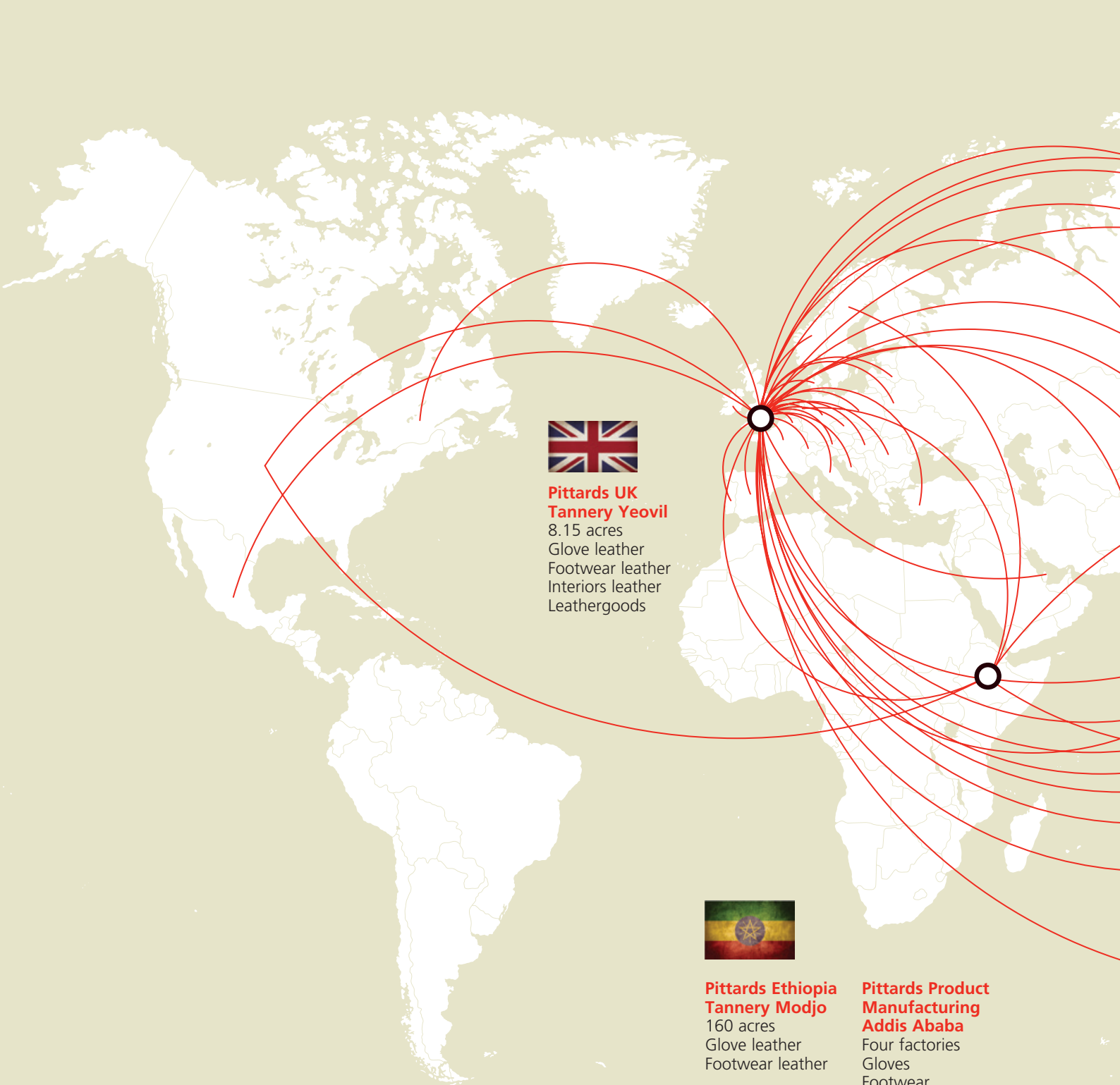


A close-up, high-resolution photograph of brown leather, showing its natural grain and texture. The lighting is warm and directional, creating soft shadows and highlights that emphasize the tactile quality of the material. The leather is draped, with folds and creases visible, adding depth to the image.

Pittards[®]
WORLD CLASS LEATHER

TWO DIVISIONS, ONE GROUP, GLOBAL REACH
ANNUAL REPORT 2019



**Pittards UK
Tannery Yeovil**
8.15 acres
Glove leather
Footwear leather
Interiors leather
Leathergoods




**Pittards Ethiopia
Tannery Modjo**
160 acres
Glove leather
Footwear leather

**Pittards Product
Manufacturing
Addis Ababa**
Four factories
Gloves
Footwear
Apparel
Leathergoods

**MANUFACTURING IN TWO COUNTRIES,
THREE LOCATIONS, SIX FACTORIES**
EXPORTING TO 44 COUNTRIES

Australia, Austria, Bangladesh, Belarus, Belgium, Cambodia, Canada, China, Croatia, Czech Republic, Denmark, Ethiopia, France, Germany, Hong Kong, Hungary, India, Indonesia, Ireland, Italy, Japan, Korea, Latvia, Mexico, Myanmar, Netherlands, Norway, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Singapore, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, USA, Vietnam.



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

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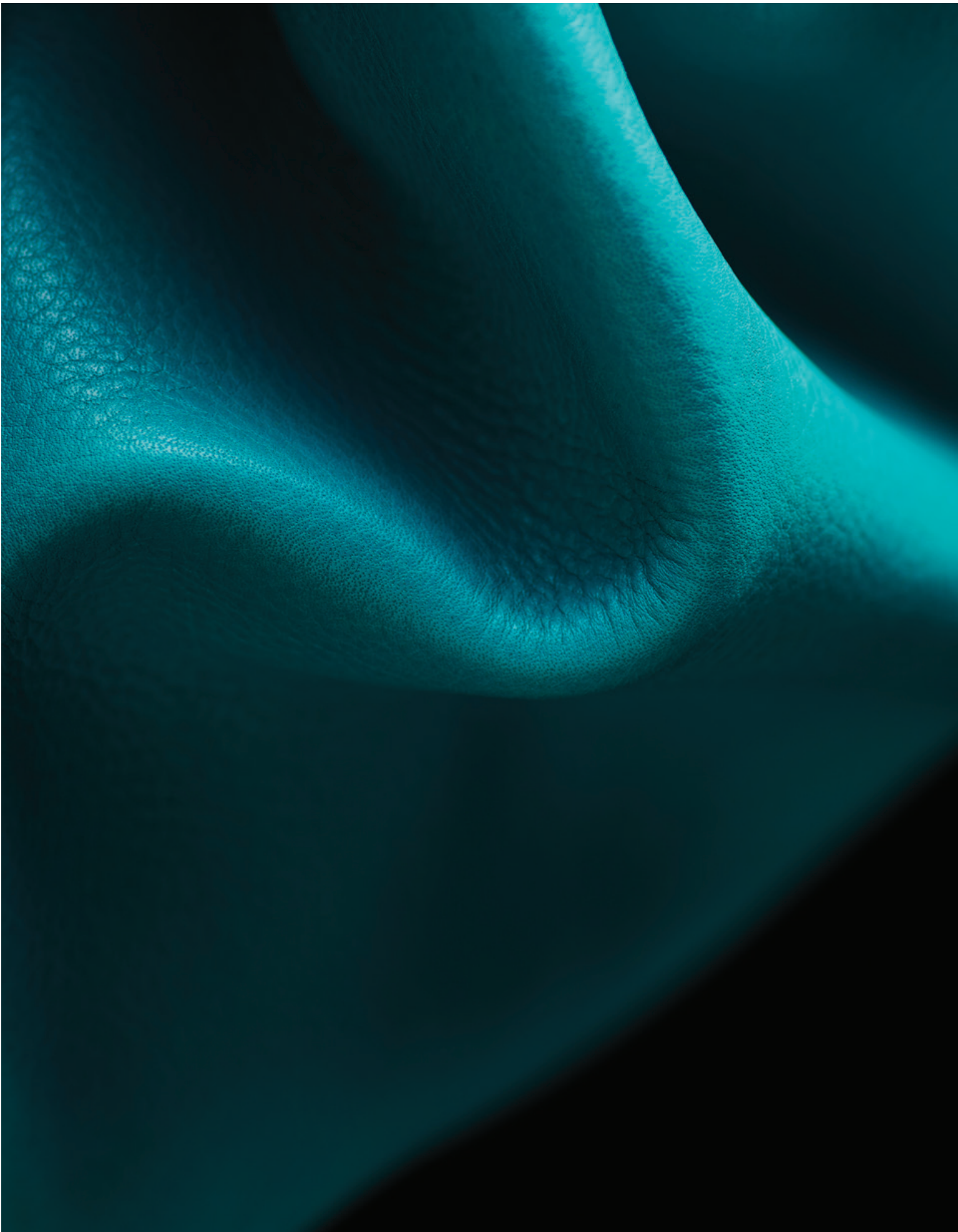
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OUR BUSINESS

PITTARDS AT A GLANCE

High performance leathers

Established in Yeovil in 1826, Pittards is a specialist in the development and manufacture of high performance leathers that are specified by major brands around the world. We ship to 44 countries and our business is 90% export. Pittards is usually featured as a named component where it is used in products, and has built a branded reputation around the quality of its leathers.

