,231	47,337

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and parent 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 parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and parent company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in Directors and officers section on page 6 confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and parent company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and parent company's auditors are aware of that information.

On behalf of the Board:

M O'Rourke
Chief Financial Officer
26 March 2018

Independent auditors' report to the members of Pittards plc

Report on the audit of the financial statements

Opinion

In our opinion, Pittards plc's group financial statements and parent company financial statements (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 December 2017 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts 2017 (the "Annual Report"), which comprise: the group and company balance sheets as at 31 December 2017; the consolidated income statement and consolidated statement of comprehensive income, the group and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Overall group materiality: £302,872 (2016: £280,000), based on 1% of revenue.
- Overall parent company materiality: £268,717 (2016: £260,000), based on 1% of revenue.

- Pittards plc is based in the United Kingdom and Ethiopia. There are two legal entities located in the United Kingdom and three further entities in Ethiopia, these are split into the UK division and Ethiopia division respectively.
- We performed full scope audits on the four significant reporting units (Pittards plc and Pittards Garnar Services Limited were audited by PwC, Pittards Products Manufacturing Share Company and Ethiopia Tannery Share Company were audited by the Ethiopian component auditor HST Consulting).
- The entities where either PwC or HST Consulting performed full scope audits accounted for 99.9% of group revenue.

- Inventory valuation (Group and parent).
- Deferred tax asset (Group and parent).

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Inventory valuation *Group and parent* Pittards plc holds inventory in the United Kingdom and Ethiopia, the valuation of inventory across the group is considered a key audit matter due to the complex stock system and the risk that the inventory is valued too high. We assessed that the valuation could be too high if production costs were over absorbed or if the inventory provision was misstated. Inventory is valued using raw material costs plus an allocation of overheads. An adjustment is made at the year-end to update actual overhead costs incurred. The basis of allocation is subject to some judgement. Due to the nature of the stock, there is judgement made when a provision is applied. The stock does not have a finite life but may be impaired if the stock is the wrong size or quality for key customer requirements. There is a risk that stock may not be held at the lower of cost and net realisable value as required in IAS 2. See notes 1 and 2a to the financial statements for the directors' disclosures of the related accounting policies and judgements for inventory and notes 4 and 14.	For the UK inventory costing, we tested the assumptions and methodology used in the absorption of indirect costs and confirmed for a sample of items to supporting documentation that the correct absorption rates were used in the inventory valuation. For the year end adjustment made between the absorbed direct and indirect costs in the year and the actual costs incurred, we tested the actual costs and traced these to supporting documentation to confirm that these costs were appropriate and related to the production process and the adjustment was appropriate. We performed a high level flux analysis comparing the average cost per square foot of leather produced year on year for any indication of stock overhead over absorption and whether production inefficiencies had been absorbed. For the Ethiopian inventory costing, the valuation of stock was tested (using the weighted average cost basis) by re-computing the amounts and tracing them to purchase invoices. In addition a sample of material costs and direct overheads were traced to invoices and the basis of allocating direct overheads was agreed. For the provisions testing, we tested a sample of inventory items to ensure that they were recognised at the lower of cost and net realisable value by tracing the product back to the most recent sales invoice to support the valuation of the inventory provisions recognised. We tested management's methodology for calculating the provision for slow moving stock and overvalued stock to supporting documentation and to ensure that it was consistent to last year. We verified that no stock exceeded the cost caps defined by management and any slow moving stock was identified and provided for, where appropriate. We agreed that the provision methodology is in line with the requirements of IAS 2. No material issues were noted.

Independent auditors' report to the members of Pittards plc

(continued)

Key audit matter	How our audit addressed the key audit matter
Deferred tax assets *Group and parent* Deferred tax is a key audit matter because Pittards plc holds a large deferred tax asset in respect of losses incurred within the UK. A deferred tax asset should only be recognised to the extent it is probable that sufficient taxable profits will be available in the future for it to be utilised. See notes 1 and 2b to the financial statements for the directors' disclosures of the related accounting policies and judgements for deferred tax and notes 10 and 20.	We obtained management's forecast for 2018 including the expected utilisation of the deferred tax asset and obtained from management evidence to support the basis of the forecast sales and profits (such as the status of bulk sampling and outcomes of recent meetings held with new customers). We discussed their proposed transfer pricing arrangements within the group between the UK and Ethiopia. We obtained the management accounts for January 2018 and compared the performance for the period against forecast, confirming the forecast is in line with expectations. As the losses will not expire whilst this is an area of judgement, based on the current plans and activities, we agree with the directors it is probable that taxable profits will be available in the future to utilise the asset.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

The Group is structured into two operating segments- UK and Ethiopia. Underpinning these operating segments are five reporting units (excluding dormant entities).

Our audit approach was based on auditing the financially significant reporting units underpinning the two operating segments. We consider there to be four financially significant reporting units- Pittards plc, Pittards Garnar Services, Pittards Products Manufacturing Share Company and Ethiopia Tannery Share Company.

Pittards plc and Pittards Garnar Services were audited by the UK Group team with Pittards Products Manufacturing Share Company and Ethiopia Tannery Share Company audited by HST Consulting as a component auditor operating under our instruction. Audit work was performed over the consolidation process at a consolidated Group level.

Where the work was performed by the component auditor, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. As part of our planning and year-end procedures, we held discussions with HST Consulting and we reviewed their audit working papers in Ethiopia and attended the local clearance meeting with management.

The reporting units where we performed full scope audit work accounted for 99.9% of group revenue and profit before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£302,872 (2016: £280,000).	£268,717 (2016: £260,000).
How we determined it	1% of revenue.	1% of revenue.
Rationale for benchmark applied	Based on the benchmarks used in the annual report and our assessment of the company operating in a low margin industry, revenue is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	Based on the benchmarks used in the annual report and our assessment of the company operating in a low margin industry, revenue is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £7,253 and £268,717. Certain components were audited to a local statutory audit materiality that was less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £15,100 (Group audit) (2016: £14,000) and £13,436 (Parent company audit) (2016: £13,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- 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 and 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

Independent auditors' report to the members of Pittards plc

(continued)

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Heather Ancient (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
26 March 2018

Consolidated income statement

for the year ended 31 December 2017

Continuing operations	Note	2017 £'000	2016 £'000
Revenue	3	**30,287**	27,009
Cost of sales		**(23,194)**	(20,554)
Cost of sales – exceptional stock provision	4	**–**	(4,307)
Gross profit		**7,093**	2,148
Distribution costs		**(2,443)**	(2,167)
Administrative expenses		**(3,716)**	(3,572)
Profit/(loss) from operations before finance costs		**934**	(3,591)
Finance costs	9	**(521)**	(499)
Finance income	9	**–**	19
Profit/(loss) before taxation	5	**413**	(4,071)
Taxation	10	**84**	(75)
Profit/(loss) for the year after taxation		**497**	(4,146)
Earnings/(loss) per share			
Basic	11	**3.58p**	(29.89p)
Diluted	11	**3.49p**	(28.91p)

Consolidated statement of comprehensive income

for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Profit/(loss) for the year after taxation		**497**	(4,146)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings	12	**171**	135
Revaluation of land and buildings – unrealised exchange (loss)/gain		**(625)**	279
		(454)	414
Items that may be subsequently reclassified to profit or loss			
Unrealised exchange (loss)/gain on translation of overseas subsidiaries		**(1,655)**	827
Other comprehensive (loss)/income		**(2,109)**	1,241
Total comprehensive loss for the year		**(1,612)**	(2,905)

The accompanying notes on pages 22 to 47 form an integral part of the Financial Statements.

