Pittards®
WORLD CLASS LEATHER
ANNUAL REPORT 2018

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


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# CHAIRMAN'S STATEMENT

for the year ended 31 December 2018

"It has been a year of solid achievement where the Group has delivered stable results, established the pillars for growth and made strategically important inroads."

At the beginning of 2018, the Group established its strategic vision for the business and unveiled its priorities; to deliver an excellent service to its core customers whilst targeting the interiors and performance footwear markets. This will create a more balanced business and product portfolio that builds upon the strengths of its customer base, expertise in leather innovation and focuses the business on areas which will most enhance financial performance. Further details of current opportunities and the strategically important progress made are outlined by the CEO, Reg Hankey, in his review.

Throughout the year, the number of global uncertainties and challenges has not reduced, and it is against this backdrop that the business delivered results for 2018 in line with market expectations. To achieve this in a year of transition and investment to strengthen its people, technology and manufacturing capabilities, reflects the quality and hard work of the staff throughout the business.

As previously announced, Matthew O'Rourke left the company at the end of the year after two and a half years of service and we wish him well for the future. Subsequently, Richard Briere was welcomed to the Board as CFO on 19 March 2019, bringing with him experience from both manufacturing and distribution industries.

Good progress has already been made in implementing the Group's stated objectives. Whilst the Group must be mindful of the unpredictable global economic situation, in several respects the Group has entered 2019 well positioned for growth, with clear priorities, a stable financial base with available banking facility headroom of £5.5m and a positive outlook about its near-term opportunities.

The Group's optimism for the future is supported by new business opportunities that are now beyond the the bulk sampling stage, with new customers in both its existing and target markets.

**Stephen Yapp**
Chairman
1 April 2019

## Results in brief

| | **2018 £'m** | 2017 £'m |
|---|---|---|
| **Revenue** | **28.5** | 30.3 |
| **Gross profit** | **7.2** | 7.1 |
| **Gross profit margin** | **25%** | 23% |
| **Profit before taxation** | **0.4** | 0.4 |
| **EBITDA** | **1.8** | 1.6 |
| **Net assets** | **18.5** | 19.8 |
| **Inventory** | **16.3** | 15.3 |
| **Net debt** | **7.7** | 8.0 |
| **Gearing** | **42%** | 40% |
| **Basic earnings per share** | **(13.91p)** | 3.58p |
| **Net assets per share** | **133.59p** | 142.30p |

## Strategic and operational highlights

- New foothold in automotive and airline markets
- Progression of footwear manufacturing in Ethiopia

Company Number 102384

PRO/SL

# CHIEF EXECUTIVE'S STATEMENT

for the year ended 31 December 2018

2018 was a year of strategic progress and steady financial performance. The Group has had a productive year supporting its existing customer base, mainly focused upon balance sheet management and progressing its pipeline of innovative products to new markets.

## Highlights

Year ended 31 December 2018:

- Revenue £28.5m (2017: £30.3m)
- Profit before tax £0.4m (2017: £0.4m)
- EBITDA £1.8m 6.2% (2017: £1.6m)
- Net assets £18.5m (2017: £19.8m)
- Net debt £7.7m (2017: £8.0m)
- New foothold in automotive and airline markets
- Progression of footwear manufacturing in Ethiopia.

## Financial review

Despite reduced revenue at £28.5m (2017: £30.3m), the Group has improved gross profit to £7.2m (2017: £7.1m).

The global economic climate was subdued during 2018 with overall weaker demand. In particular, demand for shoe leather was lower reflecting global trends in this market. The Group remained focused on the gross margin where lower raw material prices were favourable, improving gross margin to 25% (2017: 23%).

EBITDA increased to £1.8m (2017: £1.6m) resulting in a profit before tax of £0.4m (2017: £0.4m). Net assets decreased to £18.5m (2017: £19.8m). Net debt was lower at £7.7m (2017: £8.0m). The Group's banking facilities have been renewed and give headroom of £5.5m, adequate for the Group's medium-term growth objectives.

The Group has taken the prudent view in line with IAS 12 'Income Taxes' to eliminate the deferred tax asset of £1.9m in the year. This has no effect on the operating performance, cash, debt or the Group's outlook, which remains unchanged. This now leaves the Group's net asset value per share fully covered by tangible assets at 133.59p (2017: 142.30p).

The tax charge for the year of £2.3m includes £1.9m relating to a deferred tax charge which was written down to meet the IAS12 requirement and £0.3m relating to Ethiopian tax on profits relating to prior year; both are one time in nature. The Group expects a more normalised split of profits between the UK and Ethiopia in 2019 and retains taxable losses in the UK of £11.2m to utilise in future periods.

Overall inventory levels have increased to £16.3m (2017: £15.3m), with the increase in raw materials of £2.4m being partially offset by a £1.6m reduction in work in progress and finished goods. The increase in raw material stocks is largely a result of two factors which fall outside the Group's core stock holding; these factors being the strategic purchase of raw materials, mainly chemicals from Europe ahead of Brexit, along with additional stock items to support the Group's new shoe production line. The Group continues to make progress in reducing the levels of some of the more difficult stocks, in particular sheepskins, and this continues to remain a key focus.

One of the Group's key financial measures is Return on Capital Employed. This has increased in 2018 to 5.2% (2017: 4.1%) and the Group's near-term objective is to deliver returns above its estimated Weighted Average Cost of Capital of approximately 7%.

## Market view

The overall global economic climate remains complex. There continues to be speculation around the impact of Brexit and general trading conditions in Europe. The economic implications resulting from the impact of Brexit are largely beyond the control of the Group, however, the Group will continue to review the impact of Brexit with key suppliers, stakeholders and professional advisors. The uncertainty regarding the trading relationship between the US and China has a greater impact on the global leather industry.

As a predominantly global export business, the Group's trade is clearly affected by these macro-economic trends. Such a period of uncertainty also presents opportunities for the Company as pricing pressures on raw materials are subdued and more customers are seeking innovation, supply chain integrity and trusted relationships as brands seek to capture the millennial customer, more than 70% of whom would be happy to pay extra for sustainable products. 23.3bn square feet of leather is sold globally of which 4% is glove leather, 47% is footwear leather and 27% is automotive and furniture leather.

The Group anticipates these trends will continue into 2019.

## Operations

During the year, the Group has continued to build on its capacity and capabilities to both meet the demands of its new markets and deliver against its objectives. This has seen a targeted capital investment, a devolved management structure, with two divisions – the UK and Ethiopia –

FootJoy continues to lead the US Golf market for both gloving and footwear and 2018 saw the launch of the new StaSof glove featuring next-generation Pittards leather technology. Pictured: leading Tour player Adam Scott.

**Profit before tax**

£0.4 million

(2017: £0.4 million)

**EBITDA**

£1.8 million

(2017: £1.6 million)

## CHIEF EXECUTIVE'S STATEMENT

At the 2019 Geneva Motorshow, the Morgan Motor Company unveiled its new Plus Six model. Described as the 'most dynamically capable Morgan ever produced', the performance leather for the interior will be manufactured by Pittards.

with their own operational and financial accountability and the strengthening of the senior management team through the recruitment of a UK Sales Director and a Technical Director, who are based at the UK operations of Yeovil.

### Strategic progress

Pittards remains one of the oldest manufacturers of high quality and performance leathers with a diverse customer base of premium brands across its core markets of shoe, gloving and leathergoods. Delivering on the expectations of the Group's core customers in performance gloves and footwear, from both divisions, remains a key focus and the Group will continue to enhance its offering to ensure it meets their needs. Alongside this, and as already communicated, the Group intends to leverage its heritage, competitive advantage and expertise to broaden the business into new products and markets to maximise its growth.

The Group's strategy recognises that most of its current, core customers operate in niche market sectors and the Group has long established excellent relationships within these sectors. The Group's established customer base is very important for its long-term success, but its growth opportunities are limited in these niche markets. In order to build medium and long-term growth into the business, the Group needs to develop into new market sectors. The Group's growth strategy for the UK business is predominantly targeted upon increasing leather sales, both to the whole hide interiors markets, embracing automotive, airline and others, together with a new emphasis upon larger shoe leather brands.

In the UK, the business has now started to supply the automotive and airline markets with initial production beyond the sampling stage. Inevitably, the business will need to build on this foundation into higher volumes, but the Group now believes it has a clearly established foothold in this new market sector where leather use is forecast to continue to grow at a Compound Annual Growth Rate of 6.5%, to a value of $46.3 billion by 2022. The investment of a whole-hide shaving machine means the Group's whole hide production volume capabilities are secure.

The Group's commitment to remain at the forefront of leather innovation will help the business deliver against customer requirements and is evidenced by the progression and increase of its pipeline for other potential customers in the UK.

Additionally, in the UK, the Company is sampling new products into some new large shoe brands, although the global market is weak in this area, the Company does anticipate making further progress in the near-term.

For the Ethiopian business, the strategy is to focus on the development of finished product manufacture, in particular shoes and gloves. The division has increased its manufacturing capabilities for footwear by investing in people and machinery. Consequently, the division has expanded its product offering and volumes and become established as a reliable resource for these finished products. This strategically significant development further diversifies the business model with customers including Soul of Africa, Vivo Barefoot, and in 2019 another niche brand is planned.

In addition to the investment in shoe machinery at Pittards Products Manufacturing (PPM), the Group has also added new tanning drums and fleshing machines to Ethiopia Tannery Share Company (ETSC) to upgrade its capacity. Together with the purchase of the whole-hide shaving machine, the Group has invested £0.6m this year. The Group is continuing to invest in machinery in the first half of 2019, with the purchase of a whole-hide splitting machine, two measuring machines and a wet blue shaving machine underway for ETSC.

Following the recent period of restructuring and recruitment, senior management was further strengthened with hires including a UK Sales Director and a Technical Director, who will also be based at the UK operations in Yeovil. The Company now considers it has the people in place to deliver against its objectives.

### Summary

It has taken time to build the platform to implement the Group's vision for the business in parallel with servicing its core customers. This was a year of progress and whilst there is much more ahead of the Group, it has started to demonstrate its ability to differentiate its customer-focused model to provide a more balanced portfolio, deliver growth and remain a world class provider of leather and finished leather products.

**Reg Hankey**
Chief Executive Officer
1 April 2019

**Net debt**
£7.7 million
(2017: £8.0 million)

**Net assets**
£18.5 million
(2017: £19.8 million)

**Revenue outside the UK**
90%
(2017: 91%)

OluKai

END.

# DIRECTORS, OFFICERS AND ADVISERS

Clockwise from top left.

OluKai

Ocean lifestyle brand Olukai creates comfort casual footwear. This concept sandal showcases a Pittards innovation that allows the creation of intricate contrast surface patterns, meeting the brand's demand for performance combined with standout style.

Clarks

Developed for the military, loved by fashion. Pittards' highly specified camouflage leathers translate technology into street appeal. Seen here on the Clarks x END collaboration of its famous Wallabee boot.

SAMUELHUBBARD.

'Ridiculously comfortable' Samuel Hubbard shoes are designed in the USA and crafted in Portugal. Utilising Pittards classic water resistant leathers allows the brand to engineer protection from the elements into its everyday styles.

**S Yapp** FCMA MBA, Chairman, non-executive [B C]

Stephen Yapp (61) joined the Group in June 2015 and was appointed as Chairman in May 2016. Stephen has 25 years' experience as a director of public and private companies over the course of his career. He is also 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. Stephen is also a Fellow Chartered Management Accountant and holds an MBA.