Pittards has a second tannery in Ethiopia, which delivers a high quality, lower cost of production option, offering customers flexibility in their supply chain.

Exports

90%

Years in business

194



Vacuum line dryer at Yeovil



Quality control inspection at new shoe line – Ethiopia

OUR BUSINESS

PITTARDS AT A GLANCE

Pittards also offers finished product manufacturing of premium leather goods in the UK and gloves, garments, bags and footwear in Ethiopia.



OUR MISSION

Our mission is to make the things that people use every day, extraordinary, through our continued commitment to the innovation of performance leathers and to support the long term development of skills in both the UK and Ethiopia.



OUR APPROACH

As a British company with almost two hundred years of manufacturing history and global supply, integrity is at our core. Doing the right thing for our customers, our teams and our wider stakeholders is how we operate.

In a world that looks to minimise environmental impact, our production processes are developed to reduce waste through the stringent use of materials, components and energy.



Stadler

We support communities alongside employees. In Ethiopia we work with a local school to build classrooms and supply materials. In 2019, as part of a nationwide reforestation initiative, Pittards employees planted 7,500 trees. In the UK, in collaboration with a local college, we provide apprenticeship opportunities to promote the ongoing development of leather making skills.



Pittards sponsored football team

OUR DIFFERENCE

Two divisions, one Group

Pittards heritage, skills and technical expertise have an intellectual hub in the UK, offering dual country manufacturing in either the UK or Ethiopia.

Relationships

Our ability to customise technical leathers to a brand's specific requirements means that we develop long-standing partnership-based relationships. Pittards leather has been used by FootJoy in golf and Franklin in baseball for over 40 years.



Vertical integration

Through our tanneries in the UK and Ethiopia, as well as finished product factories in both countries, we offer vertical manufacturing efficiencies that provide a diverse range of solutions for both premium and volume price points.

Compliance

Not only do our manufacturing standards provide brands with the reassurance of international compliance, our high level of financial governance has been recognised in Ethiopia through an award in 2019 for corporate tax compliance.



ETHIOPIA

Ethiopia is one of the fastest growing economies globally, tourism grew 48.6% in 2018 (World Travel & Tourism Council, 2019), and it has the ideal combination of labour force and raw material supply. Furthermore, Ethiopia has duty free status to US, China and Europe. Our long relationship, both working with and in the country, gives us unparalleled experience and expertise for both brands and investors.



IMPACT ON BUSINESS

Our margin development reflects a business diversifying its offering, promoting a broad range of leather offerings with a distinct focus on performance and quality and properties which set it apart from the rest.

The cost optimisation recognises our desire to offer cost effective solutions and ensure a sustainable profitable model.

MARGIN DEVELOPMENT



Samuel Hubbard is a brand founded on comfort and it uses Pittards technical footwear leathers to enhance its product offering with long-lasting performance benefits.

STRATEGIC OBJECTIVES

- Occupy a niche leather performance sector, where our leathers stand out for their superior performance in sport, automotive, aviation, interior, fashion, gloves and workwear.
- Leading example in technical competence and best practice through our investment in R&D, approach to the environment, our people, our customers and wider community through which we attract and retain customers.
- Optimise our use of plant facilities in Ethiopia by diversifying our business operations to utilise our lower operating costs along with our established expertise in the Ethiopia market.
- Align our production to demand, whilst focusing on new channels for speciality leather and end to end full product solutions.
- To grow quality revenues sustainably in a range of new markets which we are already selling into, carving out an optimum market share in these new channels.
- Deliver product on time, with high quality and consistency to entrench that expectation and trust with all our customers.

KPIs

	2019 £'m	2018 £'m
Revenue	22.3	28.5
Gross profit	6.9	7.2
Gross profit margin	31%	25%
Profit before taxation	0.6	0.4
EBITDA	2.0	1.8
Net assets (2018 restated for deferred tax, see note 28)	17.5	17.8
Inventory	17.3	16.3
Net debt	9.6	7.7
Gearing	55%	43%
Basic earnings per share	2.93p	(13.91p)
Net assets per share (2018 restated for deferred tax)	126.32p	128.92p



FootJoy uses Pittards WR100 water resistant leathers in its athletic-inspired spikeless shoes. The technology allows the combination of performance with aesthetics to create standout styling on the course.

CHAIRMAN'S STATEMENT

for the year ended 31 December 2019

"I am pleased to report that we have come a long way over the past year. Our re-shaped business is set for growth and to create longer-term value."

This was a good year for the Group strategically and operationally. We validated our strategic objectives by entering the interiors market with orders from both the aviation and automotive sectors and further established ourselves as a shoe manufacturer in Ethiopia.

Financially, although impacted by ongoing global uncertainties and the challenging retail environment that our customers face, we delivered solid results in line with expectations. This is testament to our heightened cost focus, operational improvements introduced and the continued dedication of all Pittards' employees, to whom I'd like to express my gratitude.

All our customers are important to us and accordingly we continually strive to create technically innovative and high-quality products across all markets we operate in. Aligned with our strategic priorities, we are delivering predominantly hide-related new products to a wider range of customers, creating a more balanced portfolio.

The only change to the Board during the year was Richard Briere's appointment as Chief Financial Officer on the 19th March 2019. The Board shapes the Group's future and recognises the need to evaluate its

effectiveness on an ongoing basis. In recognition of their importance and to strengthen the Board during the delivery stage of its strategy, Jon Loxston Chief Technical Officer and Tsedenia Mekbib Managing Director Ethiopia Division, have been appointed Associate Directors with immediate effect.

We entered 2020 as a more diverse business, with improved margins and increased flexible manufacturing facilities, which is set to take full advantage of its markets. However, the outlook for the current year is uncertain due to the impact of Coronavirus (COVID-19) and has started with reduced demand. We the board are actively monitoring the situation on a frequent and regular basis, and have contingencies in place to address the evolving situation.

Looking forward, the Board has actively been considering the payment of dividends and commencement of a share buyback program. This will be revisited once the current global uncertainties connected to Coronavirus (COVID-19) are resolved sufficiently.

Stephen Yapp
Chairman
23 March 2020

Adding value Branded component

Pittards hang tags are used by brands that use its performance leathers in order to add value to their products.



CHIEF EXECUTIVE'S STATEMENT

for the year ended 31 December 2019

During the year we achieved several milestones including delivering new products to our existing customer base, entering new markets and extending our manufacturing capabilities in Ethiopia.

Highlights

Year ended 31 December 2019:

- Revenue £22.3m (2018: £28.5m)
- Gross margin increased to 30.9% (2018: 25.1%)
- PBT increased to £0.6m (2018: £0.4m)
- EBITDA increased to £2.0m (2018: £1.8m)
- Net assets £17.5m (2018: £17.8m – restated for deferred tax)
- Repeat orders from both interiors and big shoe markets
- Further establishment of Ethiopia as a shoe manufacturer

Performance review

As a result of continued weak global demand for leather and related goods, revenue reduced to £22.3m. The ratio of hides and finished product to our core skins business changed significantly from 48% to 60%. The change in shape of business, is aligned with the strategic priorities of the business to achieve a more balanced portfolio, specifically the inroads made in Ethiopia in shoe production and sales, along with UK sales into automotive and aviation.

Cost management was a key focus of the year in which extra disciplines were introduced and there was a targeted headcount reduction of over 400 employees. In addition, we benefited from favourable raw material pricing and changed our buying protocols. This has

left us in a leaner but scalable position with a change of focus and the appropriate expertise to meet specific clients' requests. Consequently, the gross margin improved for the second consecutive year to 30.9% (2018: 25.1%) and EBITDA increased to £2.0m (2018: £1.8m) and PBT to £0.6m (2018: £0.4m).

Inventory increased to £17.3m largely reflecting stock of lower quality skins which amounted to £3.2m (2018: £2.8m) of inventory. There was further pressure due to faster than expected global weakening in demand for core business, bulk sampling, growth in orders for new products, particularly shoe production in Ethiopia and developing automotive channels. Our counter measures included a substantial reduction in capacity by decreasing average headcount to 1,224 (2018: 1,692). Furthermore, we are experiencing some low material prices and have recalibrated our procurement. Finally, we have access to opportunities to reduce partially processed stock from Ethiopia and also reprocessing of existing leather inventory.