Consolidated statement of changes in equity

for the year ended 31 December 2017

	Note	Share capital £'000	Share premium £'000	Capital reserve £'000	Shares held by ESOP £'000	Share-based payment reserve £'000	Translation reserve £'000	Revaluation reserve £'000	Retained earnings £'000	Total equity attributable to owners of the parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2016		6,944	2,984	6,475	(495)	–	(2,692)	1,853	9,081	24,150	179	24,329
Comprehensive income for the year:												
Loss for the year after taxation		–	–	–	–	–	–	–	(4,146)	(4,146)	–	(4,146)
Other comprehensive income:												
Gain on the revaluation of buildings	*12*	–	–	–	–	–	–	135	–	135	–	135
Unrealised exchange gain on translation of foreign subsidiaries		–	–	–	–	–	827	279	–	1,106	–	1,106
Total other comprehensive income		–	–	–	–	–	827	414	–	1,241	–	1,241
Total comprehensive income/(loss) for the year		–	–	–	–	–	827	414	(4,146)	(2,905)	–	(2,905)
Share-based payment expense	*8*	–	–	–	–	29	–	–	–	29	–	29
Purchase of non-controlling interest		–	–	–	–	–	–	–	–	–	(179)	(179)
At 1 January 2017		6,944	2,984	6,475	(495)	29	(1,865)	2,267	4,935	21,274	–	21,274
Comprehensive income for the year:												
Profit for the year after taxation		–	–	–	–	–	–	–	497	497	–	497
Other comprehensive income:												
Gain on the revaluation of buildings	*12*	–	–	–	–	–	–	171	–	171	–	171
Unrealised exchange loss on translation of foreign subsidiaries		–	–	–	–	–	(1,655)	(625)	–	(2,280)	–	(2,280)
Total other comprehensive loss		–	–	–	–	–	(1,655)	(454)	–	(2,109)	–	(2,109)
Total comprehensive (loss)/income for the year		–	–	–	–	–	(1,655)	(454)	497	(1,612)	–	(1,612)
Share-based payment expense	*8*	–	–	–	–	102	–	–	–	102	–	102
At 31 December 2017		**6,944**	**2,984**	**6,475**	**(495)**	**131**	**(3,520)**	**1,813**	**5,432**	**19,764**	**–**	**19,764**

Company statement of changes in equity

for the year ended 31 December 2017

	Share capital £'000	Share premium £'000	Shares held by ESOP £'000	Share-based payment reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2016	6,944	2,984	(495)	–	10,455	19,888
Comprehensive income for the year:						
Loss for the year after taxation	–	–	–	–	(919)	(919)
Total comprehensive loss for the year	–	–	–	–	(919)	(919)
Share-based payment expense	–	–	–	29	–	29
At 1 January 2017	6,944	2,984	(495)	29	9,536	18,998
Comprehensive income for the year:						
Loss for the year after taxation	–	–	–	–	(450)	(450)
Total comprehensive loss for the year	–	–	–	–	(450)	(450)
Share-based payment expense	–	–	–	102	–	102
At 31 December 2017	**6,944**	**2,984**	**(495)**	**131**	**9,086**	**18,650**

Balance sheets
as at 31 December 2017

		Group		Company	
	Note	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	*12*	**10,778**	12,106	**5,697**	5,946
Intangible assets	*13*	**209**	243	**209**	243
Investments in subsidiary undertakings	*28*	**–**	–	**378**	378
Deferred income tax asset	*20*	**1,901**	1,800	**1,901**	1,800
Total non-current assets		**12,888**	14,149	**8,185**	8,367
Current assets					
Inventories	*14*	**15,332**	17,353	**9,156**	8,832
Trade and other receivables	*15*	**3,991**	4,388	**8,934**	10,406
Cash and cash equivalents	*15*	**327**	206	**32**	14
Current income tax recoverable		**41**	38	**–**	–
Total current assets		**19,691**	21,985	**18,122**	19,252
Total assets		**32,579**	36,134	**26,307**	27,619
LIABILITIES					
Current liabilities					
Trade and other payables	*16*	**(4,358)**	(4,362)	**(2,923)**	(2,879)
Interest bearing loans, borrowings and overdrafts	*17*	**(5,641)**	(6,781)	**(3,141)**	(3,871)
Total current liabilities		**(9,999)**	(11,143)	**(6,064)**	(6,750)
Non-current liabilities					
Deferred income tax liability	*20*	**(140)**	(183)	**(69)**	(59)
Interest bearing loans, borrowings and overdrafts	*18*	**(2,676)**	(3,534)	**(1,524)**	(1,812)
Total non-current liabilities		**(2,816)**	(3,717)	**(1,593)**	(1,871)
Total liabilities		**(12,815)**	(14,860)	**(7,657)**	(8,621)
Net assets		**19,764**	21,274	**18,650**	18,998
EQUITY					
Share capital	*21*	**6,944**	6,944	**6,944**	6,944
Share premium	*22*	**2,984**	2,984	**2,984**	2,984
Capital reserve	*22*	**6,475**	6,475	**–**	–
Shares held by ESOP	*22*	**(495)**	(495)	**(495)**	(495)
Share-based payment reserve	*22*	**131**	29	**131**	29
Translation reserve	*22*	**(3,520)**	(1,865)	**–**	–
Revaluation reserve	*22*	**1,813**	2,267	**–**	–
Retained earnings	*22*	**5,432**	4,935	**9,086**	9,536
TOTAL EQUITY		**19,764**	21,274	**18,650**	18,998

In accordance with the exemptions given by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income or Income Statement. The Company achieved a loss of £0.450m (2016: loss of £0.919m).

The financial statements on pages 17 to 47 were approved and authorised for issue by the Board of directors on 26 March 2018 and signed on its behalf by:

M O'Rourke
Chief Financial Officer
Company Number 102384

Statements of cash flows

for the year ended 31 December 2017

	Note	Group		Company	
		2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Cash flows from operating activities					
Cash generated from/(used in) operations	*23*	**2,299**	(1,336)	**1,285**	(930)
Tax paid		**(48)**	(81)	**–**	–
Interest paid		**(516)**	(480)	**(179)**	(175)
Net cash generated from/(used in) operating activities		**1,735**	(1,897)	**1,106**	(1,105)
Cash flows from investing activities					
Purchases of property, plant and equipment		**(696)**	(1,181)	**(68)**	(727)
Purchases of intangible assets		**(2)**	(5)	**(2)**	(5)
Purchase of investments		**–**	(192)	**–**	(192)
Net cash used in investing activities		**(698)**	(1,378)	**(70)**	(924)
Cash flows from financing activities					
Proceeds from borrowings		**1,096**	2,364	**–**	–
Repayment of bank loans		**(1,072)**	(1,658)	**(210)**	(210)
New finance lease obligations		**–**	374	**–**	374
Repayment of obligations under finance leases		**(84)**	(88)	**(84)**	(88)
Net cash (used in)/generated from financing activities	*25*	**(60)**	992	**(294)**	76
Increase/(decrease) in cash and cash equivalents		**977**	(2,283)	**742**	(1,953)
Cash and cash equivalents at beginning of the year		**(3,738)**	(1,474)	**(3,563)**	(1,610)
Exchange gains on cash and cash equivalents		**63**	19	**–**	–
Cash and cash equivalents at end of the year	*24*	**(2,698)**	(3,738)	**(2,821)**	(3,563)

Notes to the consolidated accounts

1. Statement of accounting policies

General information

Pittards plc is a public limited company incorporated and domiciled under the Companies Act 2006 in England and is quoted on the Alternative Investment Market (AIM). The address of the registered office is given on page 6. The nature of the Group's operations and its principal activities are set out in the Strategic report on page 7.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") and IFRS Interpretations Committee ("IFRS IC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU. The consolidated financial statements for the years ended 31 December 2017 and 31 December 2016 have been prepared under the historical cost convention, as modified by the revaluation of land and buildings.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.

The Company only disclosures have been prepared in accordance with the above.

The accounting policies outlined below have been consistently applied across all companies within the Group.

(b) Going concern

The Group and Company meet their day-to-day working capital requirements through their bank facilities. The Group and Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that they should be able to operate within the level of its current facilities. The banking relationship with Lloyds Bank remains strong and facilities have been renewed at an increased level for 2018. The bank has confirmed ongoing support into 2019. After making enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. The Group and Company therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in Note 27.

(c) New and amended standards adopted by the Group

The following standards and amendments apply for the first time in the current financial year and do not have a material impact:

- Amendment to IAS 7 "Cash flow statements" disclosure initiative
- Amendment to IAS 12 "Income taxes" on recognition of deferred tax assets for unrealised losses

At the date of approval of these financial statements the following revised standards, amended standards and interpretations were in issue, but not yet effective and have not been early adopted in these financial statements:

- IFRS 15 Revenue from contracts with customers
- IFRS 9 Financial Instruments
- IFRS 16 Leases
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The adoption of IFRS 15 will have limited impact on the financial statements, with a change in the recognition of revenue in relation to customers with early payment discount terms. Under IFRS 15, the discount will now be shown as reduction of revenue, rather than a separate cost. The impact on the 2017 accounts under the adoption of the new standard would be a reduction in revenue of £0.062m and a reduction in distribution costs of £0.053m, resulting in an overall profit impact of £0.09m.

The adoption of IFRS 9 changes the impairment provisioning methodology for financial assets, with impairment now provided for on an expected loss basis, rather than incurred loss. The impact on the 2017 accounts under the adoption of the new standard would be an increase in accounts receivable impairment provisions of £0.017m.

The adoption of IFRS 16 Leases requires a lease liability and right of use asset to be recognised for all leased assets, except for short term contracts or low value items. This standard will have a presentational impact only.

The directors expect that the adoption of the other standards and interpretations will have no material impact on the financial statements of the Group.

(d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity herein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Acquisition costs are expensed as incurred. 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any non-controlling interest. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss as a bargain gain on purchase.

All intra-group transactions, balances, income and expenditure are eliminated on consolidation.