**G P Davis** FCA, non-executive [A B]

Godfrey Davis (70) 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. Godfrey is an experienced leader of private and publicly owned entities and has a strong understanding of the UK AIM market. He has a deep knowledge of the leather goods sector accumulated over many years' experience in the industry.

**L M Cretton** BA Hons, non-executive [A B]

Louise Cretton (62) 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. Louise has extensive experience in international quantitative and qualitative research, brand engineering, strategic development and planning.

**R H Hankey** BSc, FSLTC, LCGI, FCMI, CDipAF [C]

Reg Hankey (63) 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 also a director and past President of UK Leather Federation (formerly BLC Research), additionally he has Chaired LIAC for the University of Northampton for over 20 years. Reg is also a founding member of the global Leather Naturally campaign.

**R Briere** Secretary

Richard Briere (45) joined the Group as Chief Financial Officer and Company Secretary on 19 March 2019. Richard has broad experience across the manufacturing and distribution industries.

**M O'Rourke** ACMA

Matthew O'Rourke (49) joined the Group as Chief Financial Officer and Company Secretary in June 2016. He left the company on 31 December 2018.

*A Member of the Audit Committee*
*B Member of the Remuneration Committee*
*C Member of the Nominations Committee*

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

**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 2018

## 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 remained steady in 2018, during a year where global demand has been challenging. Although this has impacted revenue, with a 6% decrease noted, the Group has achieved a gross profit ahead of 2017. Gross margin has improved 2% in the year to 25%, reflecting the benefit of lower raw material prices.

The Group's cost percentage has increased to 22% (2017: 20%) as a result of additional strategic costs to support the development of new business opportunities. The Group has made some targeted investments in people to support its future growth aspirations, however, in addition, the Group has incurred some restructuring costs as it reshapes the business to support the future strategy. Administration costs also include share-based incentive schemes at a cost of £0.1m.

Profit before tax for the year was £0.4m which is consistent with 2017.

Performance remains highly sensitive to small changes in volume, demonstrating the importance of strong relationships with the Group's existing customers and the need to acquire new customers in the Group's target markets. This will be delivered through the Group's key strengths of heritage, integrity, quality and innovation. The Group has made further progress on this, as disclosed in the Chief Executive's Statement on page 3.

### Year end position

Net assets have decreased from £19.8m to £18.5m. Stock has increased in the year to £16.3m, as a result of increases in chemicals and raw material stock holdings for finished goods manufacturing in Ethiopia. The Group has made progress in reducing some of its older, low end problem stock, which is predominantly skins, and this will remain a key focus for the Group.

Total net debt (including obligations, finance leases and overdrafts) decreased by £0.3m during the year, bringing the Group's gearing ratio to 42%, which is ahead of its target level of 50%. Free cash flow remains positive at £0.4m (2017: £1.0m), impacted by working capital movements.

### 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. Group policy is to only process hides and skins that are a by-product of these industries.

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

### Environmental matters

Pittards takes the responsibility of protecting the environment extremely seriously and whilst producing some of the finest leathers in the world, it also maximises the use of sustainable technology and processes during manufacturing.

Having recently attained a bronze medal rating against Leather Working Group standards in the Environmental Stewardship Audit, The Group maintains an ISO14001:2015 certified environmental management system and continues making improvements with the introduction of the latest technological developments, both in house and with its partners in industry.

The Group is committed to continually preserving the environment through amending processes and investing in new technology and plant at the operational level to reduce its environmental impact across all its sites in the UK and Ethiopia.

### Anti-bribery and corruption

Pittards is committed to conducting its business affairs so as to ensure that it does not engage in or facilitate any form of bribery or corruption in any parts of its supply chain or other stakeholder interactions. Expected standards of behaviour are outlined in the anti-bribery and corruption policy, which also provides guidance on the giving and receiving of gifts and hospitality.

### Strategy

The Group remains committed to optimising and growing its existing core business of gloves and performance footwear where the fundamentals of integrity, service, innovation and reputation are the foundations of its customer relationships.

In addition, the Group has identified two new target markets, whole hide interiors and large shoe brands, which are 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 inventory days of sale.

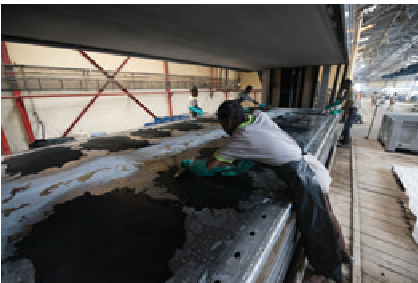
Further details of the Group's strategic objectives and their implementation to date are covered in both the Chairman's Statement on page 1 and the Chief Executive's Statement on page 3.

### 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:

Tanning Drums, Ethiopia
The new tanning drums in the hide section of Ethiopia Tannery.

Fleshing Machine, Ethiopia
Pickle fleshing machine for sheepskin production in Ethiopia Tannery.



Vac Dryer, Ethiopia
New vacuum dryer for sheepskin production in Ethiopia Tannery.

Whole Hide Shaver, Yeovil
A new shaving machine to support whole hide capacity in Yeovil Tannery.

- ***Currency***

The Group is subject to the current volatility in the currency markets, particularly US dollar, Ethiopian Birr and Euro. 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. Additionally, in 2018, the Group has entered into foreign forward currency contracts to hedge against movements in the US dollar, adopting a new cash flow hedging strategy, in response to the anticipated continued volatile currency markets. The Group is now more forward protected than historically, and will continue to review it's strategy in this area.

- ***Political***

The political environment in Ethiopia has been notably more stable in 2018 as the new Prime Minister establishes his office and new strategy for the evolving democracy. Opportunities for further economic developments are growing, however the new administration is still in its infancy. The Group continues to mitigate this risk through its ability to dual supply from the UK.

In the UK, there continue to be uncertainties regarding the country's future relationship with the European Union. The Group's exposure to Europe is largely supply driven, with some of its key purchases derived from Europe. The Group continues 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 the 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. The Group continues to have excellent working relationships with its banking partners in both the UK and Ethiopia and has sufficient facility levels to meet its planned requirements.

Through its activities, the Group is exposed to a variety of financial risks; market (including currency, price and interest rate), liquidity and credit which are discussed in Note 26.

**Key performance indicators**

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

- ***Revenue***

The Group's revenue is £28.5m, behind the £30.3m in the prior year, however, this remains a key driver for the business.

- ***Profit before tax***

The Group's profit before tax is consistent with the prior year at £0.4m.

- ***EBITDA***

The Group's EBITDA is £1.8m, ahead of the £1.6m achieved in 2017.

- ***Return on Capital Employed***

The Group's return on capital employed is at 5.2% (2017: 4.1%). This is below the Group's weighted average cost of capital which the Group is addressing in its strategic and operational plans.

- ***Inventory days of sale***

Stock turn in 2018 has declined to 279 days, from 241 days in 2017.

- ***Gearing***

The Group's gearing has increased to 42% (2017: 40%), remaining ahead of the target level of 50%.

- ***Borrowings***

The Group monitors its bank balances against facilities daily 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 1 April 2019 and signed on its behalf by:

**Reg Hankey**
Chief Executive Officer
1 April 2019

# CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2018

**Statement of Corporate Governance**
As the Chairman, I recognise the importance of high standards of Corporate Governance and am pleased to report below on how the Board of Pittards maintains its governance framework.

The Group is led and controlled by the Board who are responsible for approving Group policy and strategy for the benefit of its shareholders in accordance with their fiduciary and statutory duties. The Board comprises two executive members and three non-executive directors, the biographies of the directors are on page 7. These show the range of business and financial experience on which the Board can call.

**Chairman and Chief Executive**
The Chairman, Stephen Yapp, is responsible for the leadership of the Board and ensuring its effectiveness. The Chairman is considered independent by the Board. Reg Hankey, Chief Executive, manages the Group and has the prime role, with the assistance of the Board, of developing and implementing business strategy.

**Non-Executives**
The Non-Executive Directors, under the leadership of the Chairman, undertake detailed examination and discussion of the strategies proposed by the Executive Directors, to ensure that decisions are in the best, long-term interests of the shareholders and take proper account of the interests of the Group's other stakeholders. The Non-Executive Directors bring independent judgement and scrutiny to the decisions taken by the Board. They monitor the success of management in delivering the agreed strategy within the risk appetite and control framework set by the Board. Their views are actively sought when developing proposals on strategy and in discussions in meetings.

The QCA guidelines acknowledge that for growing companies it may not be possible for boards to meet the definition of "independence" for Non-Executive Directors, however it sets out that it is important for the board to foster an attitude of independence of character and judgement. The Board is mindful of the threat to independence and actively manages the potential risk to ensure that the Non-Executives provide the independent, constructive challenge to help develop the Board's proposals on strategy. The Non-Executive Directors are considered to be independent by the Board.

The Senior Independent Director, Godfrey Davis, offers a sounding board for the Chairman and serves as an intermediary for other directors and shareholders when necessary.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures, applicable rules and regulations are observed.

In the furtherance of their duties on behalf of the Group, the Directors also have access to independent professional advice at the expense of the Group. During the year, the Chair of the Remuneration Committee sought external tax advice on long-term incentive schemes.

The Chairman ensures that the Board meet regularly throughout the year, with additional ad hoc meetings and calls being held as required. The Chairman ensures that meetings of Non-Executive Directors without the Executive Directors are held.

**Communication with Shareholders**
The Board attaches great importance to providing shareholders with clear and transparent information on the Group's activities, strategies and financial position, in addition to having regard to its obligations as a quoted public company and the AIM rules.

The Group holds meetings with significant shareholders on a regular basis and regards the Annual Report and Annual General Meeting as a good opportunity to communicate directly with shareholders which allow them to participate by

HILL&FRIENDS

Contemporary luxury lifestyle brand Hill & Friends is working in partnership with Pittards to ensure all of its bags are made in the UK, commencing with Spring / Summer 2019 production.

NTOTO

Pittards Ethiopia has established skills in hand stitched footwear that will be extended into the newly developed NTOTO brand for distribution and sale in the local market. The launch style has been designed to be versatile across a range of stock materials.

HILL&FRIENDS

# CORPORATE GOVERNANCE REPORT

submitting questions at the Annual General Meeting.

The Group lists contact details on its website should shareholders wish to communicate with the Board. All announcements and results, including those released via RNS, are available on the Group's website.

**Committees**
The Board has three standing committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. The Terms of Reference for each of the Committees are available on the Group's website.

**Audit Committee**
The Audit Committee currently consists of two Non-Executive Directors who formally met twice during the year under the Chairmanship of Louise Cretton. Whilst Louise Cretton has been a member of the board for more than sixteen years (non-consecutively), the Board nevertheless considers that Louise Cretton fulfils the roles of Audit Chair and Non-Executive Director with independence of character and judgement and has concluded that it is appropriate to retain the experience, corporate memory and knowledge of the business possessed by Louise Cretton in her role as Chair of the Audit Committee.

The Chief Financial Officer and the external auditors attend meetings of the Audit Committee by invitation. The Committee may also hold separate meetings with the external auditors as appropriate.

The Audit Committee duties include monitoring internal controls throughout the Group, approving the Group's accounting policies and reviewing the Group's interim results and full year statements before submission to the full board. The Audit Committee also reviews the risk register and risk appetite of the Group and monitors the independence of the external auditors.