Net debt remained at a similar level to half year at £9.6m as the shape of the business necessitated increased debtor days and working capital to support new business opportunities. As disclosed in Note 1(b) of the financial statements our banking facilities are to be renewed on similar terms until March 2021, pending receipt of formal paperwork. Headroom on facilities at year end was £2.6m.

Currency was favourable for 2019 although average rates were little changed on 2018. The group has hedged between 50-70% of its exposure to future dollar movements to March 2021, with an average rate of \$1.29.

Over the past two years we have invested £1.2m in machinery to improve our efficiency and expand our skill set, particularly in Ethiopia for shoe manufacturing. We are anticipating modest further investment over the next twelve months, at much reduced levels to 2019.

Performance measurement of all investments remain key and during the year Return on Capital Employed (ROCE) was 4.2%. This has decreased from 5.2% in 2018 as our closing debt position was much higher in 2019. However, we progressed closer to our target to deliver returns ahead of our Weighted Average Cost of Capital of 4.9%.

Market view

Numerous specific global factors continued to impact the demand for leather, principally China/US tariffs, general economic weakness, and more recently Coronavirus (COVID-19). Brexit fears have also impeded a more orderly market. Overall the trend of global demand over the past few years, for both finished hides and skins, has been downward. Most recent figures covering 2019 show a decline in value of 2.5% and 5% respectively. Over the period 2015 to 2018, finished hide volumes declined 12% and skins declined 26%.

Some of the markets we operate in are also experiencing difficult trading conditions due to specific trends or factors. Most notably the car industry, where global sales are predicted to decrease by 5% compared to 2019. This is likely to be further exacerbated by the slowdown in China caused by the Coronavirus (COVID-19) outbreak. We anticipate demand picking up in the second half of the year.

Profit before tax

£0.6million

(2018: £0.4 million)

EBITDA

£2.0million

(2018: £1.8 million)

Net debt

£9.6million

(2018: £7.7 million)

The footwear market is experiencing the continued popularity of athleisure styling which typically uses less leather, with an increasing acceptance of synthetic fossil-fuel derived materials as a substitute.

Notwithstanding the challenges faced by these industries, interesting opportunities in these markets are presenting themselves for bespoke, innovative and high performance products, together with the differentiated service and collaborative relationship approach that we offer.

Operations

During the year we responded to the lower levels of volume in our skin products and the need to increase our skill set in the production of whole hides. A Chief Technical Officer was appointed, the central team restructured and headcount in certain areas reduced. Alongside better financial discipline across the business, this has had the overall effect of lowering the Group's operating costs whilst providing a better fit to support operations and strengthen the divisional leadership.

Since its inception, the operations in Ethiopia have focused on the production of work and dress gloves. This year was especially challenging as volumes for work gloves significantly reduced and an important customer changed a product to include more synthetic material rather than leather. Alongside the production of shoe leather for Vivobarefoot and Soul of Africa, we have demonstrated our broader manufacturing capability in finished product. This has been followed by increasingly sizeable orders and whilst a lower margin market, the volumes in question are starting to compensate for the reduction in gloves and will be aggressively pursued as part of our growth strategy.

As previously mentioned, skin volumes were down in the UK, however whole hides production rose during 2019. This was largely as a result of our first meaningful sales into the automotive market.

We remain convinced of the growth opportunities of the interiors markets and are actively in dialogue with other automotive and aviation manufacturers. A large shoe brand also placed initial orders for delivery in the first quarter of 2020. A number of further opportunities in both of these markets are progressing.

As part of our strategy, the business has been restructured to two divisions in Ethiopia and the UK and the role of CTO formalised. Following the diversification of the business and our subsequent expansion of manufacturing capabilities, the Board have decided that in recognition of their importance to the business, Jon Loxston (CTO) and Tsedenia Mekbib (MD Ethiopia) will be appointed Associate Directors of the PLC Board.

Sustainable business

With our manufacturing operations and global footprint, it is important that we continue to run our business responsibly and manage our environmental, social and governance responsibilities. We take pride in the positive contribution we make for some of our customers, staff and wider stakeholders. As an example of our commitment to sustainable manufacturing, the Ethiopian tannery has a sophisticated water treatment facility at the forefront of managing waste responsibly. Furthermore, as part of a nationwide reforestation initiative in Ethiopia, Pittards employees planted 7,500 trees in 2019.

Summary / outlook

This was a year of delivery against clear strategic priorities. As we strive to stay at the forefront of our industry for innovation, quality and sustainability, we have embraced the need to adapt our business model and broadened our capabilities whilst evolving our product offering.

Our competence in performance leather for gloving and footwear markets continues to be important and presents opportunities. This has been complemented by becoming proficient in finished shoe manufacturing in Ethiopia and making inroads into the interiors markets by increasing the use of whole hides across the business.

Clearly, the global Coronavirus (COVID-19) pandemic will have an effect on business volumes during 2020, however the Group has substantial inventories that can be utilised to support customers who may need more flexible supplies if their logistics become strained.

Whilst recognising these external macro-economic factors, we are starting to achieve a more stable portfolio across a broader range of customers, together with opportunities that enable us to look ahead positively when market conditions stabilise.

Reg Hankey

Chief Executive Officer
23 March 2020

Net assets

£17.5million

(2018: £17.8 million - restated for referred tax)

Revenue outside the UK

90%

(2018: 90%)



Outdoor Research specifies Pittards leather in its innovative Super Couloir Sensor glove. Featuring a distinctive palm made from one of our Oil Tac leathers it provides outstanding grip in all conditions and sets the standard for extreme outdoor gloves.



STRATEGIC REPORT

for the year ended 31 December 2019

Financial review

Despite reduced revenue at £22.3m (2018: £28.5m), the Group gross profit held well at £6.9m (2018: £7.2m), as a consequence of better mix of business, and more diverse offering.

The global economic climate was turbulent during 2019 with overall weaker demand. In particular, demand for lower quality and lower priced leather was reduced, reflecting global trends in this market, whilst higher quality leather sales remained resilient. The Group remained focused on the gross margin. Lower raw material prices, favorable exchange rates, a better mix of business and more diverse offering led to the increased gross margin percentage.

We are addressing inventory through lowering capacity and broadening the portfolio into 2020. Our slow-moving inventory remained stable at £3.2m, and we have addressed capacity and new channels to aid a reduction of core skin inventory in 2020.

One of the Group's key financial measures is Return on Capital Employed which was 4.2% (2018: 5.2%). Although the Group's near-term objective to deliver returns above its estimated Weighted Average Cost of Capital, of approximately 4.9%, was not achieved, the Group plans to deliver on this in 2020.

Overall inventory levels have increased to £17.3m (2018: £16.3m), due to the growth in new product lines, along with weak demand for core sales, particularly lower quality sheepskins down over 20%.

Working capital has been adversely affected by the changing shape of business. We received less credit from suppliers during the year as a result of lower purchase volumes. New customers have been granted credit terms in line with the markets they operate in, which tend to be longer than those normally granted. This has put pressure on our net debt, although has reduced from that reported in the interim results.

Year-end position

Net assets have decreased from £17.8m to £17.5m (2018: restated), mainly due to the devaluation of the Ethiopia BIRR by £0.9m (non-cash).

The Group is actively seeking to mitigate foreign exchange risk as far as practical and significantly improved its hedging strategy in 2019 to extend cover on a rolling 12 months basis.

Total net debt (including lease obligations and overdrafts) increased to £9.6m during the year. Our headroom on these facilities remained adequate at £2.6m. The Group's gearing ratio was 55%, which is behind the target level of 50%.

There was an outflow of free cash at £1.6m (2018: £1.0m inflow), impacted by working capital movements as explained previously. As a result, alignment of these movements with production towards the end of 2019 was challenging, causing in a consequential increase in inventory.

Over the last two years we have invested £1.2m in capital programmes to enhance operating capability and efficiency. We plan moderate investment spend in 2020, below the level of 2019.

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 hair sheep skins, goat skins and hides. The Group exports on average 90% of its production into over 44 countries across four continents.

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

Key measurable developments



Profit before tax

+64%



Salary costs

-5%



Automotive

+400%



Margins

+6%



Trees planted

7,500



Hedging (US\$)

65%

of 2020

STRATEGIC REPORT

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 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 growing new business in developing channels, whilst preserving core business of gloves and performance footwear where the fundamentals of performance, integrity, service, innovation and reputation are the foundations of its customer relationships and product offering.

In addition, the Group is now selling into new markets for whole hide interiors, automotive, aviation 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.