(e) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services and consultancy income provided in the normal course of business, net of discounts, value added tax and other sales related taxes. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

i) Sales of goods

Revenue from the sale of skins, hides and retail leather goods is not recognised until the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably, this is usually on despatch.

ii) Sales of services

Where services are provided, revenue is recognised on an accruals basis in the accounting period in which the service is rendered.

(f) Finance income

Finance income comprises interest receivable in respect of overdue debtors.

(g) Finance expenses

Finance expenses comprise interest payable on interest-bearing loans and borrowings. Finance expenses are recognised using the effective interest method.

(h) Foreign currency translation

These financial statements are presented in sterling as that is considered to be the currency of the primary economic environment in which the Company operates. This decision was based on the fact that sterling is the currency in which management reporting and decision making is based.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling which is the Company's functional and the Group's presentational currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement as gain or loss on foreign exchange.

Notes to the consolidated accounts

1. Statement of accounting policies (continued)

(h) Foreign currency translation (continued)

Foreign exchange gains and losses that relate to borrowings, and cash and cash equivalents are presented in the income statement within administrative expenses (Note 5).

On consolidation, the assets and liabilities of the Group's overseas operations are translated into the Group's presentational currency at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and transferred to the Group's translation reserve.

(i) Exceptional items

Items that are material in size, unusual and one-off in nature are presented as exceptional items in the Income Statement. The directors are of the opinion that the separate disclosure of such items provides helpful information about the Group's underlying business performance.

(j) Intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses. Costs include software licences and consulting costs attributable to the development, design and implementation of the computer software. Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the Income Statement over its estimated useful life (up to 7 years). Costs associated with the development of the Group's website are also recognised as intangible assets and carried at cost less accumulated amortisation.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(k) Property, plant and equipment

Property, plant and equipment (other than land and buildings) are stated at cost less accumulated depreciation and any recognised impairment loss. Property, plant and equipment are initially recorded at cost of purchase or construction. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged (excluding land) to write off the cost or valuation of assets on a straight-line basis over their estimated useful lives, as follows:

Land and buildings	2%
Plant, machinery and motor vehicles	6-33%

The Group revaluation policy is to perform a formal revaluation every 5 years, with director assessment in the intervening period, except where a material movement in property valuations is expected. In the UK, the Board performed an assessment of the property valuation as at 31 December 2017 and concluded that the net book value remains in line with fair value therefore no adjustment has been made. In December 2016, a formal assessment was performed by an independent RCIS Registered Valuer. Buildings in Ethiopia were revalued at December 2017 and December 2016 based on the fair value as determined by an independent licensed loss assessor qualified to value buildings in Ethiopia. The increase in value has been reflected via a revaluation of land and buildings in other comprehensive income. No depreciation has been charged on the building being constructed by PGS in Ethiopia as it remains under construction.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income.

The residual values and useful lives of assets are reviewed annually and adjusted when appropriate.

(l) Leased assets

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have been transferred to the Group, are capitalised in the balance sheet and depreciated over the shorter of the lease term or their useful lives. The asset is recorded at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. The capital elements of future obligations under finance leases are included in liabilities in the balance sheet and analysed between current and non-current amounts. The interest elements of future obligations under finance leases are charged to the Income Statement over the periods of the leases and represent a constant proportion of the balance of capital repayments outstanding in accordance with the effective interest rate method.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. The cost of operating leases (net of any incentives received from the lessor) is charged to the Income Statement on a straight line basis over the periods of the leases.

(m) Inventories
Inventories are stated at the lower of cost or net realisable value. Cost is determined on a first in first out (FIFO) basis. Net realisable value is the estimated selling price less all costs to be incurred. Raw materials are valued according to the cost of the materials purchased plus any direct transport costs. Work in progress (WIP) is valued as the cost of raw materials plus an appropriate proportion of production overheads. Finished goods are valued as the cost of raw materials plus full absorption of production overheads based on normal operating capacity.

Inventory held at ETSC is stated at the lower of cost and net realisable value but cost is determined on an average cost basis. An impairment reserve to reflect the directors' best estimates of the difference between FIFO and average was established on acquisition. The directors have satisfied themselves that there was no material difference between FIFO and average. Inventories include goods in transit from the suppliers to our factory where ownership has effectively passed to the Group.

Provision is made against slow moving and obsolete inventory to ensure the value at which inventory is held in the balance sheet is reflective of anticipated future sales patterns. Provision is made having regard to the saleability and condition of inventory.

(n) Current and deferred income tax
Current tax is the expected tax payable or receivable on the taxable income for the year, on the basis of tax laws enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years, in the countries where the Company and its subsidiaries operate and generate taxable income.

Deferred tax is provided in full using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is only recognised to the extent it is probable that sufficient taxable profits will be available in the future for it to be utilised.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is realised or settled.

Tax is recognised in the Income Statement, except where it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity.

(o) Retirement benefit costs
An Auto Enrolment scheme was introduced in May 2014 under which matching contributions are made by the employer in line with scheme rules. Pension contributions are made for employees in Ethiopia under the Ethiopian Social Security Agency scheme.

(p) Provisions
Provisions are recognised where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated. Provisions are recorded for the estimated ultimate liability that is expected to arise, taking into account the time value of money. A contingent liability is disclosed where the existence of the obligations will only be confirmed by future events, or where the amount of the obligation cannot be measured with reasonable reliability.

(q) Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

– Investment
Where the investing entity does not exercise significant influence or control over the other entity, its investment is recorded initially at cost and then at fair value through profit and loss.

– Trade and other receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.
A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the Income Statement in Distribution costs.

– Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

Notes to the consolidated accounts

1. Statement of accounting policies (continued)

(q) Financial instruments (continued)

– Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. For the purpose of the cash flow statement, cash and cash equivalents includes bank overdrafts.

– Bank borrowings
Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(r) Share-based payments
Equity settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date, using an appropriate valuation model. Details regarding the determination of the fair value of equity settled share-based transactions, including all key assumptions, are set out in Note 8.

The fair value determined is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest, with a corresponding increase in equity. For share schemes held with non-market performance and service conditions, the Group assess its estimate of the number of equity instruments expected to vest at the end of each reporting period. Any revision to the original estimate, is recognised in the Income Statement, with a corresponding adjustment to equity

(s) Employee share ownership trust
The assets of the employee share ownership trust are fully consolidated within the accounts of the Group. Shares held in the Trust are deducted from shareholders' funds and are stated at cost. The shares were originally bought to reflect potential awards with a previous bonus scheme which is no longer in existence.

(t) Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Pittards plc which makes strategic decisions.

(u) Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. Critical judgements and estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which circumstances change.

(a) Inventory valuation
The calculation of WIP and finished goods inventory value requires an estimate of the total production cost and an estimate of production levels in order to determine the value of direct costs to absorb into inventory on an ongoing basis. Variations in production levels will impact the value of direct costs not absorbed into inventory. Estimates are revised periodically through the year to ensure that absorption of labour and overheads is materially correct as at the end of the year.

The Group reviews its inventory on a regular basis and, where appropriate, makes provisions for slow moving and obsolete inventory based on estimates of future sales activity. The estimates of the future sales activity will be based on both historical experience and expected outcomes based on knowledge of the markets in which the Group operates as well as strategic assessments of potential new markets. Market performance is reviewed periodically throughout the year and the impact on the provision assessed.

In 2016, a commercial decision was made by the Board to recognise a £4.307m provision in respect of predominantly low end dress and sport glove leather. This considered the impact of currency translation, slow moving stock and the potential strategic shift in the business.

(b) Recognition of deferred tax asset
The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. Where the temporary differences are related to losses, the availability of the losses to offset against forecast taxable profits is also considered. Recognition therefore involves judgement regarding the future financial performance of the entity in which the deferred tax asset has been recognised, which is based on current forecasts. The rate at which the asset unwinds will vary with the profitability of the entity.

3. Business segments information

Management has determined the operating segments based on the reports reviewed by the Board that are used to make strategic and operational decisions. The Board consider the business in terms of two divisions: UK and Ethiopia. The consolidation adjustment represents those adjustments required to prepare the group accounts.

2017	**UK Division £'000**	**Ethiopia Division £'000**	**Consolidation adjustment £'000**	**Total £'000**
Revenue	**27,581**	**11,227**	**–**	**38,808**
Inter-segmental trading	**(1,564)**	**(6,957)**	**–**	**(8,521)**
	26,017	**4,270**	**–**	**30,287**
Gross profit[1]	**5,003**	**2,799**	**–**	**7,802**
(Loss)/profit before tax	**(381)**	**794**	**–**	**413**
Assets	**37,638**	**15,264**	**(20,323)**	**32,579**
Liabilities	**(18,074)**	**(10,159)**	**15,418**	**(12,815)**

2016	UK Division £'000	Ethiopia Division £'000	Consolidation adjustment £'000	Total £'000
Revenue	24,343	10,699	–	35,042
Inter-segmental trading	(1,774)	(6,259)	–	(8,033)
	22,569	4,440	–	27,009
Gross profit/(loss)[1]	3,618	(710)	–	2,908
Loss before tax	(829)	(3,231)	(11)	(4,071)
Assets	37,613	16,543	(18,022)	36,134
Liabilities	(17,829)	(10,481)	13,450	(14,860)

1. Included in inter-segmental trading in the UK is a balance of £0.709m (2016: £0.760m) relating to group recharges, for which there is no cost of sale. Costs associated with this revenue are included within administration costs.