The Audit Committee acts to ensure that the financial performance of the Group is properly recorded and monitored, and in fulfilling its role, it meets annually with the auditors and reviews the external audit report.

During the course of this year, the Audit Committee reviewed the Terms of Reference for the committee. In between the formal meetings, the Chair had discussions with the audit partner at PwC to discuss issues on mutual performance and planning. Particular attention has been given to financial resource and the audit in Ethiopia this year. In addition, there has also been a focus on stock identification and measurement.

The contents of the meetings are recorded in the minutes which are then circulated to the committee, by the Chair, for review before being issued. The Chair reports on the full agenda and discussions to the Board.

**Remuneration Committee**
The Remuneration Committee consists of the three Non-Executive Directors and meets at least once a year under the Chairmanship of Godfrey Davis.

The purpose of the Committee is to review the performance of the full-time Executive Directors and to set the scale and structure of their remuneration and the basis of their service agreements with due regards to the interests of the shareholders. In fulfilling this responsibility, the Remuneration Committee is responsible for setting salaries, incentives and other benefit arrangements of Executive Directors. The Remuneration Committee also advises the Board on the remuneration policy for senior Executives and may invite participation in the Company's long-term incentive share scheme.

During the course of this year, the Committee reviewed, in detail, the remuneration of the directors and senior employees, including the setting and measurement of annual bonus and long-term incentive targets. In between formal meetings, the Chair has taken external advice on long-term incentives, which are an area of focus as the business invests in developing and incentivising its management team.

The contents of the meetings are recorded in the minutes which are circulated to the Committee by the Chair for review before being issued. The Chair reports on the full agenda and discussions of the Board.

**Nominations Committee**
The Nominations Committee consists of one executive and one Non-Executive Director and is chaired by Stephen Yapp. The Nominations Committee did not meet during this year.

The Nominations Committee is responsible for evaluating the Board and determining the skills and characteristics that are needed in new board candidates when required.

**Internal Controls**
The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. A risk register is maintained by the Group containing both potential financial and non-financial risks which may impact the business. The Board confirms that there are ongoing processes for identifying, evaluating and mitigating the significant risks faced by the Group. The Group's internal financial control and monitoring procedures include:

- Clear responsibility on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information; The control of key financial risks through appropriate authorisation levels and segregation of accounting duties;
- Detailed budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budget;

- Reporting on any non-compliance with internal financial controls and procedures; and
- Audit Committee review reports issued by the external auditors and present to the board via the Chair of the Audit Committee.

The Group does not have an Internal Audit function as the Board considers that the size and nature of the business does not currently require it. The Audit Committee, on behalf of the Board, review reports from the external auditors together with management's response regarding proposed actions. In this manner, the Board comment on internal controls, as directed by the Executive Directors, and they also make independent enquires on the function and scope of the controls. These discussions are recorded in minutes and actions, where necessary, are agreed.

**Embed effective risk management, considering both opportunities and threats, throughout the organisation**
The Board is responsible for risk management and maintaining an appropriate system of internal controls to safeguard the shareholders' investment and Group assets. The Directors continue to review the financial reporting procedures and internal controls of the Group companies to ensure they are robust enough to deliver timely, detailed reporting that will allow accurate monitoring of the Group's performance.

The Board receives regular feedback from the Audit Committee on any internal control issues raised by its external auditors.

In the context of the Group's overall strategy, the Board undertakes risk assessment as well as the review of internal controls. The Group has established a risk register which involves risks being identified, recorded, monitored and addressed at division and Group level and subject to regular review. A top-down risk review is combined with a complimentary bottom-up approach to ensure that risks are fully considered.

The Board determines the extent and nature of the risks it is prepared to take to achieve the Group's strategic objectives. The Board has overall responsibility for the Group's risk appetite.

The significant areas of risk and judgement in relation to the Group's financial statements for the year ended 31 December 2018, as discussed at the Audit Committee, are as follows:

- ***Revenue recognition***
As with most companies, there is a risk that in order to achieve 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 the Group's balance sheet and a key area of estimation and judgment. Inventory policies are reviewed on a regular basis, with provisions made where required to ensure that the inventory is held at an appropriate value.

**Maintain the Board as a well-functioning, balanced team led by the Chair**
The Board normally meets six times per year in person to review and discuss strategy, financial results, business planning, sales, operations and HR matters. The Director's are required to invest the necessary time to execute their role properly.

Directors' attendance at Board and Committee meetings during the year was as follows:

| | Board Meetings | | Audit Committee | | Remuneration Committee | | Nominations Committee | |
|---|---|---|---|---|---|---|---|---|
| **Dircetors' attendance** | Attended | Eligible | Attended | Eligible | Attended | Eligible | Attended | Eligible |
| R Briere[1] | 1 | 1 | – | – | – | – | – | – |
| L Cretton | 6 | 6 | 2 | 2 | 1 | 1 | – | – |
| G Davis | 6 | 6 | 2 | 2 | 1 | 1 | – | – |
| R Hankey | 6 | 6 | – | – | – | – | – | – |
| M O'Rourke[2] (resigned 31 Dec 2018) | 6 | 6 | – | – | – | – | – | – |
| S Yapp | 6 | 6 | – | – | 1 | 1 | – | – |

1. R Briere joined the Board as Chief Financial Officer on 19 March 2019 and attended his first board meeting on 20 March 2019.
2. The Chief Financial Officer attends audit committee meetings by invitation which are not included in the above attendance.

# CORPORATE GOVERNANCE REPORT

**Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**
The Company undertakes regular monitoring of personal and corporate performance using agreed key performance indicators and detailed financial reports. Responsibility for assessing and monitoring the performance of the Executive Directors lies with the independent Non-Executive Directors. Key performance indicators are detailed on page 9.

The performance of individual Executive Directors is reviewed not less than once a year by the Remuneration Committee and has both formal and informal mechanisms for evaluating and giving feedback on an ad-hoc basis.

All Directors have the opportunity to undertake relevant training and attend relevant seminars and forums.

The Board is confident that all of its members have the knowledge, ability and experience to perform the functions required of a director of an AIMS listed company.

**Promote a corporate culture that is based on ethical values and behaviours**
The Board is committed to embodying and promoting a corporate culture of excellent service delivery across the Group, whereby a customer need can be fulfilled whilst maintaining the Group's margins. It has endorsed various policies to achieve this, which also require ethical behaviour of staff and relevant counterparties.

Operating in a fragmented global industry, the Group's marketing strategy is to be selective and targeted towards trade shows, events and through social media. The Group is proud of its existing long-term customer relationships and will continue to invest in those as well as potential new customers. Staff throughout the business are regularly updated on key developments both formally and informally and staff feedback is always encouraged.

**Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**
The Board recognises the importance of providing shareholders with clear and transparent information on any group activities, strategy and financial position.

The Board encourages engagement with all shareholders, including two-way communications with institutional investors, analysts and private investors. The Board holds regular meetings with the larger shareholders and considers it has successfully created an open channel of communication for specific concerns, questions or updates facilitated by regular meetings, site visits and ad hoc telephone calls as appropriate with the Chairman, the Chief Executive and the Chief Financial Officer.

Risk Management and Internal Controls are discussed throughout the Corporate Governance report.

Historic reports and accounts, along with all notices and circulars for the last five years, are available on the Group's website.

**Stephen Yapp**
Chairman
1 April 2019

## Zero waste

Pittards Work Glove manufacturing delivered over one million pairs in 2018. The Chevron Glove is a partner to that production, designed to use the smaller pieces left after the original style is cut, working towards a zero waste position.

# DIRECTORS' REPORT

for the year ended 31 December 2018

The directors submit their report together with the audited consolidated financial statements of the Group and the Company for the year ended 31 December 2018

### 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 2018 (2017: £nil) and the directors are not recommending the payment of a final dividend (2017: £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.

### Brexit

The uncertainty of Brexit is discussed in the Chief Executive's statement on page 3.

### Research and development

The Group recognises the importance of continuous product and process development in 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 26. Other financial assets and liabilities, such as trade receivables and trade payables, arise directly from the Group's operating activities. The Group has traded in financial instruments during the year.

Overall, some 80% of Group revenue is in US dollars, 12% in Sterling, 4% in Ethiopian Birr and 4% in Euros. Where possible, a natural hedge is maintained against the Group's currency exposure. During 2018, a review of the Group's foreign currency risk management policy has been performed, resulting in the adoption of a cash flow hedging strategy with the use of forward foreign currency contracts for US dollars. Given current currency market conditions, Group policy is to hold a contract position covering 6 months, in order to protect future cash flows and reduce the level of uncertainty. This time frame is considered appropriate for the cost base of the business to be amended, should a significant, prolonged shift in exchange rates be noted. The Group will continue to review this strategy considering the continued Brexit uncertainties, with the potential to extend this period out further.

The Group's principal borrowings are in 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 (GS)) which are used to manage timing differences in cash flows arising from trading activities as set out in Note 26. 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

franklin

Long-term partner Franklin specifies Pittards' performance sport leathers with grip technology into its batting gloves. Pittards is proud to see them worn by World Series winners, Boston Red Sox.

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 33 days' purchases (2017: 42 days).

**Equal opportunities**

Pittards is committed to ensuring that colleagues are treated equally, regardless of gender, sexual orientation, religion or belief, age, mental status, social class, colour, race, ethnic origin, creed, disability, political or philosophical beliefs, or marital or civil partnership status.

Through the Group's equal opportunities policy, it aims to create an environment that offers all colleagues the chance to use their skills and talent. Decisions on recruitment, training, promotion and employment conditions are based solely on objective, job-related criteria, and personal competence and performance.

The Group seeks wherever possible to make reasonable adjustments to ensure that a colleague who becomes disabled during the course of his or her employment is able to continue working effectively.

The Group is confident that all employees, regardless of gender, are paid equally for doing equivalent jobs across the business and have an equal opportunity to participate in and earn incentives. The current recruitment, progression, performance, reward and benefit policies and practices are not gender biased and the business will continue to monitor them to ensure they remain fair and equitable.

Pittards is committed to ensuring that the rights of all individuals are respected throughout the business and its supply chain.

**Employee consultation and involvement**

The Group places great importance on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them

| Substantial interests | Holding of 50p shares | % Holding |
|---|---|---|
| Downing LLP | 2,902,592 | 20.90% |
| Artemis Investment Management LLP | 2,370,000 | 17.06% |
| John A Rendell | 2,240,000 | 16.13% |
| Pension Protection Fund | 790,747 | 5.69% |
| Ruffer Investment Management | 528,457 | 3.80% |
| 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 (if later) | |
|---|---|---|---|---|
| Dircetors' interests | Fully paid 50p shares | Share options | Fully paid 50p shares | Share options |
| R Briere | – | – | – | – |
| LM Cretton | 14,203 | – | 12,000 | – |
| GP Davis | 87,567 | – | 72,667 | – |
| RH Hankey | 240,033 | – | 240,033 | 155,945 |
| S Yapp | 99,111 | – | 60,231 | 47,337 |

as employees and on the various factors affecting the performance of the Group, through special briefing meetings.

## 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 1 April 2019 shown in the table below. No significant movements impacting the profile of the key shareholders have been noted since 31 December 2018.

## Directors

The persons named on page 7 are the directors during the year and up to the date of approval of the Annual Report. R H Hankey and G Davis retire by rotation and offer themselves for re-election. R Briere was appointed a director in March 2019 and offers himself for election at the forthcoming AGM. M O'Rourke stepped down as a director on 31 December 2018.