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:

• **Coronavirus (COVID-19)**

The safety of our staff, customers and wider community remains our key priority, and we will observe government guidance. It is too early to judge if there will be further business impact, in the short run we have seen a material reduction in demand which for now we anticipate a recovery in the second half of the year. We are also monitoring the situation as it develops with weekly main board communications, to judge the situation and have already counter measures in mind should the phases of this challenging situation become more severe for our business. The majority of the Group's revenues are outside of Europe. China is a key market to which we have some dependency, and appears to be gradually improving, whilst we realise it is early to judge if this can be sustained.

• **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. Furthermore, the Group sells any surplus US dollars when the rate is favourable. In 2019, the Group entered 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 and will continue to review its strategy in this area.

• **Political**

The political environment in Ethiopia has been notably more stable in 2019. Opportunities for further economic developments are growing. In the UK, there are continued 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. The global situation has a heightened risk profile leading into

2020, whilst we look to diversify our dependency as far as practical.

• **Supply**

The availability of quality raw materials 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 and waste management**

The group is exposed to price volatility in the supply of energy and increase burden of 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 Group actively monitors its liquidity position to ensure it has enough available funds and working capital to operate and meet its planned commitments. The Group continues to have excellent working relationships with its banking partners both in the UK and Ethiopia and has enough 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.

Decisions in focus

• **Increase in hedging**

Our cashflow and profit predictability has improved as we have extended the duration of our hedging contracts; we enjoy predictable US Dollar income. The aim was to reduce the volatility, not to remove all risk. This ensures more accurate prediction in cash requirements and hence profit outcomes. It also enables competitive pricing decisions to be made and passed on to customers. Our hedging reserve rose to a significant credit, insulating 2020 from some of the US Dollar currency risks.

• **Set minimum target pricing**

We have actively sought to achieve a target level of profitability from any business we do, that fairly compensates

Section 172 Statement

Acting to improve the model through impactful decisions

Decision	Rationale	Impact
Increase hedging of US Dollars This decision was made to reduce risk as well as improve our position and broaden our relationship with the bank.	Highly predictable % of Dollar sales, visibility of order bank	Increase certainty of cost in 2020 better predictability of PBT
Set minimum target pricing The key stakeholders this decision impacted was existing customers. This decision addresses our narrower product portfolio and better serves our existing customers' needs	Avoid chasing low margin business, get better quality portfolio addressing our USP	Improvement in margin to 31%
Reducing head count We consulted with unions on capacity and profitability in making this decision, balancing pay demands with economic pressures.	Ensure capacity is aligned and that quality is prioritised over quantity	Reduce risk/breakeven point, overall salaries down £0.4m year on year

us for our diverse infrastructure, technical content and access to lower cost labour in Ethiopia. The resultant impact has weakened sales development, however, has enabled reduction in costs. In addition, we pride ourselves on a fair price and ensure our practices produce an environmentally sustainable product.

- **Reducing head count**

Our strategy to address our cost base has been implemented swiftly, with the idea to improve the resilience of our financial performance. Our break-even point is now far lower than 2018, hence we have more headroom to sustain periods of weaker economic activity. In addition, we have equipped our sites to manage larger volume whole hide production, which requires significantly less labour. Consequently, we have not sacrificed available capacity to grow revenue back beyond £30m per annum with existing facilities and resources.

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 was £22.3m (2018: £28.5m). This remains a key driver for the business, whilst the quality of revenue is considered as important as the absolute number.

- **Profit before tax**

The Group's profit before tax was up £0.2m, to £0.6m, with the prior year at £0.4m.

- **EBITDA**

The Group's EBITDA was £2.0m, ahead of the £1.8m achieved in 2018.

- **Return on Capital Employed**

The Group's return on capital employed is at 4.2% (2018: 5.2%). 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 2019 increased to 411 days, from 279 days in 2018.

- **Gearing**

The Group's gearing has increased to 55% (2018: 42%), within range of target level of 50%.

- **Borrowings**

The Group monitors bank balances against facilities on a daily basis and also prepares weekly, monthly and annual cashflow forecasts to ensure there are sufficient funds to run the business. Borrowing headroom was £2.6m at year-end.

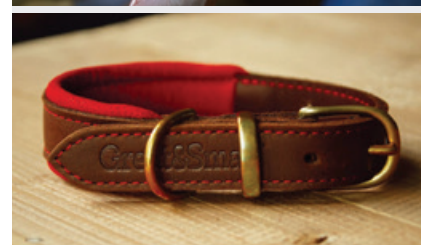
Further information on the business performance and position is contained in the Chairman's statement and Chief Executive's report which both form part of this strategic report. This report was approved by the board on 23 March 2020 and signed on its behalf by:

Reg Hankey

Chief Executive Officer
23 March 2020

Vertical integration Premier leather dog collars for Pets Corner

Pittards has manufactured Pets Corner own label line of leather dog collars and leads. Taking advantage of our vertical capabilities they worked closely with the team to first develop the perfect leather then design, develop and craft the comfortable, durable styles.





New rugged outdoor brand Royal Scot launched its first collection made exclusively from Pittards WR100 water resistant performance leathers. The water resistant technology doesn't just help feet remain dry in the field, but helps keep the leather soft and comfortable throughout the life of the product.

DIRECTORS, OFFICERS AND ADVISERS

Non-Executive Directors

S Yapp FCMA MBA, Chairman, non-executive ^{B C}
Stephen Yapp (62) 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 former director of Downing Strategic Micro-Cap Investment Trust Plc, as well as several 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 (71) 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 previously served for twelve years until 2013 and was subsequently appointed as Audit Committee Chair. She is a Director of Market Evaluator 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.

Executive Directors

R H Hankey BSc, FSLTC, LCGI, FCMI, CDipAF, Chief Executive Officer ^C
Reg Hankey (64) 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). Chaired LIAC for the University of Northampton for over 20 years.

R Briere ACMA, CGMA, CFO, Secretary
Richard Briere (46) joined the Group as Chief Financial Officer and Company Secretary

on 19 March 2019. Richard has broad experience across the manufacturing and distribution industries, including JCB, A-GAS and Knorr Bremsse.

Associate Directors*

J Loxston BA(Hons), FSLTC, Chief Technical Officer
A leather industry professional for over 30 years, Jon (52) started his career with Pittards in Yeovil as a leather technician, achieved Leather Technology qualifications and progressed through the business. Jon has a degree in International Business, he is a director of Leather UK and holds a position on the Leather Working Group Executive Committee and additionally chairs the LWG Technical Sub Group.

T Mekbib BSc, MBA, MD ET - Divisional Managing Director
Tsedenia (42) has both a degree in Chemistry and an MBA from the University of Leicester. Having worked for GlaxoSmithkline, Tsedenia joined Pittards in 2011. In 2017, she was appointed Managing Director of Pittards Ethiopia with responsibility for operations at the tannery in Edjersa and the product manufacturing factories in Addis Ababa.

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

Advisers

Broker WH Ireland

Nominated Adviser WH Ireland,
St. Brandon's House, 29 Great George Street, Bristol BS1 5QT

Independent Auditors PKF Francis Clark,
Centenary House, Peninsula Park, Rydon Lane, Exeter EX2 7XE

Bankers Lloyds Bank plc, Canons House,
Canons Way, Bristol BS1 5LL

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

* Associated Directors are invited to main board meeting, but not yet formally registered as directors.

Sustainability Responsible production

- Pittards only uses hide and skins that are a by-product of the food industry and local raw material sourcing helps reduce manufacturing miles
- We manage our own effluent and water treatment plants in both divisions, returning our UK water to the town system cleaner than when it came in.
- Pittards is REACH compliant and has long experience with MRSLs and working within the ZDHC framework. Able to manage complex manufacturing requirements though environmentally sensitive processes, we work with chemical partners that take a strategic approach to environmental impact.
- We are ISO 14001 compliant across both divisions, ISO 9001 compliant and LWG Bronze rated in the UK, and major brand independent audit compliant in Ethiopia.
- Pittards permanent performance technologies increase the practical life of products and reduce the call on additional resources to maintain them.
- Pittards' strong employee governance meets or exceeds local labour regulations and a deep community engagement and perpetuation of skills runs through both divisions.



CORPORATE GOVERNANCE REPORT

for the year ended 31 December 2019

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 and that we operate the QCA governance code.

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 of two executive members and three non-executive directors, the biographies of the directors are on page 17. 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 as has no outside interests that conflict with the business or otherwise connected to the market in which we operate. 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 code acknowledges 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 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 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. Shareholders participate by submitting questions at the Annual General Meeting. The Board openly promotes AGM attendance, whilst also encouraging members of staff to attend.

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.

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.

Historic reports and accounts, along with all notices and circulars for the last five years, 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 17 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, which includes annual meetings with external auditors, approving the Group's accounting policies and reviewing the Group's interim results and full year statements. The Audit Committee also reviews the risk register and risk appetite of the Group and monitors the independence of the external auditors.