Notes to the consolidated accounts

3. Business segments information (continued)

Geographical analysis of revenue (based on the customer's country of domicile):

2017	**UK Division £'000**	**Ethiopia Division £'000**	**Total £'000**
UK	**2,479**	**99**	**2,578**
Europe	**1,732**	**2**	**1,734**
North America	**1,038**	**3,221**	**4,259**
Far East and Rest of the World	**20,768**	**948**	**21,716**
	26,017	**4,270**	**30,287**

2016	UK Division £'000	Ethiopia Division £'000	Total £'000
UK	2,293	–	2,293
Europe	1,768	–	1,768
North America	916	2,696	3,612
Far East and Rest of the World	17,592	1,744	19,336
	22,569	4,440	27,009

Revenues of approximately £4.650m (2016: £5.319m) within the UK segment are derived from one customer. Revenues of approximately £9.322m (2016: £5.641m) within the UK segment are derived from another customer. Both customers' revenues fall within the Far East and Rest of the World geographical segment.

4. Exceptional items

	2017 £'000	2016 £'000
Cost of sales – exceptional stock provision	**–**	4,307
	–	4,307

In 2016, the Board conducted a detailed review of the stock holding and recognised a provision of £4.307m. This took into account the impact of currency translation, slow moving stock and the potential strategic shift in the business moving towards a higher proportion of hide business. The provision related to low end dress and sport glove leather, with a write down of £1.271m in the UK and £3.036m in Ethiopia.

5. Profit/(loss) before taxation

The following items have been included in arriving at profit/(loss) before taxation:

	2017 £'000	2016 £'000
Depreciation of property, plant and equipment (Note 12)	**604**	605
Amortisation of intangible assets (Note 13)	**36**	35
Operating lease rentals recognised as an expense	**83**	80
Staff costs (Note 6)	**8,378**	8,076
Employee benefit expense (life and health insurances)	**113**	112
Research and development expenditure	**85**	115
Net gain on foreign currency translation	**(282)**	(380)

Auditors' remuneration

The analysis of fees payable to the Company's auditors is as follows:

	2017 £'000	2016 £'000
Fees payable to the Company's auditors in respect of the audit of the parent company and consolidated financial statements	**50**	51
Fees payable to the Company's auditors in respect of the audit of subsidiaries	**6**	6
Total audit fees	**56**	57

No non-audit fees were paid during the year (2016: £12,000).

6. Staff costs

The average number of employees of the Group and Company (including directors), on an average monthly basis was:

	Group		Company	
	2017 No.	2016 No.	**2017 No.**	2016 No.
Production	**1,380**	1,365	**147**	167
Sales, distribution and administration	**261**	277	**48**	43
Directors	**6**	6	**6**	6
	1,647	1,648	**201**	216

Their aggregate remuneration comprised:	**£'000**	£'000	**£'000**	£'000
Wages and salaries	**7,380**	7,346	**5,923**	5,878
Social security costs	**563**	547	**563**	545
Other pension costs	**236**	183	**86**	91
Compensation for loss of office	**199**	–	**199**	–
	8,378	8,076	**6,771**	6,514

Notes to the consolidated accounts

7. Directors' remuneration

	Salary & fees £'000	Profit related bonus £'000	Benefits £'000	Pension contributions £'000	**2017 Total £'000**	2016 Total £'000
Executive						
RH Hankey	200	–	5	10	**215**	224
M O'Rourke	120	–	2	6	**128**	70
Non-executive						
SD Boyd	–	–	–	–	**–**	24
LM Cretton	39	–	–	–	**39**	37
GP Davis	39	–	–	–	**39**	37
J Williams	40	–	2	–	**42**	122
S Yapp	120	–	1	–	**121**	95
	558	–	10	16	**584**	609

Benefits received consist of health insurance and life assurance. The values of the benefits are based on the taxable value.

The Company matches employee contributions up to a maximum of 5% of basic salary for directors and key management.

Details of options granted to directors are provided in the Directors' report on page 10. No options were exercised during the year.

Key management compensation

Key management represents the directors of the Internal Executive Board. The compensation paid or payable to key management for employee services is shown below:

	2017 £'000	2016 £'000
Salaries, bonus and other short-term benefits	**524**	535
Pension contributions	**21**	24
Compensation for loss of office	**21**	–
Total	**566**	559

During the year, 21,949 options were granted to key managers under the SAYE scheme. 109,104 options remain outstanding for key management personnel in relation to the 2015 LTIP (2016: 109,104).

8. Share options

2017 Save As You Earn Scheme (SAYE)

On 16 May 2017, a new Save As You Earn (SAYE) share option scheme was granted to employees. The options under the SAYE scheme are exercisable on 1 July 2020.

Details of the share-based payment cost recognised during the year are:

	2017 £'000	2016 £'000
At 1 January	**–**	–
Share-based payment expense	**10**	–
At 31 December	**10**	–

This charge has been included within administration expenses.

All outstanding share options are measured in accordance with IFRS at their market-based measure at the grant date. Options were priced using the Black-Scholes option pricing model.

Expected volatility is based on the historical share price volatility over the past three years.

The assumptions used in the model are detailed below:

Grant date	**16/05/2017**
Share price at grant date	**86.0p**
Exercise price	**65.6p**
Vesting period	**3.0 years**
Expected volatility	**31.0%**
Risk-free rate	**0.2%**
Dividend yield	**0%**

Details of the SAYE share options extant during the year are:

	2017		2016	
	No. of options	**Exercise price (pence)**	No. of options	Exercise price (pence)
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**187,493**	**65.6**	–	–
Lapsed during the year	**(6,585)**	**65.6**	–	–
Outstanding at the end of the year	**180,908**	**65.6**	–	–

2016 Long Term Incentive Plan (LTIP)

On 26 September 2016, a Long Term Incentive Plan (LTIP) was granted to certain members of the Board, as per the Director's report on page 10. The vesting period is four years and is dependent upon the attainment of a minimum specific share price at the exercise date. The directors are entitled to shares to the value of specific percentages granted, based on the excess value generated at the exercise date.

Details of the share-based payment costs recognised during the year are:

	2017 £'000	2016 £'000
At 1 January	**29**	–
Share-based payment expense	**92**	29
At 31 December	**121**	29

This charge has been included within administration expenses.

The charge equates to the fair value of the award and has been calculated using the Monte-Carlo model. The assumptions used in the model are detailed below:

Grant date	**26/09/2016**
Share price at grant date	**94.5p**
Exercise price	**£1**
Vesting period	**3.8 years**
Expected volatility	**39.5%**
Risk-free rate	**0.1%**
Dividend yield	**–**

Notes to the consolidated accounts

8. Share options (continued)

2015 Long Term Incentive Plan (LTIP)

Share options were granted to directors and key managers as part of the 2015 Long Term Incentive Plan (LTIP) established on 12 May 2015. The vesting period is three years and is dependent upon attainment of certain performance conditions, comprising achievement of Group revenue growth and EBIT growth.

Details of the share awards extant during the year are:

	2017		2016	
	No. of options	**Weighted average exercise price (pence)**	No. of options	Weighted average exercise price (pence)
Outstanding at the beginning of the year	**434,186**	**–**	471,519	–
Granted during the year	**–**	**–**	–	–
Lapsed during the year	**(84,465)**	**–**	(37,333)	–
Outstanding at the end of the year	**349,721**	**–**	434,186	–

The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 0.4 years (2016: 1.4 years) and have an average exercise price of nil. The weighted average fair value of options granted during the year was £nil (2016: nil).

On grant the options were valued using the share price less dividend model, a simplified version of the Black-Scholes model applicable to nil cost options. The assumptions used were nil dividend and a share price at grant date of £1.27.

As the performance conditions required are not expected to be achieved, the total charge for the year relating to the equity settled share-based payment plans was £nil (2016: £nil).