**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 2018 and 1 April 2019.

The share options included in the previous table relate to the 2015 Long Term Incentive Plan (LTIP), which lapsed during 2018. 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% |
| S Yapp | 30% |

Matthew O'Rourke resigned from the Board during the year (effective 31 December 2018), with a fully paid up shareholding of 8,606 shares. His entitlement to the 2016 LTIP was forfeited on leaving the company. Compensation for loss of office is disclosed in Note 6.

**Annual General Meeting**
An ordinary resolution (number 6) 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 7) will be proposed to enable the Company to make market purchases of its own shares.

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 2020 (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 1 April 2019 and signed on its behalf by:

**Reg Hankey**
Chief Executive Officer
1 April 2019

# STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2018

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, 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 7 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 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:

**Reg Hankey**
Chief Executive Officer
1 April 2019

# 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 2018 and of the group's loss and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (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 2018 (the "Annual Report"), which comprise: the group and company balance sheets as at 31 December 2018; 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: £284,700 (2017: £302,900), based on 1% of total revenue.
- Overall parent company materiality: £251,500 (2017: £268,700), based on 1% of total 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 a UK division and Ethiopian division for internal reporting purposes.
- We performed full scope audits on the four significant reporting units (the UK entities, Pittards plc and Pittards Garnar Services Limited were audited by PwC LLP, the significant Ethiopian entities, Pittards Products Manufacturing Share Company and Ethiopia Tannery Share Company were audited by the Ethiopian component auditor HST Consulting).
- The entities where either PwC LLP or HST Consulting performed full scope audits accounted for 99.9% of group revenue

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

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PITTARDS PLC

**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 |
|---|---|
| **Deferred tax assets**<br><br>*Group and parent*<br>Deferred tax is a key audit matter because Pittards plc held a large deferred tax asset in respect of losses incurred within the UK.<br><br>There is significant judgement as to whether this asset should be continued to be recognised, and if so at what amount since under accounting standards a deferred tax asset should only be recognised to the extent it is 'highly probable' that sufficient taxable profits will be available in the future for it to be utilised. Given recent trading results consideration needs to be given as to the appropriateness of continuing to recognise this asset.<br><br>See notes 1 and 2b to the financial statements for the directors' disclosures of the related accounting policies and judgements for deferred tax and note 19. | We discussed forecast trading expectations and the current position of bulk sampling and any confirmed orders with new customers. We assessed the sensitivity of these forecasts and expectations of profitability and the range of possible outcomes in the future.<br><br>We looked back on the accuracy of management's forecasts of performance in previous years to provide insight into the reliability of management's forecasts to assess the future expected utilisation of the deferred tax asset.<br><br>Due to the time taken for product development and refining bulk sampling processes whilst the pipeline is encouraging, the previously forecast profits have not been realised. The company believe these new customers will generate sufficient taxable profits to utilise the deferred tax asset in the future but as orders have not been confirmed and based on historic performance and lead time with new customers they have agreed that this is not highly probably and the deferred tax asset should not be recognised.<br><br>This is an area of judgement but based on the current position of the company, it was agreed that it is no longer highly probable that sufficient future taxable profits will be made to continue to justify the carrying value of this asset and therefore the deferred tax asset has been derecognised in the year. |
| **Inventory valuation**<br><br>*Group and parent*<br>Accounting standards require that inventory is held at the lower of cost and net realisable value as required in IAS 2.<br><br>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 level of inventory held (compared to turnover), the low demand for certain inventory lines and the Company's complex cost absorption 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 understated.<br><br>Inventory is valued to incorporate raw material costs plus an allocation of production overheads. An adjustment is considered at the year-end to ensure that the quantum of production overheads included in closing inventory fairly | For the UK inventory costing, we tested the assumptions and methodology used in the absorption of appropriate indirect costs and confirmed for a sample of items to supporting documentation that the correct absorption rates were used in the inventory valuation.<br><br>We tested amounts of costs absorbed into closing inventory to ensure this is appropriate based on actual production costs and levels of production.<br><br>For Ethiopian inventory costing, the valuation of inventory was tested by re-computing the costs and tracing them to a sample of purchase invoices.<br><br>In addition a sample of material costs and direct production overheads were traced to invoices and the basis of allocating these overheads to individual inventory types was agreed.<br><br>To assess the appropriateness of the closing inventory provision, we tested a sample of inventory items to ensure that they were recognised at the lower of cost and net realisable value |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Inventory valuation continued**<br>reflects an appropriate allocation of actual production overhead costs incurred. The basis of allocation is subject to some judgement.<br><br>Due to the nature of the inventory, there is judgement as to the level of any provision to ensure that inventory is not valued in excess of its net realisable value. The inventory typically has a long life but may be impaired if high levels of inventory are held which are in excess of historic demand levels or if inventory is the wrong size or quality for key customer requirements impacting the demand for the inventory held.<br><br>See notes 1 and 2a to the financial statements for the directors' disclosures of the related accounting policies and judgements for inventory and note 13. | by tracing the product back to the most recent sales invoice to support the valuation of the inventory provisions recognised.<br><br>We tested management's methodology for calculating the provision for inventory by confirming that for the written down value of specific inventory lines was lower than the selling price achieved in the past three years. We obtained analysis of the stock movements of the individual items to assess the demand and frequency of the sales.<br><br>We agreed that the provision methodology is in line with the requirements of IAS 2 and has been applied consistently with the prior year.<br><br>No material issues were noted. |

### 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 being 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:

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PITTARDS PLC

**Materiality continued**

| | Group financial statements | Parent company financial statements |
|---|---|---|
| *Overall materiality* | £284,700 (2017: £302,900). | £251,500 (2017: £268,700). |
| *How we determined it* | 1% of total revenue | 1% of total 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 £7,600 and £251,500. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £14,235 (Group audit) (2017: £15,100) and £12,575 (Parent company audit) (2017: £13,436) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

## 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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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 in respect of the financial statements set out on page 17, 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
1 April 2019

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

| Continuing operations | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| Revenue | 3 | 28,469 | 30,287 |
| Cost of sales | | (21,318) | (23,194) |
| **Gross profit** | | 7,151 | 7,093 |
| Distribution costs | | (2,209) | (2,443) |
| Administrative expenses | | (3,950) | (3,716) |
| **Profit from operations before finance costs** | | 992 | 934 |
| Finance costs | 8 | (647) | (521) |
| Finance income | 8 | 9 | – |
| **Profit before taxation** | 4 | 354 | 413 |
| Taxation | 9 | (2,283) | 84 |
| **(Loss)/profit for the year after taxation** | | (1,929) | 497 |
| **Earnings per share** | | | |
| Basic | 10 | (13.91p) | 3.58p |
| Diluted | 10 | (13.76p) | 3.49p |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **(Loss)/profit for the year after taxation** | | (1,929) | 497 |
| **Other comprehensive income/(expense)** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Revaluation of land and buildings | 11 | 219 | 171 |
| Revaluation of land and buildings – unrealised exchange gain/(loss) | | 49 | (625) |
| | | 268 | (454) |
| **Items that may be subsequently reclassified to profit or loss** | | | |
| Unrealised exchange gain/(loss) on translation of overseas subsidiaries | | 389 | (1,655) |
| Fair value losses on foreign currency cash flow hedges | | (52) | – |
| | | 337 | (1,655) |
| **Other comprehensive income/(loss)** | | 605 | (2,109) |
| **Total comprehensive loss for the year** | | (1,324) | (1,612) |

The accompanying notes on pages 29 to 54 form an integral part of the Financial Statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

| | Note | Share capital £'000 | Share premium £'000 | Capital reserve £'000 | Shares held by ESOP £'000 | Share-based payment reserve £'000 | Cash flow hedge reserve £'000 | Translation reserve £'000 | Revaluation reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2017 | | 6,944 | 2,984 | 6,475 | (495) | 29 | – | (1,865) | 2,267 | 4,935 | 21,274 |
| Comprehensive income/(expense) for the year: | | | | | | | | | | | |
| Profit for the year after taxation | | – | – | – | – | – | – | – | – | 497 | 497 |
| Other comprehensive income/(loss): | | | | | | | | | | | |
| Gain on the revaluation of buildings | 11 | – | – | – | – | – | – | – | 171 | – | 171 |
| Unrealised exchange loss on translation of foreign subsidiaries | | – | – | – | – | – | – | (1,655) | (625) | – | (2,280) |
| Total other comprehensive loss | | – | – | – | – | – | – | (1,655) | (454) | – | (2,109) |
| Total comprehensive loss for the year | | – | – | – | – | – | – | (1,655) | (454) | 497 | (1,612) |
| Share-based payment expense | 7 | – | – | – | – | 102 | – | – | – | – | 102 |
| At 1 January 2018 (as previously published) | | 6,944 | 2,984 | 6,475 | (495) | 131 | – | (3,520) | 1,813 | 5,432 | 19,764 |
| Impact of the adoption of new standards | 1 | – | – | – | – | – | – | – | – | (26) | (26) |
| At 1 January 2018 (restated) | | 6,944 | 2,984 | 6,475 | (495) | 131 | – | (3,520) | 1,813 | 5,406 | 19,738 |
| Comprehensive income for the year: | | | | | | | | | | | |
| Loss for the year after taxation | | – | – | – | – | – | – | – | – | (1,929) | (1,929) |
| Other comprehensive income/(expense): | | | | | | | | | | | |
| Gain on the revaluation of buildings | 11 | – | – | – | – | – | – | – | 219 | – | 219 |
| Unrealised exchange gain on translation of foreign subsidiaries | | – | – | – | – | – | – | 389 | 49 | – | 438 |
| Fair value losses on foreign currency cash flow hedges | | – | – | – | – | – | (52) | – | – | – | (52) |
| Total other comprehensive loss | | – | – | – | – | – | (52) | 389 | 268 | – | 605 |
| Total comprehensive income/(loss) for the year | | – | – | – | – | – | (52) | 389 | 268 | (1,929) | (1,324) |
| Share-based payment expense | 7 | – | – | – | – | 72 | – | – | – | 43 | 115 |
| **At 31 December 2018** | | **6,944** | **2,984** | **6,475** | **(495)** | **203** | **(52)** | **(3,131)** | **2,081** | **3,520** | **18,529** |

# COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

| | *Note* | Share capital £'000 | Share premium £'000 | Shares held by ESOP £'000 | Share-based payment reserve £'000 | Cash flow hedge reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2017 | | 6,944 | 2,984 | (495) | 29 | – | 9,536 | 18,998 |
| Comprehensive loss 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 1 January 2018 (as previously published) | | 6,944 | 2,984 | (495) | 131 | – | 9,086 | 18,650 |
| Impact of the adoption of new standards | *1* | – | – | – | – | – | (26) | (26) |
| At 1 January 2018 (restated) | | 6,944 | 2,984 | (495) | 131 | – | 9,060 | 18,624 |
| Comprehensive loss for the year: | | | | | | | | |
| Loss for the year after taxation | | – | – | – | – | – | (2,452) | (2,452) |
| Other comprehensive loss | | | | | | | | |
| Fair value losses on foreign currency cash flow hedges | | – | – | – | – | (52) | – | (52) |
| Total comprehensive loss for the year | | – | – | – | – | (52) | – | (52) |
| Share-based payment expense | | – | – | – | 72 | – | 43 | 115 |
| **At 31 December 2018** | | **6,944** | **2,984** | **(495)** | **203** | **(52)** | **6,651** | **16,235** |