PWC had been auditing the group for 8 years. The board requested a tender to change auditors and wanted to identify those that would provide a better fit in terms of focus and cost proposition.

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 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 PKF Francis Clark to discuss the performance of both the business and PKF Francis Clark in meeting its statutory obligations. 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 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.

Work and gardening gloves Launch of 1826 Pittards Collection

Pittards Ethiopia has developed an expertise in the manufacture of leather work and gardening gloves for third-party customers. In Autumn 2019 we launched our first capsule 1826 brand collection of leather work and gardening gloves to the market in the UK.



CORPORATE GOVERNANCE REPORT

	Board Meetings		Audit Committee		Remuneration Committee		Nominations Committee	
	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible
Directors' attendance								
R Briere ¹	6	6	— ²	—	—	—	—	—
L Cretton	6	6	2	2	1	1	—	—
G Davis	6	6	2	2	1	1	—	—
R Hankey	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 19 March 2019.

2. The Chief Financial Officer attends audit committee meetings by invitation which are not included in the above attendance.

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.

Risk management

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 assessments 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 2019, as discussed at the Audit Committee, are as follows:

• COVID-19

In the light of the COVID-19 pandemic, the Board has had ongoing discussions regarding its impact on the assessment of the going concern, see Note 1(b) of financial statements for further detail.

• 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 judgement. Inventory policies are reviewed on a regular basis, with provisions made where required to ensure that the inventory is held at an appropriate value.

Board attendance and activities

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 Directors are required to invest the necessary time to execute their role properly. Directors' attendance at Board and Committee meetings during the year was as shown in the table above.

See page 17 for more details about the Board.

Social responsibility

Tree planting in Ethiopia

29 July 2019: Pittards Ethiopia planted 7,500 trees as part of a national scheme to plant over 200 million seedlings in one day.

The initiative was part of a wider government reforestation scheme that has a target to plant four billion trees as currently, less than 4 percent of the country's land is forested – a sharp decline from about 30% at the end of the 19th century, according to Farm Africa, which is involved in Ethiopia's forest management. The eventual total announced by Ethiopian Minister for Innovation and Technology was 353,633,660 trees planted.



During 2019 the Board's activities included:

- Approval of the Annual Accounts and Reports 2019.
- Set the Group's 2020 budget and business plan.
- Considered and acted to reduced headcount by over 400 staff.
- Received detailed reports on the Group's operating and financial performance.
- Considered the Group's safety performance.
- Received updates on progress against strategic programmes and tested the overall strategy against the delivery of shareholders' long-term objectives.

- Frequently considered the evolving economic, political and market conditions relative to Brexit.
- Considered competitor behaviour, including the impact of failing contractors and the resulting impact on the industry as a whole.
- Considered and agreed in principle a set of targets for the acceptable level of resilience, liquidity and headroom.
- Reviewed the Group's forecast funding requirements, debt capacity and potential financing options that would enable achievement of the desired resilience targets.
- Reviewed cash forecasts, cash management key risks, together with the adequacy of mitigation controls and time scales to implement them.
- Approved the building of more classrooms near the Ethiopian Tannary site.
- Received regular reports from the Chairs of the Audit, Remuneration and Sustainability Committees on activities and recommendations of the Committees.
- Considered the continued personal development of the Executive Committee, including senior management succession planning including a review.
- Implemented a review of the Group's remuneration of senior management incentive arrangements ensuring alignment with shareholders approving a new Growth share scheme.
- Evaluated the short- and long-term trends in sustainability that would help to inform the wider business strategy and the Group's long-term planning process.
- Concluded that the impact of IFRS 16 on the reported results of the group to be immaterial.

Board performance

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 15.

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. This year the Board undertook a 360 assessment of the Board directors with recommended improvements to the functioning of the Board.

All Directors can undertake relevant training and attend relevant seminars and forums. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director of an AIM listed company.

Corporate culture

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.

Stephen Yapp

Chairman
23 March 2020



FootJoy has partnered with Pittards for over 40 years in the development and manufacture of leather for its leading StaSof golf glove. A continual process of innovation to evolve the performance of the leather keeps this glove ahead of the game.

DIRECTORS' REPORT

for the year ended 31 December 2019

The directors submit their report together with the audited consolidated financial statements of the Group and the Company for the year ended 31 December 2019.

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 leather goods, interiors, sports equipment and the retail of leather and leather goods. The principal activities of its subsidiaries are the production of leather, leather goods, 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 2019 (2018: £nil) and the directors are not recommending the payment of a final dividend (2018: £nil). The Board continue to believe that the payment of dividends is important and therefore intends, when appropriate and subject to agreed financial parameters, 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 enough distributable reserves at such time to do so.

Going concern

The Group and Company meet their day to day working capital requirements through their bank facilities. The banking relationship with Lloyds Bank remains strong. Since the year end our expiring banking facilities have been subject to discussions on their revision and renewal; agreement has been reached and formal paperwork is in the process of being

prepared for the period ended 31 March 2021. Further information on going concern can be found in note 1(b) of the accounts.

Brexit

The uncertainty of Brexit is discussed in the Chief Executive's statement and remains a risk to the Group.

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 79% of Group revenue is in US dollars, 13% in Sterling, 4% in Ethiopian Birr, 3% in Euros and 1% other. Where possible, a natural hedge is maintained against the Group's currency exposure. During 2019, 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 regarding 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.

DIRECTORS' REPORT

Creditor payment policy

The Group does not follow a particular code for the payment of suppliers. It is the Group's policy in respect of major suppliers to settle terms of payment when the terms of each transaction are agreed, to ensure the supplier is made aware of the terms of payment and to abide by the terms of payment. For small local suppliers the policy is to pay within 45 days of invoice and for other suppliers to pay within 60 days. Trade payables at the year-end represented 59 days' purchases (2018: 60 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 as employees and on the various factors affecting the performance of the Group, through special briefing meetings which include an interim and full year address to staff on the business presented by the CEO, following market announcement of results.

Stakeholder engagement is covered in the S172 statement.

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 19th March 2020 shown in the table below. No significant movements impacting the profile of the key shareholders have been noted since 31 December 2019.

As at 19th March 2020 – Substantial interests

	Holding of 50p shares	% Holding
Mr John A Rendell	2,640,000	19.01%
Downing Corporate Finance	2,410,482	17.36%
Affiliated Managers Group	2,312,500	16.65%
Ruffer Investment Management	976,250	7.03%
Pension Protection Fund	790,747	5.69%
Rath Dhu	550,000	3.96%
Hargreaves Lansdown PLC	549,469	3.96%
Directors, Employees & Related Parties	496,320	3.57%
Armstrong Investments Ltd	475,000	3.42%
Denton Pension Management	433,333	3.12%

	At end of year		At beginning of year or date of appointment (if later)	
	Fully paid 50p shares	Share options	Fully paid 50p shares	Share options
Directors' interests				
R Briere	20,000	–	–	–
LM Cretton	14,203	–	14,203	–
GP Davis	87,567	–	87,567	–
RH Hankey	247,333	–	240,033	–
S Yapp	112,517	–	99,111	–

Directors

The persons named on page 17 were the directors during the year and are 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 at the forthcoming AGM. R Briere was appointed a director in March 2019.

Directors' interests

On 26 September 2016, a Long Term Incentive Plan (LTIP) was granted to Board directors detailed below with the exception of Richard Briere who joined the scheme October 2019, also at this time the scheme was extended to March 2022 and converted to a growth share scheme based on the same benefit mechanism as before.

The vesting period is now five years and five months, concluding March 2022, and is dependent upon the attainment of a minimum specific share price at the exercise date. The directors are entitled to shares from the vesting date, based on the excess value generated at the exercise date, with the total value generated split based on the following percentages:

% entitlement	
R Briere	20%
LM Cretton	5%
GP Davis	5%
RH Hankey	40%
S Yapp	30%

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 2021 (whichever is earlier).

Independent auditors

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

This report was approved by the Board on 23 March 2020 and signed on its behalf by:

Reg Hankey

Chief Executive Officer
23 March 2020

Skills and capability development

New line in Addis Ababa factory

Footwear manufacturing in Ethiopia has been evolved from hand stitched uppers to more complex construction skills.