9. Finance costs and income

(a) Finance costs	**2017 £'000**	2016 £'000
Interest on bank loans and overdrafts	**507**	468
Interest on obligations under finance leases and hire purchase contracts	**14**	21
Interest on historic foreign tax charge	**–**	10
	521	499
(b) Finance income		
Interest on overdue debtors	**–**	(19)

10. Taxation

(a) Analysis of the charge in the year	**2017 £'000**	2016 £'000
The charge based on the profit for the year comprises:		
Foreign tax on profit for the year	**32**	32
Foreign tax related to prior years	**–**	91
Total current tax	**32**	123
Deferred tax		
Origination and reversal of temporary differences	**(128)**	(169)
Impact of change in UK tax rate	**12**	121
Total deferred taxation	**(116)**	(48)
Income tax (credit)/charge	**(84)**	75

The Company's profits for the year are taxed at the standard rate of corporation tax in the UK of 19.25% (2016: 20%) and Ethiopia of 30% (2016: 30%). The tax assessed in each year differs from the standard rate of corporation tax for the relevant year. The differences are explained below:

(b) Factors affecting the charge for the year	**2017 £'000**	2016 £'000
Profit/(loss) on ordinary activities before tax	**413**	(4,071)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**274**	32
Income not subject to tax	**(295)**	–
Foreign tax related to prior years[1]	**–**	91
Expenses not deductible for tax purposes[2]	**174**	148
Allowable tax deductions[3]	**(145)**	(200)
Losses generated	**(104)**	(117)
Foreign tax paid	**32**	32
Double tax relief	**(32)**	(32)
Impact of change in UK tax rate	**12**	121
Total tax (credit)/charge for the year (Note 10(a))	**(84)**	75

1. Foreign tax in prior years relates to a historic dividend tax charge imposed on ETSC.
2. Expenses not deductible for tax purposes largely relate to depreciation, for which capital allowances are received.
3. Allowable tax deductions relate to capital allowances received.

(c) Factors that may affect future tax charges

The Finance Act 2016 which was enacted on 15 September 2016 included legislation to reduce the main rate of corporation tax to 17% from 1 April 2020. All UK deferred tax assets have been measured using the rate in place at the time they expect to be realised or settled.

11. Earnings/(loss) per ordinary share

	2017 £'000	2016 £'000
Analysis of the profit/(loss) in the year:		
Profit/(loss) for the year	**497**	(4,146)
Weighted average number of ordinary shares in issue (excluding the shares owned by the Pittards Employee Share Ownership Trust)	**'000s**	'000s
Basic	**13,870**	13,870
Diluted	**14,224**	14,341
Basic earnings/(loss) per ordinary 50p share	**3.58p**	(29.89p)
Diluted earnings/(loss) per ordinary 50p share	**3.49p**	(28.91p)

Notes to the consolidated accounts

12. Property, plant and equipment

	Group			Company		
	Land and buildings £'000	Plant, machinery and motor vehicles £'000	Total £'000	Land and buildings £'000	Plant, machinery and motor vehicles £'000	Total £'000
Cost or valuation						
At 1 January 2016	7,569	16,967	24,536	3,826	12,208	16,034
Exchange differences	520	653	1,173	–	–	–
Additions	84	1,097	1,181	76	651	727
Disposals	–	(101)	(101)	–	–	–
Revaluation of property	48	–	48	–	–	–
At 1 January 2017	8,221	18,616	26,837	3,902	12,859	16,761
Exchange differences	(1,114)	(1,477)	(2,591)	–	–	–
Additions	36	660	696	–	68	68
Disposals	–	(4)	(4)	–	(4)	(4)
Revaluation of property	96	–	96	–	–	–
At 31 December 2017	**7,239**	**17,795**	**25,034**	**3,902**	**12,923**	**16,825**
Accumulated depreciation						
At 1 January 2016	15	13,842	13,857	15	10,508	10,523
Exchange differences	–	456	456	–	–	–
Charge for year	136	469	605	48	244	292
Disposals	–	(100)	(100)	–	–	–
Release of depreciation on revaluation	(87)	–	(87)	–	–	–
At 1 January 2017	64	14,667	14,731	63	10,752	10,815
Exchange differences	–	(1,000)	(1,000)	–	–	–
Charge for year	127	477	604	52	265	317
Disposals	–	(4)	(4)	–	(4)	(4)
Release of depreciation on revaluation	(75)	–	(75)	–	–	–
At 31 December 2017	**116**	**14,140**	**14,256**	**115**	**11,013**	**11,128**
Net book value						
At 31 December 2017	**7,123**	**3,655**	**10,778**	**3,787**	**1,910**	**5,697**
At 31 December 2016	8,157	3,949	12,106	3,839	2,107	5,946

Depreciation of £0.520m (2016: £0.516m) has been charged to cost of sales, £0.056m (2016: £0.061m) to administrative expenses and £0.028m (2016: £0.028m) to distribution expenses in the Income Statement.

Included in the Group's and Company's plant, machinery and motor vehicles are leased assets and assets being acquired under hire purchase agreements with a net book value of £0.413m (2016: £0.446m).

Land and buildings includes an amount of £0.516m (2016: £0.672m) in respect of work commenced on the building for PGS. As this building is under construction no depreciation has been charged.

The Group's buildings in Ethiopia were revalued to fair value as at 31 December 2017. Fair value was determined by Getachew Tesfaye, licensed loss assessor, who is an independent valuer. The fair value of the UK site was assessed by the Board, in line with the Group revaluation policy. No change in fair value was noted.

If buildings across the Group were stated on historic cost basis the net book value would be £4.275m (2016: £4.597m).

13. Intangible assets

	Group			Company		
	Website £'000	Computer software £'000	Total £'000	Website £'000	Computer software £'000	Total £'000
Cost						
At 1 January 2016	104	1,781	1,885	104	1,774	1,878
Additions	5	–	5	5	–	5
At 1 January 2017	109	1,781	1,890	109	1,774	1,883
Additions	2	–	2	2	–	2
At 31 December 2017	**111**	**1,781**	**1,892**	**111**	**1,774**	**1,885**
Accumulated amortisation						
At 1 January 2016	–	1,612	1,612	–	1,605	1,605
Charge for year	15	20	35	15	20	35
At 1 January 2017	15	1,632	1,647	15	1,625	1,640
Charge for year	16	20	36	16	20	36
At 31 December 2017	**31**	**1,652**	**1,683**	**31**	**1,645**	**1,676**
Net book value						
At 31 December 2017	**80**	**129**	**209**	**80**	**129**	**209**
At 31 December 2016	94	149	243	94	149	243

Amortisation of £0.036m (2016: £0.035m) has been charged to administrative expenses in the Income Statement.

14. Inventories

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Raw materials	**4,031**	4,007	**2,307**	1,556
Work in progress	**5,575**	7,220	**2,164**	2,533
Finished goods	**5,726**	6,126	**4,685**	4,743
	15,332	17,353	**9,156**	8,832

During the year £0.528m in respect of stock provision movements and write offs was credited to the Income Statement (2016: debited £4.514m) as part of cost of sales.

Inventory charged to the Income Statement during the year, as part of cost of sales, totalled £11.944m (2016: £12.192m). Raw materials include £0.415m of goods in transit at year end (2016: £0.234m).

Notes to the consolidated accounts

15. Current financial assets

Trade and other receivables	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Trade receivables	**3,630**	3,904	**2,978**	2,848
Less provision for impairment of trade receivables	**(675)**	(506)	**(656)**	(506)
Trade receivables net	**2,955**	3,398	**2,322**	2,342
Other receivables	**815**	772	**51**	81
Prepayments and accrued income	**221**	218	**236**	188
Amounts owed by Group undertakings	**–**	–	**6,325**	7,795
	3,991	4,388	**8,934**	10,406
Movement on the provision for impairment of trade receivables was as follows:				
As at 1 January	**506**	402	**506**	402
Increase in provision for receivables impairment	**197**	108	**178**	108
Receivables written off during the year as uncollectable	**(28)**	(4)	**(28)**	(4)
As at 31 December	**675**	506	**656**	506

The table below shows an analysis of the ageing of trade receivables which are past due but not impaired.

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Up to 60 days	**544**	799	**476**	324
60-90 days	**95**	24	**93**	17
More than 90 days	**411**	475	**175**	230
	1,050	1,298	**744**	571

There are £1.033m (2016: £1.517m) of trade receivables which are not due and not impaired as at 31 December 2017. There are no concerns regarding the recoverability of these amounts.

As at 31 December the provision against trade receivables was £0.675m (2016: £0.506m) for the Group and £0.656m (2016: £0.506m) for the Company. The ageing of the receivables impaired against which part provisions have been made is as follows:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Not overdue	**284**	97	**284**	97
Up to 60 days	**237**	361	**237**	361
60-90 days	**7**	–	**7**	–
More than 90 days	**344**	125	**306**	125
	872	583	**834**	583

Provisions against trade receivables not overdue represent credit note provisions. Part provisions have been made against some significantly overdue balances based on a recoverability assessment considering credit insurance held and ongoing discussions with customers. The directors consider that the carrying amounts of trade and other receivables approximate to their fair value and that the above unprovided elements are recoverable.

An analysis of the currencies in which trade receivables are held is shown in Note 27 (c).