# BALANCE SHEETS

as at 31 December 2018

| | Note | Group 2018 £'000 | Group 2017 £'000 | Company 2018 £'000 | Company 2017 £'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | *11* | **11,006** | 10,778 | **5,622** | 5,697 |
| Intangible assets | *12* | **147** | 209 | **147** | 209 |
| Investments in subsidiary undertakings | *27* | **–** | – | **378** | 378 |
| Deferred income tax asset | *19* | **–** | 1,901 | **–** | 1,901 |
| **Total non-current assets** | | **11,153** | 12,888 | **6,147** | 8,185 |
| **Current assets** | | | | | |
| Inventories | *13* | **16,306** | 15,332 | **9,861** | 9,156 |
| Trade and other receivables | *14* | **3,306** | 3,991 | **8,294** | 8,934 |
| Cash and cash equivalents | *14* | **598** | 327 | **17** | 32 |
| Current income tax recoverable | | **–** | 41 | **–** | – |
| **Total current assets** | | **20,210** | 19,691 | **18,172** | 18,122 |
| **Total assets** | | **31,363** | 32,579 | **24,319** | 26,307 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | *15* | **(4,350)** | (4,358) | **(2,568)** | (2,923) |
| Interest bearing loans, borrowings and overdrafts | *16* | **(7,756)** | (5,641) | **(5,299)** | (3,141) |
| **Total current liabilities** | | **(12,106)** | (9,999) | **(7,867)** | (6,064) |
| **Non-current liabilities** | | | | | |
| Deferred income tax liability | *19* | **(162)** | (140) | **(112)** | (69) |
| Interest bearing loans, borrowings and overdrafts | *17* | **(566)** | (2,676) | **(105)** | (1,524) |
| **Total non-current liabilities** | | **(728)** | (2,816) | **(217)** | (1,593) |
| **Total liabilities** | | **(12,834)** | (12,815) | **(8,084)** | (7,657) |
| **Net assets** | | **18,529** | 19,764 | **16,235** | 18,650 |
| **EQUITY** | | | | | |
| Share capital | *20* | **6,944** | 6,944 | **6,944** | 6,944 |
| Share premium | *21* | **2,984** | 2,984 | **2,984** | 2,984 |
| Capital reserve | *21* | **6,475** | 6,475 | **–** | – |
| Shares held by ESOP | *21* | **(495)** | (495) | **(495)** | (495) |
| Share-based payment reserve | *21* | **203** | 131 | **203** | 131 |
| Cash flow hedge reserve | *21* | **(52)** | – | **(52)** | – |
| Translation reserve | *21* | **(3,131)** | (3,520) | **–** | – |
| Revaluation reserve | *21* | **2,081** | 1,813 | **–** | – |
| Retained earnings | *21* | **3,520** | 5,432 | **6,651** | 9,086 |
| **TOTAL EQUITY** | | **18,529** | 19,764 | **16,235** | 18,650 |

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 £2.452m (2017: £0.450m).

The financial statements on pages 24 to 54 were approved and authorised for issue by the Board of directors on 1 April 2019 and signed on its behalf by:

**Reg Hankey**
Chief Executive
Company Number 102384

# STATEMENTS OF CASH FLOWS

for the year ended 31 December 2018

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| **Cash flows from operating activities** | | | | | |
| Cash generated from/(used in) operations | *22* | **1,583** | 2,299 | **(311)** | 1,285 |
| Tax paid | | **(11)** | (48) | **–** | – |
| Interest paid | | **(634)** | (516) | **(194)** | (179) |
| **Net cash generated from/(used in) operating activities** | | **938** | 1,735 | **(505)** | 1,106 |
| **Cash flows from investing activities** | | | | | |
| Purchases of property, plant and equipment | | **(588)** | (696) | **(249)** | (68) |
| Purchases of intangible assets | | **–** | (2) | **–** | (2) |
| **Net cash used in investing activities** | | **(588)** | (698) | **(249)** | (70) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | **–** | 1,096 | **–** | – |
| Repayment of bank loans | | **(1,304)** | (1,072) | **(210)** | (210) |
| New finance lease obligations | | **41** | – | **41** | – |
| Repayment of obligations under finance leases | | **(85)** | (84) | **(85)** | (84) |
| **Net cash used in financing activities** | *24* | **(1,348)** | (60) | **(254)** | (294) |
| **(Decrease)/increase in cash and cash equivalents** | | **(998)** | 977 | **(1,008)** | 742 |
| Cash and cash equivalents at beginning of the year | | **(2,698)** | (3,738) | **(2,821)** | (3,563) |
| Exchange gains on cash and cash equivalents | | **1** | 63 | **–** | – |
| **Cash and cash equivalents at end of the year** | *23* | **(3,695)** | (2,698) | **(3,829)** | (2,821) |

# 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, United Kingdom and is quoted on the Alternative Investment Market (AIM). The address of the registered office is given on page 7. The nature of the Group's operations and its principal activities are set out in the Strategic report on page 8.

***(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 2018 and 31 December 2017 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 Directors are reviewing the basis of the loan covenant going forwards and are confident that on the existing covenant basis, the Company will comply with the covenant. The banking relationship with Lloyds Bank remains strong and facilities have been renewed for 2019. After making enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operation 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 26.

***(c) New and amended standards***
The following standards and amendments apply for the first time in the current financial year:

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

The Group has adopted IFRS 9 and IFRS 15 from 1 January 2018. The modified retrospective approach has been applied in both instances, with an adjustment made to opening retained earnings to reflect the brought forward position at the start of the year.

Under IFRS 9, the impairment of financial assets is now provided for on an expected loss basis, rather than incurred loss. The impact of this is to increase the accounts receivable provisions by £0.017m as at 1 January 2018.

Following the adoption of IFRS 15, any variable consideration, such as early payment discount, is considered as part of the initial recognition of revenue for the transaction and therefore shown as a reduction in total revenue, rather than a separate cost disclosed within distribution costs. An opening provision against accounts receivable in relation to variable consideration as at 1 January 2018 of £0.009m has been recognised.

The adoption of all other standards and amendments has had a limited impact on the financial statements in the current year.

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 16 Leases
- Amendments to IFRS 3 Business Combinations
- Amendments to IFRS 9 Financial Instruments
- Amendments to IAS 12 Income Taxes
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 1. Statement of accounting policies (continued)

***(c) New and amended standards (continued)***

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. The adjustment for these items as at 1 January 2019 is anticipated to be £0.208m. This will increase the net debt position. This standard will also impact the classification of items in the income statement going forwards, with the cost now shown as depreciation and interest, rather than through the associated expense line (rental currently categorised based on the nature of the leased item), impacting EBITDA measures.

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 therein. 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 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 provided in the normal course of business, net of discounts, value added tax and other sales related taxes. Revenue is also shown net of prompt payment discount included within the customer terms. Revenue is recognised to the extent that the performance obligations have been met and the revenue can be reliably measured.

– *Sales of goods*

Revenue from the sale of skins, hides and retail leather goods is recognised when the performance obligations have been met and the amount of revenue can be measured reliably, usually on despatch.

– *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 of 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, except where foreign currency has been hedged. 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.

Foreign exchange gains and losses that relate to borrowings, and cash and cash equivalents are presented in the income statement within administrative expenses (Note 4).

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 2018 and concluded that the net book value remains in line with fair value (the current market value) therefore no adjustment has been made. In December 2016, a formal assessment was performed by an independent RICS Registered Valuer. Buildings in Ethiopia were revalued at December 2018 and December 2017 based on the fair value (their depreciated replacement cost) 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 GS 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.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 1. Statement of accounting policies (continued)

*(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 the Group's 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. Following the adoption of IFRS9 in the year, additional provisions are held on an expected credit loss basis against debt that is more than 90 days old. 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.

*– 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.

*– Derivative financial instruments and hedging activities*
The Group uses derivative financial instruments to reduce exposure to foreign currency risk, by hedging against highly probable forecast cash flows. The instruments are initially recognised at fair value on the date on which a derivative contract is entered in to and then subsequently remeasured at fair value.

The Group recognises the effective part of any gain or loss on the derivative financial instrument in equity. Any ineffective portion is recognised immediately in the income statement, if the underlying relationship cannot be rebalanced. The amounts accumulated in equity are reclassified to the income statement when the hedged item is recognised, or the hedging relationship ends.

### *(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 7.

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.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 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.

**(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.

**(c) Property valuations**
The Group policy is to perform a formal revaluation every 5 years, with a director assessment in the intervening period. In performing this assessment, the directors of the Group perform a localised market review assessing similar marketed properties, in comparison to the previous formal valuation to ensure they remain consistent. If a material difference in the property valuation is expected, a formal revaluation will be undertaken.

## 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.

| **2018** | **UK Division £'000** | **Ethiopia Division £'000** | **Consolidation adjustment £'000** | **Total £'000** |
|---|---|---|---|---|
| Revenue from customers | **25,736** | **12,223** | **–** | **37,959** |
| Revenue from other sources – rental income | **12** | **–** | **–** | **12** |
| Inter-segmental trading | **(1,469)** | **(8,033)** | **–** | **(9,502)** |
| | **24,279** | **4,190** | **–** | **28,469** |
| Gross profit[1] | **4,796** | **3,114** | **–** | **7,910** |
| (Loss)/profit before tax | **(180)** | **534** | **–** | **354** |
| Assets | **36,215** | **14,349** | **(19,201)** | **31,363** |
| Liabilities | **(18,826)** | **(8,185)** | **14,177** | **(12,834)** |

| 2017 | UK Division £'000 | Ethiopia Division £'000 | Consolidation adjustment £'000 | Total £'000 |
|---|---|---|---|---|
| Revenue | 27,569 | 11,227 | – | 38,796 |
| Revenue from other sources – rental income | 12 | – | – | 12 |
| 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) |

1. Included in inter-segmental trading in the UK is a balance of £0.759m (2017: £0.709m) relating to group recharges, for which there is no cost of sale. Costs associated with this revenue are included within administration costs.

All revenue from contracts with customers is recognised at the point in time that the invoice is raised. Rental income is recognised over the period in which the service is performed.

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

| **2018** | **UK Division £'000** | **Ethiopia Division £'000** | **Total £'000** |
|---|---|---|---|
| UK | **2,665** | **204** | **2,869** |
| Europe | **1,713** | **–** | **1,713** |
| North America | **389** | **2,953** | **3,342** |
| Far East and Rest of the World | **19,512** | **1,033** | **20,545** |
| | **24,279** | **4,190** | **28,469** |

| 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 |

Revenues of approximately £5.315m (2017: £4.650m) within the UK segment are derived from one customer. Revenues of approximately £6.174m (2017: £9.322m) within the UK segment are derived from another customer. Both customers' revenues fall within the Far East and Rest of the World geographical segment.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 4. Profit before taxation

The following items have been included in arriving at profit before taxation:

| | **2018 £'000** | 2017 restated £'000 |
|---|---|---|
| Depreciation of property, plant and equipment (Note 11) | **705** | 604 |
| Amortisation of intangible assets (Note 12) | **62** | 36 |
| Operating lease rentals recognised as an expense | **119** | 115 |
| Staff costs (Note 5) | **8,222** | 8,378 |
| Employee benefit expense (life and health insurances) | **112** | 113 |
| Research and development expenditure | **74** | 85 |
| Net loss/(gain) on foreign currency translation | **71** | (282) |

**Auditors' remuneration**

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

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Fees payable to the Company's auditors in respect of the audit of the parent company and consolidated financial statements | **53** | 50 |
| Fees payable to the Company's auditors in respect of the audit of subsidiaries | **6** | 6 |
| Total audit fees | **59** | 56 |

No non-audit fees were paid during the year.