The line, newly installed in 2019 in one of our Addis Ababa factories is already in commercial production with a skilled labour force and utilising leather manufactured in our own tannery.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PITTARDS PLC

Report on the audit of the financial statements

Opinion

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

In our opinion, the financial statements:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our 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) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Response and conclusion
<p>Revenue recognition</p> <p>The auditor's responsibilities relating to fraud in an audit of financial statements', revenue recognition is a presumed significant audit risk.</p> <p>This is a key performance measure for the group. The risk is revenue is incomplete and/or not included in the correct reporting period.</p> <p>This is the second year of IFRS 15 Revenue and our work included assessing if the revenue recognition policies adopted by the group continue to be appropriate particularly for goods made under contract where there is no alternate use.</p>	<p>Our audit work included:</p> <ul style="list-style-type: none"> • Reviewing a sample of sales transactions around the year end to ensure they were reported in the correct period. • Assessing and challenging the revenue recognition policies adopted by the group to confirm they are appropriate in the context of the business and in accordance with IFRS 15. • Assessing the level of any contract work performed that has no alternate use and evaluating if material to the accounts. • Assessing the disclosures made and adjustments required in respect of IFRS 15. <p>As a result of the procedures performed, we are satisfied that revenue has been correctly recorded, there is no unrecorded material contract work with no alternate use and the policies adopted by the group and parent company are in accordance with IFRS 15.</p>
<p>Inventory valuation</p> <p>The group and parent company hold a significant level of inventory, especially when compared to key metrics such as turnover and profitability. The risk is inventory is valued too high where production costs are over stated or where stock provisions are understated.</p> <p>Inventory is valued on a cost plus basis using a defined cost matrix (raw materials plus an allocation of labour and overheads) which involves some estimation.</p> <p>Whilst we understand that inventory is non-perishable, there is a risk of changing consumer preferences and commodity prices could lead to inventory being carried at an amount greater than net realisable value. As such the inventory provision is a key calculation and area of judgement in the financial statements. See notes 1 and 2a to the financial statements for the directors' disclosures of the related accounting policies and key judgements and estimation uncertainty.</p>	<p>Our audit work included:</p> <ul style="list-style-type: none"> • We tested the costing of stock by agreeing a sample of raw materials and direct production overheads to supporting invoices. Further to this we tested the underlying assumptions and methodology used in the absorption of indirect overheads. • We tested management's methodology in calculating closing inventory provisions. This included analysis of inventory based on age and comparing average sales prices achieved to the carrying value of inventory. We noted the methodology for provisioning has been applied consistently with the prior year. <p>From our work performed, we did not identify any material issues.</p>

Our application of materiality

Misstatements, including omissions, are considered to be material if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We use quantitative thresholds of materiality, together with qualitative assessments in planning the scope of our audit, determining the nature, timing and extent of our audit procedures and in evaluating the results of our work.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PITTARDS PLC

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

Materiality measure	Group	Parent company
Overall materiality	£221,000 (2018: £284,700).	£220,000 (2018: £251,500).
Performance materiality	75% of financial statement materiality	75% of financial statement materiality
Basis for determination	1% of total revenue	1% of total revenue
Misstatements reported to the audit committee	£6,600 (2018: £15,100)	£6,600 (2018: £12,575)

The range of materiality at the four significant components subject to full scope audits: £5,000 - £57,000.

Rationale for the benchmark applied: Based on the benchmarks used in the annual report and our assessment of the group and parent company operating in a low margin industry, revenue is a primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark

An overview of the scope of our audit

We planned and performed our audit by obtaining an understanding of the group and its environment, including the accounting processes and controls, and the industry in which it operates. The group comprises the following active companies:

- 1 UK trading parent company (Pittards plc);
- 1 UK wholly owned trading subsidiary company (Pittard Garnar Services Limited); and
- 3 wholly owned Ethiopian based trading subsidiaries (Pittards Products Manufacturing Share Company, Ethiopia Tannery Share Company and Pittards Global Sourcing Private Limited Company)

Of the group's five trading components four are considered significant reporting units and 1 component (Pittards Global Sourcing Private Limited Company) considered a non-significant reporting unit.

The 2 UK based trading companies (Pittards plc and Pittard Garnar Services Limited) were subject to full scope audits performed by the group audit team. The two significant Ethiopian subsidiaries (Pittards Products Manufacturing Share Company and Ethiopia Tannery Share Company) were audited by HST Consulting as a component auditor operating under our instruction and review.

Those components subject to audit cover 100% of the group's revenue and 100% of the group's consolidated profit after tax. Audit work at the component level is executed at levels of materiality appropriate for such components.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the companies act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on [page 30](#), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Glenn Nicol
Senior Statutory Auditor

PKF Francis Clark
Statutory Auditor
Centenary House, Peninsula Park
Rydon Lane. Exeter EX2 7XE

23 March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

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 17 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
23 March 2020

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Continuing operations			
Revenue	3	22,301	28,469
Cost of sales		(15,404)	(21,318)
Gross profit		6,897	7,151
Distribution costs		(2,264)	(2,209)
Administrative expenses		(3,456)	(3,950)
Profit from operations before finance costs		1,177	992
Finance costs	8	(598)	(647)
Finance income	8	–	9
Profit before taxation	4	579	354
Taxation	9	(173)	(2,283)
Profit/(Loss) for the year after taxation		406	(1,929)
Earnings per share			
Basic	10	2.93p	(13.91p)
Diluted	10	2.90p	(13.76p)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Profit/(Loss) for the year after taxation		406	(1,929)
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings – gain	11	139	219
Revaluation of land and buildings – unrealised exchange (loss)/gain		(406)	49
		(267)	268
Items that may be subsequently reclassified to profit or loss			
Unrealised exchange (loss)/gain on translation of overseas subsidiaries		(931)	389
Fair value gains/(losses) on foreign currency cash flow hedges		339	(52)
		(592)	337
Other comprehensive (loss)		(859)	(605)
Total comprehensive (loss) for the year		(453)	(1,324)

The accompanying notes on pages 36 to 61 form an integral part of the Financial Statements.

BALANCE SHEETS

as at 31 December 2019

	Note	Group		Company	
		2019 £'000	Restated 2018 £'000	2019 £'000	2018 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	11	10,240	11,006	5,507	5,622
Intangible assets	12	114	147	114	147
Investments in subsidiary undertakings	27	–	–	378	378
Loans receivable	25	–	–	1,872	–
Deferred income tax asset	19	100	–	100	–
Total non-current assets		10,454	11,153	7,971	6,147
Current assets					
Inventories	13	17,341	16,306	11,600	9,861
Trade and other receivables	14	3,462	3,306	6,288	8,294
Cash and cash equivalents	14	180	598	11	17
Total current assets		20,983	20,210	17,899	18,172
Total assets		31,437	31,363	25,870	24,319
LIABILITIES					
Current liabilities					
Trade and other payables	15	(3,430)	(4,350)	(2,626)	(2,568)
Interest-bearing loans, borrowings and overdrafts	16	(9,381)	(7,756)	(6,871)	(5,299)
Total current liabilities		(12,811)	(12,106)	(9,497)	(7,867)
Non-current liabilities					
Deferred income tax liability	19	(730)	(810)	–	(112)
Interest-bearing loans, borrowings and overdrafts	17	(376)	(566)	(18)	(105)
Total non-current liabilities		(1,106)	(1,376)	(18)	(217)
Total liabilities		(13,917)	(13,482)	(9,515)	(8,084)
Net assets		17,520	17,881	16,355	16,235
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	295	203	295	203
Cash flow hedge reserve	21	287	(52)	287	(52)
Translation reserve	21	(4,062)	(3,131)	–	–
Revaluation reserve	21	1,166	1,433	–	–
Retained earnings	21	3,926	3,520	6,340	6,651
TOTAL EQUITY		17,520	17,881	16,355	16,235

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 made a loss of £0.3m (2018: loss of £2.5m).

The financial statements on pages 36 to 61 were approved and authorised for issue by the Board of directors on 23 March 2020 and signed on its behalf by:

Richard Briere

Chief Financial Officer
Company Number 102384

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	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
As at 1 January 2018		6,944	2,984	6,475	(495)	131	–	(3,520)	1,813	5,406	19,738
Prior year restatement	28	–	–	–	–	–	–	–	(648)	–	(648)
As at 1 January 2018 restated		6,944	2,984	6,475	(495)	131	–	(3,520)	1,165	5,406	19,090
Comprehensive income/(loss) for the year:											
Loss for the year after taxation		–	–	–	–	–	–	–	–	(1,929)	(1,929)
Other comprehensive income/(loss):											
Gain on the revaluation of buildings		–	–	–	–	–	–	–	219	–	219
Unrealised exchange gain/(loss) on translation of foreign subsidiaries		–	–	–	–	–	–	389	49	–	438
Fair value losses on foreign currency cash flow hedges		–	–	–	–	–	(52)	–	–	–	(52)
Total other comprehensive income/ (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 1 January 2019		6,944	2,984	6,475	(495)	203	(52)	(3,131)	1,433	3,520	17,881
Comprehensive income/(loss) for the year:											
Profit for the period after taxation		–	–	–	–	–	–	–	–	406	406
Other comprehensive income/(loss):											
Gain on the revaluation of buildings	11	–	–	–	–	–	–	–	139	–	139
Unrealised exchange gain/(loss) on translation of foreign subsidiaries		–	–	–	–	–	–	(931)	(406)	–	(1,337)
Fair value losses on foreign currency cash flow hedges		–	–	–	–	–	339	–	–	–	339
Total other comprehensive income/ (loss)		–	–	–	–	–	339	(931)	(267)	–	(859)
Total comprehensive income/(loss) for the year		–	–	–	–	–	339	(931)	(267)	406	(453)
Share-based payment expense	7	–	–	–	–	92	–	–	–	–	92
At 31 December 2019		6,944	2,984	6,475	(495)	295	287	(4,062)	1,166	3,926	17,520