Cash and cash equivalents

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Cash and cash equivalents	**327**	206	**32**	14

Credit risk

The Group's credit risk is attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for impaired receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Where possible, the Group mitigates its credit risk by using credit insurance policies to insure its credit sales and as a result the reserve made for irrecoverable amounts is not material. Provision is also made for any customer claims or allowances where a credit note has yet to be issued. The Group does not hold any collateral as security. However, the Group has traded with a high proportion of its customers for several years and is experienced in managing this risk, resulting in low levels of impairment.

16. Trade and other payables

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Trade payables	**3,127**	3,218	**2,115**	1,638
Other taxes and social security costs	**201**	224	**153**	169
Accruals and deferred income	**673**	670	**451**	447
Other payables	**357**	250	**72**	75
Amounts owed to Group undertakings	**–**	–	**132**	550
	4,358	4,362	**2,923**	2,879

The directors consider that the carrying amounts of trade and other payables approximate to their fair value.

17. Interest-bearing loans, borrowings and overdrafts – current

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Unsecured:				
Loans	**51**	320	**–**	–
Secured:				
Overdrafts	**3,025**	3,944	**2,853**	3,577
Loans	**2,487**	2,433	**210**	210
Obligations under finance leases	**78**	84	**78**	84
	5,641	6,781	**3,141**	3,871

During 2017, ETSC were granted a £1.082m revolving credit facility with Awash International Bank. This facility renews annually, has an interest rate of 9.5% and is secured against the assets of ETSC. PPM were also granted an overdraft facility of £0.189m with Awash International Bank. This facility renews annually, has an interest rate of 9.5% and is secured against the assets of PPM.

Notes to the consolidated accounts

18. Interest-bearing loans, borrowings and overdrafts – non-current

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Secured:				
Loans	**2,517**	3,297	**1,365**	1,575
Obligations under finance leases	**159**	237	**159**	237
	2,676	3,534	**1,524**	1,812
Repayable as follows:				
Between one and five years by instalments	**2,676**	3,534	**1,524**	1,812

During 2017, the loan previously held by PPM with the Development Bank of Ethiopia was renegotiated and moved to Awash International Bank. This loan has been taken for a period of 3 years at an interest rate of 9.5% and is secured against the assets of PPM. The individual loans held by ETSC with Commercial Bank of Ethiopia were also consolidated into one loan, which has been taken for a period of 3 years at an interest rate of 11.5% and is secured against the assets of ETSC. The interest rate for all loans held in Ethiopia was increased by 2% during the year following a rate change by the Ethiopian government.

In the UK, the mortgage term has been renegotiated and the remaining balance of £1.575m is now repayable over the next 3 years at an interest rate of 2.25% over LIBOR.

During 2016, ETSC took out additional loans of £1.823m with the Commercial Bank of Ethiopia. All loans have been taken for a period of 3 years at an interest rate of 9.5% and are secured against assets of ETSC.

The fair value of the Group's loan and overdraft facilities is materially the same as book value, and the secured facilities are supported by fixed and floating charges over the assets of the Group, principally property, plant and equipment, inventory and receivables. Obligations under finance leases are secured by the related asset.

19. Obligations under leases

Operating lease agreements where the Group is lessee
The Group has entered into commercial leases on certain properties, plant and machinery. Future aggregate minimum rentals payable under non-cancellable operating leases are as follows:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Not later than one year	**71**	58	**71**	58
After one year but not more than five years	**141**	174	**141**	174
	212	232	**212**	232

The Group uses finance leases to acquire plant and machinery. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Future minimum payments due:				
Not later than one year	**86**	96	**86**	96
After one year but not more than five years	**166**	251	**166**	251
	252	347	**252**	347
Less finance charges allocated to future periods	**(15)**	(26)	**(15)**	(26)
Present value of minimum lease payments	**237**	321	**237**	321
The present value of minimum lease payments is analysed as follows:				
Not later than one year	**78**	84	**78**	84
After one year but not more than five years	**159**	237	**159**	237
	237	321	**237**	321

All lease obligations are denominated in sterling. The fair value of the Group's lease obligations approximates their carrying amount.

20. Deferred taxation

The Group has recognised deferred tax assets in respect of temporary differences and losses. In accordance with the requirements of IAS12, the directors considered the potential utilisation of the deferred tax asset and have recognised a deferred tax asset of £1.761m (2016: £1.617m) in view of the Group's prospects and future profitability.

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Deferred tax asset	**1,901**	1,800	**1,901**	1,800
Deferred tax liability	**(140)**	(183)	**(69)**	(59)
Deferred tax assets (net)	**1,761**	1,617	**1,832**	1,741

The movement on the net deferred tax account during the year is as follows:

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
At 1 January	**1,617**	1,584	**1,741**	1,673
Income Statement credit	**116**	48	**91**	68
Exchange differences	**28**	(15)	**–**	–
At 31 December	**1,761**	1,617	**1,832**	1,741

Notes to the consolidated accounts

20. Deferred taxation (continued)

(a) Deferred tax assets
The analysis of the deferred tax asset is as follows:

	Group		
Recognised	Tax losses £'000	Other timing difference £'000	Total £'000
At 1 January 2016	1,676	–	1,676
Income Statement charge	118	6	124
At 1 January 2017	1,794	6	1,800
Income Statement credit	81	20	101
At 31 December 2017	**1,875**	**26**	**1,901**

	Company		
Recognised	Tax losses £'000	Other timing difference £'000	Total £'000
At 1 January 2016	1,676	–	1,676
Income Statement charge	118	6	124
At 1 January 2017	1,794	6	1,800
Income Statement credit	81	20	101
At 31 December 2017	**1,875**	**26**	**1,901**

The Group and Company have no unrecognised deferred tax assets (2016: £nil).

(b) Deferred tax liabilities
The Group deferred tax liability of £0.140m (2016: £0.183m) and Company deferred tax liability of £0.069m (2016: £0.059m) represent temporary timing differences.

21. Share capital

	2017 £'000	2016 £'000
Issued and fully paid		
At 31 December	**6,944**	6,944

	2017 Shares	2016 Shares
Number of ordinary shares of 50p each		
At 31 December	**13,888,690**	13,888,690

The Company has one class of ordinary shares which carry no right to fixed income.

22. Reserves

The share premium account represents the difference between the issue price and the nominal value of shares issued.

The capital reserve relates to goodwill arising on previous acquisitions written off directly to reserves.

The Pittards Employee Share Ownership Trust holds Pittards plc ordinary shares to meet potential obligations under the restricted share plan scheme. Shares are held in trust until such time as they may be transferred to employees in accordance with the terms of the scheme. There are no further awards in the scheme which could vest in the participants. At 31 December 2017, the trust held a total of 19,026 50p shares (2016: 19,026) with a market value at that date of £16,933 (2016: £15,696).

The share-based payment reserve represents the fair value of the entitlement to shares awarded under the 2017 SAYE scheme and 2016 Long Term Incentive Plan. See note 8 for further details.

The translation reserve represents the cumulative net unrealised exchange loss arising from the translation of overseas subsidiaries.

The revaluation reserve represents the revaluation of the buildings at ETSC, PPM and PGS undertaken annually.

The retained earnings reserve represents the cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

23. Cash generated from/(used in) operations

	Group		Company	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Profit/(loss) before taxation	**413**	(4,071)	**(541)**	(987)
Adjustments for:				
Depreciation of property, plant and equipment	**604**	605	**317**	292
Amortisation	**36**	35	**36**	35
Bank and other interest charges	**521**	480	**184**	175
Share-based payment expense	**102**	29	**102**	29
Other non-cash items in Income Statement	**(133)**	(61)	**–**	(1)
Operating cash flows before movement in working capital	**1,543**	(2,983)	**98**	(457)
Movements in working capital (excluding exchange differences on consolidation):				
(Increase)/decrease in inventories	**(749)**	2,912	**(324)**	(58)
(Increase)/decrease in receivables	**(47)**	(194)	**1,472**	(385)
Increase/(decrease) in payables	**1,552**	(1,071)	**39**	(30)
Cash generated from/(used in) operations	**2,299**	(1,336)	**1,285**	(930)

Notes to the consolidated accounts

24. Analysis of the changes in cash and cash equivalents

Group	As at 1 January 2017 £'000	Cash flow £'000	Exchange movements £'000	**As at 31 December 2017 £'000**
Cash at bank and in hand	206	153	(32)	**327**
Bank overdraft	(3,944)	824	95	**(3,025)**
	(3,738)	977	63	**(2,698)**

Company	As at 1 January 2017 £'000	Cash flow £'000	Exchange movements £'000	**As at 31 December 2017 £'000**
Cash at bank and in hand	14	18	–	**32**
Bank overdraft	(3,577)	724	–	**(2,853)**
	(3,563)	742	–	**(2,821)**

25. Analysis of the changes in liabilities from financing activities

Group	As at 1 January 2017 £'000	Loan repayments £'000	New loans £'000	Term renegotiations £'000	Exchange movements £'000	**As at 31 December 2017 £'000**
Long term borrowings	3,297	(803)	–	468	(445)	**2,517**
Short term borrowings	2,753	(269)	1,096	(468)	(574)	**2,538**
Lease liabilities	321	(84)	–	–	–	**237**
	6,371	(1,156)	1,096	–	(1,019)	**5,292**

Company	As at 1 January 2017 £'000	Loan repayments £'000	New loans £'000	Term renegotiations £'000	Exchange movements £'000	**As at 31 December 2017 £'000**
Long term borrowings	1,575	(210)	–	–	–	**1,365**
Short term borrowings	210	–	–	–	–	**210**
Lease liabilities	321	(84)	–	–	–	**237**
	2,106	(294)	–	–	–	**1,812**

26. Related party transactions

(a) Related party trading

Group

The following transactions with related parties took place during the year:

	Group	
Transactions with related parties	**2017 £'000**	2016 £'000
Purchases from related parties	**17**	17

Purchases and sales are disclosed from entities where a member of the Board holds a further directorship. Purchases and sales are made on normal commercial terms and conditions.