## 5. Staff costs

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 No.** | 2017 No. | **2018 No.** | 2017 No. |
| Production | **1,307** | 1,380 | **141** | 147 |
| Sales, distribution and administration | **380** | 261 | **43** | 48 |
| Directors | **5** | 6 | **5** | 6 |
| | **1,692** | 1,647 | **189** | 201 |

| Their aggregate remuneration comprised: | **£'000** | £'000 | **£'000** | £'000 |
|---|---|---|---|---|
| Wages and salaries | **7,260** | 7,380 | **5,704** | 5,923 |
| Social security costs | **545** | 563 | **545** | 563 |
| Other pension costs | **246** | 236 | **103** | 86 |
| Compensation for loss of office | **171** | 199 | **171** | 199 |
| | **8,222** | 8,378 | **6,523** | 6,771 |

## 6. Directors' remuneration

| | Salary & fees £'000 | Profit related bonus £'000 | Compensation for loss of office £'000 | Benefits £'000 | Pension contributions £'000 | **2018 Total £'000** | 2017 Total £'000 |
|---|---|---|---|---|---|---|---|
| Executive | | | | | | | |
| RH Hankey | 205 | – | – | 5 | 10 | **220** | 215 |
| M O'Rourke | 125 | – | 111 | 3 | 6 | **245** | 128 |
| Non-executive | | | | | | | |
| LM Cretton | 39 | – | – | – | – | **39** | 39 |
| GP Davis | 39 | – | – | – | – | **39** | 39 |
| J Williams | – | – | – | – | – | **–** | 42 |
| S Yapp | 120 | – | – | 1 | – | **121** | 121 |
| | 528 | – | 111 | 9 | 16 | **664** | 584 |

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

The Company matches employee pension 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 15. No options were exercised during the year.

**Key management compensation**

Key management represents the directors of the Internal Executive Board, this does not include the Executive Directors outlined above. The compensation paid or payable to key management for employee services is shown below:

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Salaries, bonus and other short-term benefits | **495** | 524 |
| Pension contributions | **19** | 21 |
| Compensation for loss of office | **–** | 21 |
| Total | **514** | 566 |

21,949 options remain outstanding for key management personnel in relation to 2017 Save As You Earn scheme. All options relating to the 2015 LTIP lapsed during the year (2017: 109,104).

## 7. Share options

**2017 Save As You Earn Scheme (SAYE)**

On 16 May 2017, a 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:

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| At 1 January | **10** | – |
| Share-based payment expense | **20** | 10 |
| At 31 December | **30** | 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.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 7. Share options (continued)

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:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **No. of options** | **Exercise price (pence)** | No. of options | Exercise price (pence) |
| Outstanding at the beginning of the year | **180,908** | **65.6** | – | – |
| Granted during the year | **–** | **–** | 187,493 | 65.6 |
| Lapsed during the year | **(26,337)** | **65.6** | (6,585) | 65.6 |
| Outstanding at the end of the year | **154,571** | **65.6** | 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 15. 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:

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| At 1 January | **121** | 29 |
| Share-based payment expense | **95** | 92 |
| Reversal of expense following forfeiture of entitlement | **(43)** | – |
| At 31 December | **173** | 121 |

The share-based payment charge has been included within administration expenses.

Matthew O'Rourke forfeited his entitlement to his percentage share in the 2016 LTIP on leaving the company on 31 December 2018. The percentage cost recognised to date has been reversed via an adjustment to retained earnings.

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 | **–** |

**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 was three years and 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:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **No. of options** | **Weighted average exercise price (pence)** | No. of options | Weighted average exercise price (pence) |
| Outstanding at the beginning of the year | **349,721** | **–** | 434,186 | – |
| Granted during the year | **–** | **–** | – | – |
| Lapsed during the year | **(349,721)** | **–** | (84,465) | – |
| Outstanding at the end of the year | **–** | **–** | 349,721 | – |

The options under the 2015 LTIP lapsed during the year, with no awards made. The performance conditions required were not achieved and therefore no charge has been recognised during the year (2017: £nil).

## 8. Finance costs and income

| **(a) Finance costs** | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Interest on bank loans and overdrafts | **604** | 507 |
| Interest on obligations under finance leases and hire purchase contracts | **9** | 14 |
| Interest on historic foreign tax charge | **34** | – |
| | **647** | 521 |
| **(b) Finance income** | | |
| Interest on bank accounts | **9** | – |

## 9. Taxation

| **(a) Analysis of the charge/(credit) in the year** | **2018 £'000** | 2017 £'000 |
|---|---|---|
| The charge based on the profit for the year comprises: | | |
| Corporation tax on profit for the year | **263** | – |
| Foreign tax on profit for the year | **89** | 32 |
| Foreign tax related to prior years | **10** | – |
| Total current tax | **362** | 32 |
| Deferred tax | | |
| Origination and reversal of temporary differences | **26** | (128) |
| Impact of change in UK tax rate | **(6)** | 12 |
| Derecognition of deferred tax asset | **1,901** | – |
| Total deferred taxation | **1,921** | (116) |
| Income tax charge/(credit) | **2,283** | (84) |

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 9. Taxation (continued)

The Company's profits for the year are taxed at the standard rate of corporation tax in the UK of 19% (2017: 19.25%) and Ethiopia of 30% (2017: 30%). The tax assessed in each year differs from the standard rate of corporation tax for the relevant year. The differences are explained below:

The tax charge for the year of £2.3m, includes £1.9m relating to a deferred tax charge which was written down to meet the ISA12, and £0.1m relating to Ethiopian tax on profits relating to prior year, both are one time in nature. The group expects a more normalised split of profits between the UK and Ethiopia in 2019 and retains taxable losses in the UK of £11.2m to utilise in future periods.

| **(b) Factors affecting the charge for the year** | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Profit on ordinary activities before tax | **354** | 413 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | **220** | 274 |
| Income not subject to tax | **(4)** | (295) |
| Foreign tax related to prior years[1] | **10** | – |
| Expenses not deductible for tax purposes[2] | **334** | 174 |
| Allowable tax deductions[3] | **(181)** | (145) |
| Profits/(losses) generated | **9** | (104) |
| Foreign tax paid | **89** | 32 |
| Double tax relief | **(57)** | (32) |
| Utilisation of losses | **(32)** | – |
| Impact of change in UK tax rate | **(6)** | 12 |
| Derecognition of deferred tax asset | **1,901** | – |
| Total tax charge/(credit) for the year (Note 9(a)) | **2,283** | (84) |

1. Foreign tax in prior years relates to a historic 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.

## 10. Earnings per ordinary share

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Analysis of the profit in the year: | | |
| (Loss)/profit for the year | **(1,929)** | 497 |

| 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 | **14,023** | 14,224 |
| Basic earnings per ordinary 50p share | **(13.91p)** | 3.58p |
| Diluted earnings per ordinary 50p share | **(13.76p)** | 3.49p |

# 11. Property, plant and equipment

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Land and buildings £'000 | Plant, machinery and motor vehicles £'000 | Asset under construction £'000 | Total £'000 | Land and buildings £'000 | Plant, machinery and motor vehicles £'000 | Asset under construction £'000 | Total £'000 |
| **Cost or valuation** | | | | | | | | |
| At 1 January 2017 | 7,549 | 18,616 | 672 | 26,837 | 3,902 | 12,859 | – | 16,761 |
| Exchange differences | (941) | (1,477) | (173) | (2,591) | – | – | – | |
| Additions | 28 | 660 | 8 | 696 | – | 68 | – | 68 |
| Disposals | – | (4) | – | (4) | – | (4) | – | (4) |
| Revaluation of property | 86 | – | 10 | 96 | – | – | – | – |
| At 1 January 2018 | 6,722 | 17,795 | 517 | 25,034 | 3,902 | 12,923 | – | 16,825 |
| Exchange differences | 69 | 120 | 13 | 202 | – | – | – | – |
| Additions | 18 | 436 | 134 | 588 | 1 | 122 | 126 | 249 |
| Revaluation of property | 115 | – | 21 | 136 | – | – | – | – |
| **At 31 December 2018** | **6,924** | **18,351** | **685** | **25,960** | **3,903** | **13,045** | **126** | **17,074** |
| **Accumulated depreciation** | | | | | | | | |
| 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) |
| Revaluation of property | (75) | – | – | (75) | – | – | – | – |
| At 1 January 2018 | 116 | 14,140 | – | 14,256 | 115 | 11,013 | – | 11,128 |
| Exchange differences | – | 76 | – | 76 | – | – | – | – |
| Charge for year | 135 | 570 | – | 705 | 52 | 272 | – | 324 |
| Revaluation of property | (83) | – | – | (83) | – | – | – | – |
| **At 31 December 2018** | **168** | **14,786** | **–** | **14,954** | **167** | **11,285** | **–** | **11,452** |
| **Net book value** | | | | | | | | |
| **At 31 December 2018** | **6,756** | **3,565** | **685** | **11,006** | **3,736** | **1,760** | **126** | **5,622** |
| At 31 December 2017 | 6,606 | 3,655 | 517 | 10,778 | 3,787 | 1,910 | – | 5,697 |

Depreciation of £0.612m (2017: £0.520m) has been charged to cost of sales, £0.065m (2017: £0.056m) to administrative expenses and £0.028m (2017: £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 £0.389m (2017: £0.413m).

Land and buildings include an amount of £0.550m (2017: £0.516m) in respect of work commenced on the building for Pittards Global Sourcing Private Limited Company. 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 2018. 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 £4.191m (2017: £4.275m).

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 12. Intangible assets

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | Website £'000 | Computer software £'000 | Total £'000 | Website £'000 | Computer software £'000 | Total £'000 |
| **Cost** | | | | | | |
| At 1 January 2017 | 109 | 1,781 | 1,890 | 109 | 1,774 | 1,883 |
| Additions | 2 | – | 2 | 2 | – | 2 |
| At 1 January 2018 | 111 | 1,781 | 1,892 | 111 | 1,774 | 1,885 |
| Additions | – | – | – | – | – | – |
| **At 31 December 2018** | **111** | **1,781** | **1,892** | **111** | **1,774** | **1,885** |
| **Accumulated amortisation** | | | | | | |
| At 1 January 2017 | 15 | 1,632 | 1,647 | 15 | 1,625 | 1,640 |
| Charge for year | 16 | 20 | 36 | 16 | 20 | 36 |
| At 1 January 2018 | 31 | 1,652 | 1,683 | 31 | 1,645 | 1,676 |
| Charge for year | 16 | 46 | 62 | 16 | 46 | 62 |
| **At 31 December 2018** | **47** | **1,698** | **1,745** | **47** | **1,691** | **1,738** |
| **Net book value** | | | | | | |
| **At 31 December 2018** | **64** | **83** | **147** | **64** | **83** | **147** |
| At 31 December 2017 | 80 | 129 | 209 | 80 | 129 | 209 |

Amortisation of £0.062m (2017: £0.036m) has been charged to administrative expenses in the Income Statement.

## 13. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Raw materials | **6,473** | 4,031 | **4,135** | 2,307 |
| Work in progress | **4,274** | 5,575 | **1,123** | 2,164 |
| Finished goods | **5,559** | 5,726 | **4,603** | 4,685 |
| | **16,306** | 15,332 | **9,861** | 9,156 |

During the year £0.143m in respect of stock provision movement was credited to the income statement (2017 £0.528m) as part of cost of sales.