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	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 2018	6,944	2,984	(495)	131	–	9,060	18,624
Comprehensive income/(expense) for the year:							
Loss for the period after taxation	–	–	–	–	–	(2,452)	(2,452)
Other comprehensive (expense):							
Fair value losses on foreign currency cash flow hedges	–	–	–	–	(52)	–	(52)
Total other comprehensive (expense)	–	–	–	–	(52)	–	(52)
Total comprehensive (loss) for the year	–	–	–	–	(52)	(2,452)	(2,504)
Share-based payment expense	–	–	–	72	–	43	115
At 1 January 2019	6,944	2,984	(495)	203	(52)	6,651	16,235
Comprehensive income/(expense) for the year:							
Loss for the period after taxation	–	–	–	–	–	(311)	(311)
Other comprehensive income/(expense)							
Fair value gains on foreign currency cash flow hedges	–	–	–	–	339	–	339
Total other comprehensive income	–	–	–	–	339	–	339
Total comprehensive profit/(loss) for the year	–	–	–	–	339	(311)	28
Share-based payment expense	–	–	–	92	–	–	92
At 31 December 2019	6,944	2,984	(495)	295	287	6,340	16,355

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2019

	Note	Group		Company	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash flows from operating activities					
Cash (used in)/generated from operations	22	(494)	1,583	(1,001)	(311)
Tax paid		(466)	(11)	–	–
Interest paid		(566)	(634)	(218)	(194)
Net cash (used in)/generated from operating activities		(1,526)	938	(1,219)	(505)
Cash flows from investing activities					
Purchases of property, plant and equipment		(635)	(588)	(242)	(249)
Purchase of intangible assets		(30)	–	(30)	–
Net cash used in investing activities		(665)	(588)	(272)	(249)
Cash flows from financing activities					
Proceeds from borrowings		804	–	–	–
Repayment of bank loans		(1,061)	(1,304)	(210)	(210)
New finance lease obligations		200	41	114	41
Repayment of obligations under finance leases		(171)	(85)	(147)	(85)
Net cash used in financing activities	24	(228)	(1,348)	(243)	(254)
(Decrease) in cash and cash equivalents		(2,419)	(998)	(1,734)	(1,008)
Cash and cash equivalents at beginning of the year		(3,695)	(2,698)	(3,829)	(2,821)
Exchange (losses)/gains on cash and cash equivalents		(19)	1	–	–
Cash and cash equivalents at end of the year	23	(6,132)	(3,695)	(5,563)	(3,829)

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, which is also the principal place of business, is given on page 17. The nature of the Group's operations and its principal activities are set out in the Strategic report on page 13.

(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 2019 and 31 December 2018 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's 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 banking relationship with Lloyds Bank remains strong. Since the year end our expiring banking facilities have been subject to discussions on their revision and renewal; agreement has been reached and formal paperwork is in the process of being prepared for the period ended 31 March 2021. In the light of the ongoing COVID-19 challenges the Board has sensitised its forecasts and projections for the next 12 months to take account of possible changes in trading performance in order to determine when and to what extent additional measures may be necessary. Sensitivity analysis has been performed to reflect a reduction in demand of up to 40% to August, with an ongoing reduction of 10% for the following seven months to March 2021. The model also takes into account accessible savings.

Notwithstanding the recovery of our order book in March 2020, if the current crisis is more severe or prolonged than in our model, there could be a material uncertainty about the ability of the business to continue as a going concern and, therefore, the Board will maintain a close eye on performance to identify whether any further action becomes necessary to protect the business. Based on the above and information available to the Board at the date of approval, the Group and Company continue to adopt the going concern basis in preparing these financial statements.

(c) New and amended standards

The following standards and amendments apply for the first time in the current financial year:

- IFRS 16 Leases

The Group has adopted IFRS 16 Leases from 1 January 2019, using the modified retrospective method. Applying this method, the comparative information for the 2018 year has not been restated.

At 1 January 2019, the Group recognised right-of-use assets of £200k and lease liabilities of £200k. The Group has decided not to apply the new guidance to leases whose term will end within twelve months of the date of initial application. In such cases, the leases will be accounted for as short-term leases and the lease payments associated with them will be recognised as an expense from short-term leases. The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based upon the operating lease obligations as at 31 December 2018:

Consolidated
1 January 2019
£'000

Operating lease obligations at 31 December 2018	260
Minimum lease payments (notional amount) on finance lease liabilities at 31 December 2018	200
Relief option for short-term leases	(3)
Relief option for leases of low-value assets	(25)
Other	(26)
Gross lease liabilities at 31 December 2018	406
Discounting	(13)
Lease liabilities at 1 January 2019 under IFRS 16	393
Present value of finance lease liabilities as at 31 December 2018	(193)
Additional lease liabilities as a result of the initial application of IFRS 16 as at 1 January 2019	200

The lease liabilities were discounted at the borrowing rate as at 1 January 2019. The weighted average discount rate was 6.63%.

(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.

(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 accrual's 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).

NOTES TO THE CONSOLIDATED ACCOUNTS

1. Statement of accounting policies (continued)

(h) Foreign currency translation (continued)

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) 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.

(j) 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%
Building improvements	7-20%
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 2019 and concluded there has not been a material change in valuation. In December 2016, a formal assessment was performed by an independent RICS Registered Valuer. Buildings in Ethiopia were revalued at December 2019 and December 2018 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 Pittards Global Sourcing Limited 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.

(k) 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 Ethiopia Tannery Share Company 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.

(l) 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.

(m) 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.

(n) 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.

– 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 IFRS 9 in the prior 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. Loans and other forms of longer-term debt instruments repayable in more than 90 days are not included in cash where there is no immediate demand to repay, this includes term loans and pre-shipment loans.

– 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 within the cash flow hedge reserve. 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

1. Statement of accounting policies (continued)

(o) 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.

(p) 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.

(q) 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.

(r) Share capital

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

2. Critical judgements and estimation uncertainty

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

(a) Inventory valuation

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

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

(b) Property valuations

The Group policy is to perform a formal revaluation every 5 years, with a director assessment in the intervening period. An independent valuation was carried out 4 years ago on the UK's Yeovil site which is our principal place of production and head office, which supports the current value. The Ethiopian building assets were valued on the 31 December 2019.

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.

2019	UK Division £'000	Ethiopia Division £'000	Consolidation adjustment £'000	Total £'000
Revenue from customers	20,689	10,080	–	30,769
Revenue from other sources – rental income	46	–	–	46
Inter-segmental trading	(885)	(7,628)	–	(8,513)
	19,850	2,450	–	22,301
Gross profit ¹	4,731	2,733	–	7,464
Profit before tax	344	235	–	579
Assets	30,524	12,533	(11,620)	31,437
Liabilities	(12,798)	(7,766)	6,647	(13,917)

2018	UK Division £'000	Ethiopia Division £'000	Consolidation adjustment £'000	Total £'000
Revenue	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 (restated)	(18,826)	(8,833)	14,177	(13,482)

1. Included in inter-segmental trading in the UK is a balance of £0.746m (2018: £0.759m) 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):

2019	UK Division £'000	Ethiopia Division £'000	Total £'000
UK	1,842	295	2,137
Europe	1,879	–	1,879
North America	165	989	1,154
Far East and Rest of the World	15,964	1,167	17,131
	19,850	2,451	22,301

NOTES TO THE CONSOLIDATED ACCOUNTS

3. Business segments information (continued)

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

Revenues of approximately £4.3m (2018: £5.3m) within the UK segment are derived from one customer. Revenues of approximately £4.4m (2018: £6.2m) within the UK segment are derived from another customer. Both customers' revenues fall within the Far East and Rest of the World geographical segment.