Payments made to directors as part of their standard emoluments package are separately disclosed within the Directors' Remuneration note on page 30.

	Group	
Year end balances arising from purchases	**2017 £'000**	2016 £'000
Payables to related parties	**–**	9

Company

The following transactions with other Group undertakings took place during the year:

	Company	
Transactions with subsidiaries	**2017 £'000**	2016 £'000
Purchases from subsidiaries	**6,957**	6,259
Sales to subsidiaries	**854**	1,014

Pittards plc holds intercompany balances with various subsidiary companies and settles expenses on behalf of these companies which are charged to the intercompany accounts.

There are no provisions for impaired debts relating to the amount of outstanding intercompany balances.

		Company	
Amounts due from subsidiaries	*Note*	**2017 £'000**	2016 £'000
Pittard Garnar Services Limited		**4,433**	6,226
Ethiopia Tannery Share Company		**1,412**	482
Pittards Global Sourcing Private Limited Company		**2**	2
Pittards Products Manufacturing Share Company		**478**	1,085
	15	**6,325**	7,795
Amounts due to subsidiaries			
Pittards Group Limited		**(30)**	(30)
Ethiopia Tannery Share Company		**(80)**	(496)
Pittards Global Sourcing Private Limited Company		**(22)**	(24)
	16	**(132)**	(550)

(b) Transactions with directors

Disclosures required under IAS24 regarding remuneration of key management personnel are covered by the Directors' remuneration disclosure in Note 7 and interests in shares are disclosed in the Directors' report.

In February 2016, R H Hankey received a loan from the Company of £0.040m. This loan was fully repaid during the 2017.

27. Financial instruments

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks; market (including currency, price and interest rate), liquidity and credit. The Group's overall risk management systems seek to minimise potential adverse effects on the Group's financial performance. The Company's financial risk factors are considered to be consistent with those of the Group so are not presented separately.

The board of directors has approved policies for the management of the risks identified.

Notes to the consolidated accounts

27. Financial instruments (continued)

Currency risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar, Euro and Ethiopian Birr. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. This risk is managed through maintaining natural hedges where possible and the selling of surplus US dollars when the rate is favourable.

Approximately 91% (2016: 92%) of the Group's revenue is from sales outside the UK, with some 82% (2016: 78%) in US dollars. US dollar based raw material purchases amounted to 35% in 2017 (2016: 22%).

– Price risk
Price risk includes the variability in the purchase price of hides and skins which are internationally traded commodities with no futures markets. The Group addresses this by buying forward to match anticipated revenues. This risk was reduced by the purchase of ETSC which buys a substantial proportion of the skins sourced in Ethiopia.

– Interest rate risk
The Group mitigates its exposure to interest rate fluctuations by using fixed rates where possible. Management would consider taking out an interest rate cap if this was felt to be beneficial.

– Liquidity risk
Borrowing facilities are monitored against the Group's forecast requirements and it is the Group's policy to mitigate risk by staggering the maturity of borrowings and by maintaining undrawn committed facilities, using overdrafts and medium term loans. Regular cash flow forecasts are prepared to assess the adequacy of undrawn facilities and appropriate action taken to improve cash flow where necessary.

– Credit risk
The Group is exposed to credit risk to the extent of non-payment by its customers. The Group utilises credit insurance policies to mitigate its risk from its trading exposure or seeks secure terms or payment in advance.

(b) Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(c) Foreign currency risk management
The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Assets		Liabilities		Cash	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
US Dollar	**2,604**	2,748	**(130)**	(329)	**646**	(1,649)
Euro	**155**	160	**(512)**	(298)	**(2,762)**	(720)
Ethiopian Birr	**1,128**	1,250	**(4,776)**	(5,755)	**25**	(243)
Other	**29**	33	**–**	(1)	**163**	15
	3,916	4,191	**(5,418)**	(6,383)	**(1,928)**	(2,597)
GBP	**492**	459	**(3,461)**	(3,681)	**(869)**	(1,141)
Total	**4,408**	4,650	**(8,879)**	(10,064)	**(2,797)**	(3,738)

(d) Foreign currency sensitivity
As 82% (2016: 78%) of the Group's revenue is in US dollars, the sensitivity analysis is only on the US dollar impact. The following table details the Group's sensitivity to a 10% increase in pounds sterling against the US dollar. 10% is considered to be a reasonable movement and also enables the users of the accounts to calculate other percentage movements. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout. A positive number indicates an increase in profit or loss and other equity where pounds sterling decrease against the respective currency.

	Group	
	2017 £'000	2016 £'000
Loss[1]	**(2,003)**	(1,822)

1. This is mainly attributable to the exposure on revenue and outstanding US dollars receivables, payables and cash at the year end in the Group.

(e) Forward foreign exchange contracts
It is the policy of the Group to sell surplus dollars and to enter into forward foreign exchange contracts to manage the risk associated with anticipated foreign currency sales and purchase transactions, when this is felt appropriate, however no such contracts were entered into in 2017 or 2016.

(f) Liquidity and interest rate risk
i) Interest rate risk management
The Group is exposed to interest rate risk as it borrows funds at both fixed and variable interest rates. The risk is managed by borrowing where appropriate on fixed interest rates.

ii) Interest rate sensitivity
The sensitivity analysis has been determined on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout. 50 basis points has been applied in the sensitivity analysis as this is considered to be an indicative movement for the analysis of interest rate risk. At the reporting date, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's net profit would decrease by £0.050m (2016: £0.050m). This is attributable to the Group's exposure to interest rates on its variable borrowings.

iii) Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate banking and borrowing facilities by continuously monitoring forecast with actual cash flows and matching profiles of financial assets and liabilities.

iv) Liquidity and interest risk tables
The interest rate profile of the non-derivative financial liabilities of the Group and its contractual maturity as at 31 December 2017 and at 31 December 2016 are as follows:

As at 31 December 2017

	Group					
	Less than 3 months £'000	3 months to 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Fixed rate						
Obligations under finance leases	2	1	–	234	–	237
Variable rate						
Bank overdrafts and loans	4,676	–	–	3,405	–	8,081
Trade and other payables	3,484	–	–	–	–	3,484

Notes to the consolidated accounts

27. Financial instruments (continued)

As at 31 December 2016

	Group					
	Less than 3 months £'000	3 months to 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Fixed rate						
Obligations under finance leases	–	–	15	306	–	321
Variable rate						
Bank overdrafts and loans	5,426	453	614	3,500	–	9,993
Trade and other payables	3,468	–	–	–	–	3,468

The Group has the following undrawn borrowing facilities:

	Group	
	2017 £'000	2016 £'000
Variable rate		
Expiring within one year	**3,907**	2,654
Expiring beyond one year	**–**	53
	3,907	2,707

The facilities expiring within one year are subject to review at various dates in 2018 however, Lloyds have confirmed their commitment to the business and renewal of the facilities for 2019.

(g) Capital risk management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet.

During 2017, the Group's strategy was to maintain the gearing ratio at an acceptable level, which is considered to be between 10% and 50%. The gearing ratios at 31 December 2017 and 2016 were as follows:

	Group	
	2017 £'000	2016 £'000
Total borrowings	**8,317**	10,315
Less cash at bank and in hand	**(327)**	(206)
Net debt	**7,990**	10,109
Total equity	**19,764**	21,274
Gearing ratio	**40.4%**	47.5%

28. Investments

	Company	
	2017 £'000	2016 £'000
At 1 January	**378**	186
Additions	**–**	192
At 31 December	**378**	378

In 2016, Pittards plc purchased the remaining 33% of Pittards Global Sourcing Private Limited Company.