The movement in exceptional provision is as follows :

| | Group £'000 | Company £'000 |
|---|---|---|
| As at 1 January 2018 | 1,715 | 1,296 |
| Utilisation | (194) | (167) |
| Charge | 227 | 227 |
| As at 31 December 2018 | **1,748** | **1,356** |

Since the exceptional stock provision was recognised in 2016, the provision has been incorporated into the normal provisioning methodology applied by the Group and the Company each year.

Inventory charged to the Income Statement during the year as part of cost of sales totalled £11.981m (2017 £13.113m). Raw materials include £1.494m of goods in transit at the year end (2017 £0.415m).

## 14. Current financial assets

| | Group | | Company | |
|---|---|---|---|---|
| **Trade and other receivables** | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Trade receivables | **3,141** | 3,630 | **2,630** | 2,978 |
| Less provision for impairment of trade receivables | **(804)** | (675) | **(801)** | (656) |
| Trade receivables net | **2,337** | 2,955 | **1,829** | 2,322 |
| Other receivables | **401** | 815 | **108** | 51 |
| Prepayments and accrued income | **568** | 221 | **182** | 236 |
| Amounts owed by Group undertakings | **–** | – | **6,175** | 6,325 |
| | **3,306** | 3,991 | **8,294** | 8,934 |
| Movement on the provision for impairment of trade receivables was as follows: | | | | |
| As at 1 January | **675** | 506 | **656** | 506 |
| Impact of the adoption of new standards (Note 1) | **26** | – | **26** | – |
| Increase in provision for receivables impairment | **113** | 197 | **129** | 178 |
| Receivables written off during the year as uncollectable | **(10)** | (28) | **(10)** | (28) |
| As at 31 December | **804** | 675 | **801** | 656 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Up to 60 days | **442** | 544 | **415** | 476 |
| 60-90 days | **31** | 95 | **16** | 93 |
| More than 90 days | **223** | 411 | **107** | 175 |
| | **696** | 1,050 | **538** | 744 |

There are £1.533m (2017: £1.033m) of trade receivables which are not due and not impaired as at 31 December 2018. There are no concerns regarding the recoverability of these amounts.

As at 31 December the provision against trade receivables was £0.804m (2017: £0.675m) for the Group and £0.801m (2017: £0.656m) for the Company. The ageing of the receivables impaired against which part provisions have been made is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Not overdue | **252** | 284 | **252** | 284 |
| Up to 60 days | **272** | 237 | **272** | 237 |
| 60-90 days | **31** | 7 | **31** | 7 |
| More than 90 days | **357** | 344 | **351** | 306 |
| | **912** | 872 | **906** | 834 |

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 14. Current financial assets (continued)

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. Following the adoption of IFRS 9 in the year, additional provisions are held on an expected credit loss basis against debt that is more than 90 days old. 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 26 (c).

| | Group | | Company | |
|---|---|---|---|---|
| **Cash and cash equivalents** | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Cash and cash equivalents | **598** | 327 | **17** | 32 |

**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. Additionally, following the adoption of IFRS 9, an additional allowance is made in respect of expected credit loss, which is calculated based on historical data trends, and an assessment of the current and future market conditions. Where possible, the Group mitigates its credit risk by using credit insurance policies to insure its credit sales.

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.

## 15. Trade and other payables

| | | Group | | Company | |
|---|---|---|---|---|---|
| | *Note* | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Trade payables | | **2,320** | 3,127 | **1,394** | 2,115 |
| Corporation tax payable | | **262** | – | **–** | – |
| Other taxes and social security costs | | **212** | 201 | **148** | 153 |
| Accruals and deferred income | | **1,092** | 673 | **853** | 451 |
| Other payables | | **412** | 357 | **68** | 72 |
| Financial derivatives | *26* | **52** | – | **52** | – |
| Amounts owed to Group undertakings | | **–** | – | **53** | 132 |
| | | **4,350** | 4,358 | **2,568** | 2,923 |

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

## 16. Interest-bearing loans, borrowings and overdrafts – current

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Unsecured: | | | | |
| Loans | **–** | 51 | **–** | – |
| Secured: | | | | |
| Overdrafts | **4,293** | 3,025 | **3,846** | 2,853 |
| Loans | **3,375** | 2,487 | **1,365** | 210 |
| Obligations under finance leases | **88** | 78 | **88** | 78 |
| | **7,756** | 5,641 | **5,299** | 3,141 |

During 2018, the Company was granted an additional £1.500m extension to the Lloyds Bank overdraft facility in the UK. ETSC were granted an additional £0.304m headroom within their revolving credit facility with Awash International Bank.

Lloyds Bank waived a technical covenant breach relating to early payment of debt in the Ethiopian division. Despite the waiver, it was necessary to reclassify the loan as payable on demand, however, the bank have confirmed that they will preserve the duration of the loan and review the appropriateness of the covenant in light of the debt repayment. The Group has headroom within the current facilities to redeem the mortgage.

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.

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Secured: | | | | |
| Loans | **461** | 2,517 | **–** | 1,365 |
| Obligations under finance leases | **105** | 159 | **105** | 159 |
| | **566** | 2,676 | **105** | 1,524 |
| Repayable as follows: | | | | |
| Between one and five years by instalments | **566** | 2,676 | **105** | 1,524 |

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 2017 following a rate change by the Ethiopian government.

In the UK in 2017, the mortgage term was renegotiated, with a repayment term of 3 years at an interest rate of 2.25% over LIBOR.

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.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 18. 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 | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 restated £'000 | **2018 £'000** | 2017 £'000 |
| Not later than one year | **104** | 110 | **64** | 71 |
| After one year but not more than five years | **156** | 258 | **76** | 141 |
| | **260** | 368 | **140** | 212 |

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 | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Future minimum payments due: | | | | |
| Not later than one year | **96** | 86 | **96** | 86 |
| After one year but not more than five years | **104** | 166 | **104** | 166 |
| | **200** | 252 | **200** | 252 |
| Less finance charges allocated to future periods | **(7)** | (15) | **(7)** | (15) |
| Present value of minimum lease payments | **193** | 237 | **193** | 237 |
| The present value of minimum lease payments is analysed as follows: | | | | |
| Not later than one year | **88** | 78 | **88** | 78 |
| After one year but not more than five years | **105** | 159 | **105** | 159 |
| | **193** | 237 | **193** | 237 |

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

## 19. Deferred taxation

In accordance with the requirements of IAS12, the directors considered the potential utilisation of the deferred tax asset and have taken a prudent view to derecognise the deferred tax asset of £1.901m. This has no effect on the Group's operating performance, cash, debt or the Group's outlook, which remains unchanged.

In 2017, the Group has recognised deferred tax assets in respect of temporary differences and losses of £1.761m.

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Deferred tax asset | **–** | 1,901 | **–** | 1,901 |
| Deferred tax liability | **(162)** | (140) | **(112)** | (69) |
| **Deferred tax assets (net)** | **(162)** | 1,761 | **(112)** | 1,832 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| At 1 January | **1,761** | 1,617 | **1,832** | 1,741 |
| Income Statement (debit)/credit | **(1,921)** | 116 | **(1,832)** | 91 |
| Exchange differences | **(2)** | 28 | **–** | – |
| At 31 December | **(162)** | 1,761 | **–** | 1,832 |

**(a) Deferred tax assets**

The analysis of the deferred tax asset is as follows:

| | Group and Company | | |
|---|---|---|---|
| **Recognised** | Tax losses £'000 | Other timing difference £'000 | Total £'000 |
| At 1 January 2017 | 1,794 | 6 | 1,800 |
| Income Statement credit | 81 | 20 | 101 |
| At 1 January 2018 | 1,875 | 26 | 1,901 |
| Income Statement debit | (1,875) | (26) | (1,901) |
| **At 31 December 2018** | **–** | **–** | **–** |

The Group has unrecognised deferred tax assets of £0.065m. The Company has no unrecognised deferred tax assets.

**(b) Deferred tax liabilities**
The Group deferred tax liability of £0.162m (2017: £0.140m) and Company deferred tax liability of £0.112m (2017: £0.069m) represent temporary timing differences.

## 20. Share capital

| | **2018 £'000** | 2017 £'000 |
|---|---|---|
| Issued and fully paid | | |
| At 31 December | **6,944** | 6,944 |

| | **2018 Shares** | 2017 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.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 21. 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 2018, the trust held a total of 19,026 50p shares (2017: 19,026) with a market value at that date of £13,604 (2017: £16,933).

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 7 for further details.

The cash flow hedge reserve represents the fair value of forward currency contracts held under hedge accounting at the end of the year. See note 26 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 GS undertaken annually.

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

## 22. Cash generated from/(used in) operations

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| Profit/(loss) before taxation | **354** | 413 | **(476)** | (541) |
| Adjustments for: | | | | |
| Depreciation of property, plant and equipment | **705** | 604 | **324** | 317 |
| Amortisation | **62** | 36 | **62** | 36 |
| Bank and other interest charges | **638** | 521 | **198** | 184 |
| Share-based payment expense | **115** | 102 | **115** | 102 |
| Other non-cash items in Income Statement | **194** | (133) | **–** | – |
| Operating cash flows before movement in working capital | **2,068** | 1,543 | **223** | 98 |
| Movements in working capital (excluding exchange differences on consolidation): | | | | |
| Increase in inventories | **(710)** | (749) | **(705)** | (324) |
| Decrease/(increase) in receivables | **792** | (47) | **614** | 1,472 |
| Decrease/(increase) in payables | **(567)** | 1,552 | **(443)** | 39 |
| **Cash generated from/(used in) operations** | **1,583** | 2,299 | **(311)** | 1,285 |

## 23. Analysis of the changes in cash and cash equivalents

| Group | As at 1 January 2018 £'000 | Cash flow £'000 | Exchange movements £'000 | **As at 31 December 2018 £'000** |
|---|---|---|---|---|
| Cash at bank and in hand | 327 | 264 | 7 | **598** |
| Bank overdraft | (3,025) | (1,262) | (6) | **(4,293)** |
| | (2,698) | (998) | 1 | **(3,695)** |

| Company | As at 1 January 2018 £'000 | Cash flow £'000 | Exchange movements £'000 | **As at 31 December 2018 £'000** |
|---|---|---|---|---|
| Cash at bank and in hand | 32 | (15) | – | **17** |
| Bank overdraft | (2,853) | (993) | – | **(3,846)** |
| | (2,821) | (1,008) | – | **(3,829)** |

## 24. Analysis of the changes in liabilities from financing activities

| Group | As at 1 January 2018 £'000 | Loan repayments £'000 | New loans £'000 | Term renegotiations £'000 | Exchange movements £'000 | **As at 31 December 2018 £'000** |
|---|---|---|---|---|---|---|
| Long term borrowings | 2,517 | (930) | – | (1,155) | 30 | **462** |
| Short term borrowings | 2,538 | (374) | – | 1,155 | 56 | **3,375** |
| Lease liabilities | 237 | (85) | 41 | – | – | **193** |
| | 5,292 | (1,389) | 41 | – | 86 | **4,030** |

| Company | As at 1 January 2018 £'000 | Loan repayments £'000 | New loans £'000 | Term renegotiations £'000 | Exchange movements £'000 | **As at 31 December 2018 £'000** |
|---|---|---|---|---|---|---|
| Long term borrowings | 1,365 | (210) | – | (1,155) | – | **–** |
| Short term borrowings | 210 | – | – | 1,155 | – | **1,365** |
| Lease liabilities | 237 | (85) | 41 | – | – | **193** |
| | 1,812 | (295) | 41 | – | – | **1,558** |

The mortgage has been reclassified from long term borrowing in to short term borrowing due to a technical covenant breach. Further detail is provided in note 16.

## 25. Related party transactions

### (a) Related party trading

**Group**

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

| | Group | |
|---|---|---|
| **Transactions with related parties** | **2018 £'000** | 2017 £'000 |
| Purchases from related parties | **18** | 17 |

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 25. Related party transactions (continued)

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 37.

| | Group | |
|---|---|---|
| **Year end balances arising from purchases** | **2018 £'000** | 2017 £'000 |
| Payables to related parties | **9** | – |

### Company

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

| | Company | |
|---|---|---|
| **Transactions with subsidiaries** | **2018 £'000** | 2017 £'000 |
| Purchases from subsidiaries | **8,032** | 6,957 |
| Sales to subsidiaries | **710** | 854 |

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* | **2018 £'000** | 2017 £'000 |
| Pittard Garnar Services Limited | | **5,117** | 4,433 |
| Ethiopia Tannery Share Company | | **739** | 1,412 |
| Pittards Global Sourcing Private Limited Company | | **2** | 2 |
| Pittards Products Manufacturing Share Company | | **317** | 478 |
| | *14* | **6,175** | 6,325 |
| **Amounts due to subsidiaries** | | | |
| Pittards Group Limited | | **(30)** | (30) |
| Ethiopia Tannery Share Company | | **–** | (80) |
| Pittards Global Sourcing Private Limited Company | | **(23)** | (22) |
| | *15* | **(53)** | (132) |

### (b) Transactions with directors

Disclosures required under IAS24 regarding remuneration of key management personnel are covered by the Directors' remuneration disclosure in Note 6 and interests in shares are disclosed in the Directors' report.

## 26. 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.

*– 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. Approximately 90% (2017: 91%) of the Group's revenue is from sales outside the UK, with some 80% (2017: 82%) in US dollars. US dollar based raw material purchases amounted to 31% in 2017 (2017: 35%).

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Where possible, a natural hedge is maintained against the Group's currency exposure, however, during 2018, forward foreign currency contracts have additionally been entered into to manage the US dollar foreign exchange risk. Hedge accounting has been applied to these contracts. See the Treasury policy in the Directors' report on page 15 for further details.

*– 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 | |
|---|---|---|---|---|---|---|
| | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 | **2018 £'000** | 2017 £'000 |
| US dollar | **2,178** | 2,604 | **(32)** | (130) | **(873)** | 646 |
| Euro | **208** | 155 | **(262)** | (512) | **(2,529)** | (2,762) |
| Ethiopian Birr | **495** | 1,128 | **(4,337)** | (4,776) | **310** | 25 |
| Other | **19** | 29 | **(1)** | – | **85** | 163 |
| | **2,900** | 3,916 | **(4,632)** | (5,418) | **(3,007)** | (1,928) |
| GBP | **525** | 492 | **(2,924)** | (3,461) | **(512)** | (869) |
| Total | **3,425** | 4,408 | **(7,556)** | (8,879) | **(3,519)** | (2,797) |

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 26. Financial instruments (continued)

**(d) Foreign currency sensitivity**

As 80% (2017: 82%) 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 | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| Loss[1] | **(1,884)** | (2,003) |

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. In 2018 the Group has entered into forward foreign currency contracts to manage the US dollar foreign exchange risk, hedging against forecast cash flows to the extent that those cash flows are deemed highly probable. The Group currently holds contracts to cover the first 6 months of 2019 net sales, with expiration dates to 30 August 2019.

The notional value of open forward foreign currency contracts as at 31 December 2018 was £4.6039m (2017: £nil). The net fair value loss on open contracts held in the cash flow hedge reserve at 31 December 2018 were £0.052m. This will be recycled to the income statement within interest over the next 6 months.

**(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 £0.053m (2017: £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 2018 and at 31 December 2017 are as follows:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| **As at 31 December 2018** | 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 | **–** | **–** | **159** | **34** | **–** | **193** |
| Variable rate | | | | | | |
| Bank overdrafts and loans | **5,563** | **–** | **2,765** | **–** | **–** | **8,328** |
| Trade and other payables | **3,127** | **–** | **–** | **–** | **–** | **3,127** |

| | Group | | | | | |
|---|---|---|---|---|---|---|
| As at December 2017 restated[1] | 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 | – | – | 3,781 | – | 8,457 |
| Trade and other payables | 3,484 | – | – | – | – | 3,484 |

1. 2017 numbers have been restated to include interest.

The Group has the following undrawn borrowing facilities:

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| Variable rate | | |
| Expiring within one year | **4,849** | 3,907 |
| Expiring beyond one year | **–** | – |
| | **4,849** | 3,907 |

The facilities expiring within one year are subject to review at various dates in 2019 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 2018, 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 2018 and 2017 were as follows:

| | Group | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| Total borrowings | **8,322** | 8,317 |
| Less cash at bank and in hand | **(598)** | (327) |
| Net debt | **7,724** | 7,990 |
| Total equity | **18,529** | 19,764 |
| Gearing ratio | **41.7%** | 40.4% |

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 27. Investments

| | Company | |
|---|---|---|
| | **2018 £'000** | 2017 £'000 |
| At 1 January and 31 December | **378** | 378 |

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 leathergoods | 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

| | **2018 £'000** | 2017 £'000 | 2016 £'000 | 2015 £'000 | 2014 £'000 |
|---|---|---|---|---|---|
| Revenue | **28,469** | 30,287 | 27,009 | 30,523 | 34,729 |
| Percentage sold outside UK | **90%** | 91% | 92% | 90% | 91% |
| Profit/(loss) from operations before finance costs | **992** | 934 | (3,591) | 1,115 | 1,971 |
| Profit/(loss) on ordinary activities before taxation | **354** | 413 | (4,071) | 655 | 1,589 |
| Profit/(loss) on ordinary activities after taxation | **(1,929)** | 497 | (4,146) | 471 | 1,110 |
| Net assets | **18,529** | 19,764 | 21,274 | 24,150 | 18,136 |
| Inventory | **16,306** | 15,332 | 17,353 | 18,872 | 17,796 |
| Inventory days of sale | **279** | 241 | 308 | 288 | 235 |
| Net debt | **7,724** | 7,990 | 10,109 | 6,458 | 7,601 |
| Gearing | **42%** | 40% | 48% | 27% | 42% |
| Earnings/(loss) per 50p ordinary share (restated from 1p share) | **(13.91p)** | 3.58p | (29.89p) | 3.98p | 12.06p |
| Dividends per ordinary share | **–** | – | – | – | – |

# FINANCIAL CALENDAR

| | |
|---|---|
| Annual General Meeting | 15 May 2019 |
| Announcement of half year results for 2019 | September 2019 |
| Announcement of 2019 results | March 2020 |

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 110th 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 2019 to consider and, if thought fit, pass the resolutions set out in this Notice.

All of the resolutions in this Notice, apart from Resolution 7, are proposed as ordinary resolutions. Resolution 7 is proposed as a special resolution.

## Ordinary Resolutions

1 To receive the annual statement of accounts of the Company for the year ended 31 December 2018, and the directors' and auditors' reports thereon.

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

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

4. To appoint Richard Briere as a director of the Company.

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

6. 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.

## Special Business

7. 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.

By order of the Board
**Reg Hankey**
Chief Executive and Company Secretary
Pittards plc
Sherborne Road
Yeovil
Somerset
BA21 5BA
Date: 1 April 2019

*Notes*

*1. Voting at the AGM will take place by means of a show of hands, unless a poll is demanded in accordance with the Company's articles of association.*

*2. A member entitled to attend and vote at the AGM may appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company but must attend the AGM for the member's vote to be counted. A proxy shall, unless directed otherwise by the appointing member, vote or abstain from voting as the proxy sees fit at the AGM.*

*3. A proxy may only be appointed by a member using the procedures set out in these notes to the Notice of AGM and the notes to the Form of Proxy for the AGM. To be effective, the proxy vote must be submitted at www.signalshares.com so as to have been received by the Company's Registrars, Link Asset Services, not less than 48 hours before the time appointed for the AGM, or any adjournment thereof (excluding weekends and public holidays). To register, members will need their Investor Code. Alternatively, a member may request a Form of Proxy in paper form from the Company's Registrars, Link Asset Services, on 0871 664 0300 (calls cost 12p per minute plus your operator's network access charge). If you are outside the United Kingdom, please call +44 371 664 0300 (calls will be charged at the applicable international rate). Lines are open between 9.00 a.m. to 5.30 p.m., Monday to Friday, excluding public holidays in England and Wales.*

*4. Pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001 (as amended), only those members entered on the Company's register of members at close of business on 13 May 2019 ("the "Specified Time") (or, if the AGM is adjourned to a time more than 48 hours after the Specified Time, at close of business on the business day which is two days' prior to the time of the adjourned meeting) shall be entitled to attend and vote or to appoint one or more proxies to vote on their behalf at the AGM in respect of the number of ordinary shares registered in their name at that time. If the AGM is adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned meeting. Changes to the register of members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the AGM.*

*5. If a member appoints more than one proxy to attend the AGM, each proxy must be appointed to exercise the rights attached to a different share(s) held by the member. If a member wishes to appoint more than one proxy they may do so at www.signalshares.com or by a paper Form of Proxy available on request from the Company's Registrars, Link Asset Services, as set out in Note 3 above. The appointment of a proxy shall not preclude a member from attending and voting in person at the AGM, or at any adjournment thereof. If a member has appointed a proxy but decides to attend the AGM, such proxy will not be able to attend, speak or vote at the AGM on the member's behalf.*

*6. Any power of attorney (duly certified) or other authority under which a Form of Proxy is submitted, and any Form of Proxy completed in paper form, must be returned to the Company's Registrars, Link Asset Services, by post to PXS1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF, so as to arrive not less than 48 hours before the time appointed for the AGM or any adjournment thereof (excluding weekends and public holidays).*

*7. Subject to Note 5, if more than one valid proxy appointment is submitted by a member, the appointment received last before the latest time for receipt of proxies will take precedence.*

*8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.*

*9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to an instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the Company's agent (ID: RA10) by the latest time(s) for receipt of proxy appointments specified in Note 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.*

*10. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings (www.euroclear.com/CREST).*

*11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).*

*12. A member wishing to revoke his or her proxy appointment should do so by sending a notice to that effect to the Company's Registrars, Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF or electronically by means of the facilities described in Notes 3 and 9 above. The revocation notice must be received by the Company's Registrars, Link Asset Services, by the time limit set out in Note 3. Any revocation notice received after this time will not have effect.*

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

*14. 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 usual business hours from the date of this Notice until the date of the AGM, and from at least fifteen minutes prior to commencement, and until the conclusion, of the AGM.*

*15. Members who have general queries about the AGM should contact the Company Secretary at the Company's registered address set out above. No other methods of communication will be accepted. Any electronic address provided either in this Notice of AGM, or in any related documents, may not be used to communicate with the Company for any purposes other than those expressly stated.*

*16. **In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the register of members of the Company in respect of the joint holders (the first named being the most senior).***

ALSO AVAILABLE ONLINE
pittards.com/about/investors