The subsidiary undertakings whose results or financial position affect the figures in the consolidated financial statements are:

	Principal activities	Country of incorporation	Functional currency
Pittards Group Limited	Dormant	United Kingdom	£ Sterling
Pittard Garnar Services Limited	Consultancy and other related services to the leather industry	United Kingdom	£ Sterling
Daines & Hathaway Limited	Dormant	United Kingdom	£ Sterling
Pittards Global Sourcing Private Limited Company	Production of quality leather garments	Ethiopia	Ethiopian Birr
Ethiopia Tannery Share Company	Leather production	Ethiopia	Ethiopian Birr
Pittards Products Manufacturing Share Company	Production of quality leather gloves and leather goods	Ethiopia	Ethiopian Birr

The registered office for all UK incorporated entities is Sherborne Road, Yeovil, Somerset BA21 5BA. The registered offices of the Ethiopian entities are as follows:

Pittards Global Sourcing Private Limited Company	Nefas Silk Laphto Sub City, Saris Industry Zone, Addis Ababa, Ethiopia
Ethiopia Tannery Share Company	P.O. Box 5628, Kirkos Sub City, Kebele 16, Addis Ababa, Ethiopia
Pittards Products Manufacturing Share Company	Nefas Silk Laphto Sub City, Saris Industry Zone, Addis Ababa, Ethiopia

Pittards plc holds directly or indirectly all the issued ordinary share capital and voting rights of its principal trading subsidiary undertakings.

The directors believe that the carrying value of the Group's investments is supported by their underlying net assets.

Five year review

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Revenue	**30,287**	27,009	30,523	34,729	35,813
Percentage sold outside UK	**91%**	92%	90%	91%	91%
Profit/(loss) from operations before finance costs	**934**	(3,591)	1,115	1,971	2,004
Profit/(loss) on ordinary activities before taxation	**413**	(4,071)	655	1,589	1,712
Profit/(loss) on ordinary activities after taxation	**497**	(4,146)	471	1,110	1,447
Net assets	**19,764**	21,274	24,150	18,136	16,738
Inventory	**15,332**	17,353	18,872	17,796	15,441
Inventory days of sale	**241**	308	288	235	198
Net debt	**7,990**	10,109	6,458	7,601	7,091
Gearing	**40%**	48%	27%	42%	42%
Earnings/(loss) per 50p ordinary share (restated from 1p share)	**3.58p**	(29.89p)	3.98p	12.06p	15.68p
Dividends per ordinary share	**–**	–	–	–	–

Financial calendar

Annual General Meeting	15 May 2018
Announcement of half year results for 2018	September 2018
Announcement of 2018 results	March 2019

Notice of Annual General Meeting

Notice is hereby given that the 109th Annual General Meeting ("AGM") of Pittards Plc (the "Company") will be held at the Company's registered office situated at Sherborne Road, Yeovil, Somerset, BA21 5BA at 12 noon on 15 May 2018 to consider and, if thought fit, pass the resolutions set out in this Notice.

All of the resolutions in this Notice, apart from Resolutions 6 and 7, are proposed as ordinary resolutions. Resolutions 6 and 7 are proposed as special resolutions.

Ordinary resolutions

1 To receive the annual statement of accounts of the Company for the year ended 31 December 2017, and the directors' and auditors' reports thereon.

2. To re-elect Stephen Yapp as a director of the Company, who is retiring by rotation.

3. To re-elect Louise Cretton as a director of the Company, who is retiring by rotation.

4. To re-appoint PricewaterhouseCoopers LLP as the Company's auditors and to authorise the directors to determine their remuneration.

Special Business

5. That the directors of the Company ("Directors") be and are hereby unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all powers of the Company to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £694,434 (in substitution for, and to the exclusion of, all previous allotment authorities granted prior to the date of this resolution) to such persons, and at such time and on such terms, as they think proper during the period commencing on the date of the passing of this resolution and expiring on the date falling 15 months after the passing of this resolution or the conclusion of the next Annual General Meeting of the Company (whichever is the earlier) unless previously revoked, varied or extended by the Company in general meeting; and the Company be and is hereby authorised to make, prior to the expiry of such period, any offer or agreement which would or might require equity securities to be allotted after the expiry of said period and the Directors may allot equity securities in pursuance of any such an offer or agreement notwithstanding the expiry of the authority given by this resolution.

6. That the Company be and is hereby granted general and unconditional authority, for the purposes of section 701 of the Companies Act 2006 (the "Act") to make one or more market purchases (as defined in section 693(4) of the Act) of any of its ordinary shares of 50 pence each ("Ordinary Shares") on such terms and in such manner as the directors of the Company may from time to time determine, provided that the authority conferred by this resolution shall:

   (a) be limited to a maximum number of 1,388,869 Ordinary Shares to be purchased (being 10% of the Company's Ordinary Shares in issue as at the date of this resolution);

   (b) not permit the price (exclusive of expenses) which may be paid per Ordinary Share to be more than 5% above the average middle market quotation for an Ordinary Share (as derived from the London Stock Exchange Daily Official List) for the five business' days immediately preceding the day on which such Ordinary Share(s) are contracted to be purchased, or to be less than 50p per Ordinary Share, and

   (c) expire on the date falling 15 months after the passing of this resolution or the conclusion of the next Annual General Meeting of the Company (whichever is the earlier), but during this period the Company may enter into a contract to purchase Ordinary Shares, which would, or might, be completed or executed wholly or partly after the authority ends and the Company may purchase Ordinary Shares pursuant to any such contract as if such authority had not ended.

7. That, subject to and conditional upon the passing of resolution 5 above, the directors of the Company ("Directors") be and are hereby empowered pursuant to section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred on the Directors pursuant to resolution 5 above as if section 561(1) of the Act did not apply to any such allotment, with such power to operate in addition to any previous or subsequent power given to the Directors pursuant to section 570 of the Act, provided that such power shall:

   (a) expire on the date falling 15 months after the passing of this resolution or the conclusion of the next Annual General Meeting of the Company (whichever is the earlier), unless previously revoked, varied or extended by the Company in general meeting; and

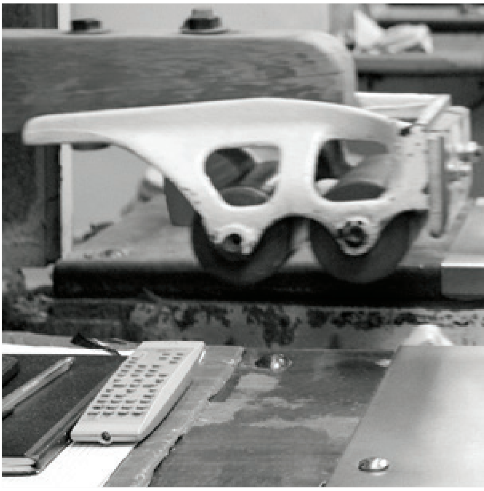
   (b) be limited to the allotment of equity securities having an aggregate nominal value of up to £694,434, save that the Company may at any time prior to the expiry of such power make an offer or enter into an agreement (subject to the foregoing limitations) which would or might require equity securities to be allotted after the expiry of such power, and the Directors may allot equity securities (subject to the foregoing limitations) in pursuance of such an offer or agreement as if such power had not expired.

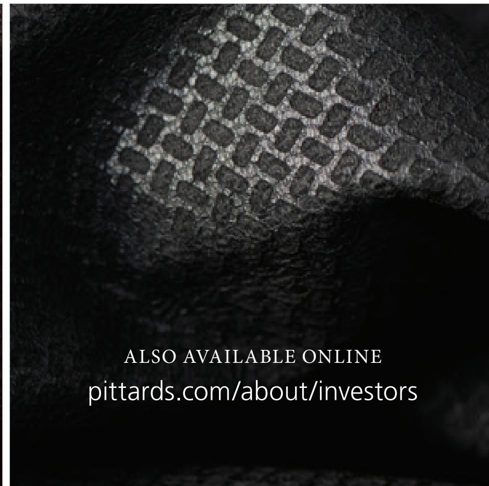
By order of the Board
M O'Rourke
Secretary
Pittards plc
Sherborne Road
Yeovil
Somerset
BA21 5BA
Date: 26 March 2018

Notes
A member of the Company entitled to attend and vote at the AGM may appoint a proxy, who need not be a member, to attend and vote at the AGM instead of such member.

The Company's register of directors' holdings and copies of directors' contracts of service will be available for inspection at the registered office of the Company during the usual business hours from the date of this notice until the date of the AGM from at least fifteen minutes prior to and until the conclusion of the AGM.

Members who have general queries about the meeting should contact the Company Secretary at the registered address above. No other methods of communication will be accepted. You may not use any electronic address provided in, or in connection with, this notice of AGM, or any related documents (including the proxy form), to communicate with the Company for any purposes other than those expressly stated.





ALSO AVAILABLE ONLINE

pittards.com/about/investors