4. Profit before taxation

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

	2019 £'000	2018 £'000
Depreciation of property, plant and equipment (Note 11)	780	705
Amortisation of intangible assets (Note 12)	63	62
Low value asset lease expense	24	–
Operating lease rentals recognised as expense	–	119
Staff costs (Note 5)	7,798	8,222
Employee benefit expense (life and health insurances)	137	112
Research and development expenditure	57	74
Net (gain)/loss on foreign currency translation	(250)	71

Auditors' remuneration

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

	2019 £'000	2018 £'000
Fees payable to the Company's auditors in respect of the audit of the parent company and consolidated financial statements (2019 PKF Francis Clark, 2018 PWC)	49	53
Fees payable to the Company's auditors in respect of the audit of subsidiaries (HST) in Ethiopia	3	6
Total audit fees	52	59

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	
	2019 No.	2018 No.	2019 No.	2018 No.
Production	987	1,307	134	141
Sales, distribution and administration	232	380	33	43
Directors	5	5	5	5
	1,224	1,692	172	189
Their aggregate remuneration comprised:	£'000	£'000	£'000	£'000
Wages and salaries	6,914	7,260	5,449	5,704
Social security costs	513	545	513	545
Other pension costs	294	246	153	103
Compensation for loss of office	77	171	–	171
	7,798	8,222	6,115	6,523

6. Directors' remuneration

	Salary & fees £'000	Profit related bonus £'000	Compensation for loss of office £'000	Benefits £'000	Pension contributions £'000	2019 Total £'000	2018 Total £'000
Executive							
RH Hankey	208	–	–	2	10	220	220
R Briere	96	–	–	–	3	99	–
M O'Rourke	–	–	–	–	–	–	245
Non-executive							
LM Cretton	39	–	–	–	–	39	39
GP Davis	39	–	–	–	–	39	39
S Yapp	83	–	–	–	–	83	121
	465	–	–	2	13	480	664

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 23. No options were exercised during the year.

NOTES TO THE CONSOLIDATED ACCOUNTS

6. Directors' remuneration (continued)

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:

	2019 £'000	2018 £'000
Salaries, bonus and other short-term benefits	274	495
Pension contributions	28	19
Total	302	514

5,487 options (2018: 21,949) remain outstanding for key management personnel in relation to 2017 Save As You Earn scheme.

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:

	2019 £'000	2018 £'000
At 1 January	30	10
Share-based payment expense	15	20
At 31 December	45	30

This charge has been included within administration expenses.

All outstanding share options are measured in accordance with IFRS at their market-based measure at the grant date. Options were priced using the Black-Scholes option pricing model. Expected volatility is based on the historical share price volatility over the past three years.

The assumptions used in the model are detailed below:

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

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

	2019		2018	
	No. of options	Exercise price (pence)	No. of options	Exercise price (pence)
Outstanding at the beginning of the year	154,571	65.6	180,908	65.6
Lapsed during the year	(23,322)	–	(26,337)	65.6
Outstanding at the end of the year	131,249	65.6	154,571	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 23. The vesting period was extended to March 2022 during 2019 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. Richard Briere our Chief Finance Officer was added to the scheme during 2019.

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

	2019 £'000	2018 £'000
At 1 January	173	121
Share-based payment expense	77	95
Reversal of expense following forfeiture of entitlement	–	(43)
At 31 December	250	173

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

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

Grant date	26/09/2016
Share price at grant date	94.5p
Exercise price	£1
Vesting period	5.5 years
Expected volatility	39.5%
Risk-free rate	0.1%
Dividend yield	–

Both share option schemes are to be settled with equity shares.

8. Finance costs and income

	2019 £'000	2018 £'000
(a) Finance costs		
Interest on bank loans and overdrafts	566	604
Interest on lease obligations	17	9
Interest on historic foreign tax charge	–	34
Other finance costs	15	–
	598	647
(b) Finance income		
Interest on bank accounts	–	9

NOTES TO THE CONSOLIDATED ACCOUNTS

9. Taxation

(a) Analysis of the charge/(credit) in the year

	2019 £'000	2018 £'000
The charge based on the profit for the year comprises:		
Corporation tax on profit for the year	200	263
Foreign tax on profit for the year	41	89
Foreign tax related to prior years	144	10
Total current tax	385	362
Deferred tax		
Origination and reversal of temporary differences	(212)	26
Impact of change in UK tax rate	–	(6)
Derecognition of deferred tax asset	–	1,901
Total deferred taxation	(212)	1,921
Income tax charge/(credit)	173	2,283

The Company's profits for the year are taxed at the standard rate of corporation tax in the UK of 19% (2018: 19%) and Ethiopia of 30% (2018: 30%). The tax assessed in each year differs from the standard rate of corporation tax for the relevant year. The group expects a more normalised split of profits between the UK and Ethiopia in 2020 and retains taxable losses in the UK of £11.4m to utilise in future periods. The differences are explained below:

(b) Factors affecting the charge for the year

	2019 £'000	2018 £'000
Profit on ordinary activities before tax	579	354
Tax calculated at domestic tax rates applicable to profits in the respective countries	137	220
Income not subject to tax	–	(4)
Foreign tax related to prior years ¹	159	10
Expenses not deductible for tax purposes ²	283	334
Allowable tax deductions ³	(183)	(181)
Profits/(losses) generated	(107)	9
Foreign tax paid	45	89
Double tax relief	(19)	(57)
Utilisation of losses	(142)	(32)
Impact of change in UK tax rate	–	(6)
Derecognition of deferred tax asset	–	1,901
Total tax charge/(credit) for the year (Note 9(a))	173	2,283

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

	2019 £'000	2018 £'000
Analysis of the profit in the year:		
Profit/(Loss) for the year	406	(1,929)
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	14,001	14,023
Basic earnings per ordinary 50p share	2.93p	(13.91p)
Diluted earnings per ordinary 50p share	2.90p	(13.76p)

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 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 1 January 2019	6,924	18,351	685	25,960	3,903	13,045	126	17,074
Exchange differences	(436)	(742)	(80)	(1,258)	–	–	–	–
Additions	198	437	–	635	112	130	–	242
Disposals	–	(8)	–	(8)	–	–	–	–
Transfers	–	126	(126)	–	–	126	(126)	–
Revaluation of property	62	–	–	62	–	–	–	–
At 31 December 2019	6,748	18,164	479	25,391	4,015	13,301	–	17,316

NOTES TO THE CONSOLIDATED ACCOUNTS

11. Property, plant and equipment (continued)

	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
Accumulated depreciation								
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 1 January 2019	168	14,786	–	14,954	167	11,285	–	11,452
Exchange differences	–	(498)	–	(498)	–	–	–	–
Charge for year	198	582	–	780	93	264	–	357
Disposals	–	(8)	–	(8)	–	–	–	–
Revaluation of property	(77)	–	–	(77)	–	–	–	–
At 31 December 2019	289	14,862	–	15,151	260	11,549	–	11,809
Net book value								
At 31 December 2019	6,459	3,302	479	10,240	3,755	1,752	–	5,507
At 31 December 2018	6,756	3,565	685	11,006	3,736	1,760	126	5,622

Depreciation of £0.68m (2018: £0.61m) has been charged to cost of sales, £0.07m (2018: £0.07m) to administrative expenses and £0.03m (2018: £0.03m) to distribution expenses in the Income Statement.

Land and buildings include an amount of £0.570m (2018: £0.550m) 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 2019. 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.

If buildings across the Group were stated on historic cost basis the net book value would be £4.1m (2018: £4.2m).

Included in the Group's and Company's plant, machinery and motor vehicles are right of use assets as follows.

	Group
	2019 £'000
Right of use assets – plant and equipment as at 1 January 2019	389
Depreciation charged 2019	(61)
Additions to right of use assets	250
Right of use assets as at 31 December 2019	578

12. Intangible assets

	Group			Company		
	Website £'000	Computer software £'000	Total £'000	Website £'000	Computer software £'000	Total £'000
Cost						
At 1 January 2018	111	1,781	1,892	111	1,774	1,885
At 1 January 2019	111	1,781	1,892	111	1,774	1,885
Additions	30	–	30	30	–	30
At 31 December 2019	141	1,781	1,922	141	1,774	1,915
Accumulated amortisation						
At 1 January 2018	31	1,652	1,683	31	1,645	1,676
Charge for year	16	46	62	16	46	62
At 1 January 2019	47	1,698	1,745	47	1,691	1,738
Charge for year	16	47	63	16	47	63
Disposals	–	–	–	–	–	–
At 31 December 2019	63	1,745	1,808	63	1,738	1,801
Net book value						
At 31 December 2019	78	36	114	78	37	114
At 31 December 2018	64	83	147	64	83	147

Amortisation of £0.06m (2018: £0.06m) has been charged to administrative expenses in the Income Statement.

13. Inventories

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Raw materials	6,326	6,473	4,681	4,135
Work in progress	4,769	4,274	1,683	1,123
Finished goods	6,246	5,559	5,236	4,603
	17,341	16,306	11,600	9,861

The movement in stock provision is as follows:

	Group £'000	Company £'000
As at 1 January 2019	1,748	1,356
Utilisation	(1,286)	(726)
Charge	431	197
As at 31 December 2019	893	827

Inventory charged to the Income Statement during the year as part of cost of sales totalled £16.7m (2018: £12.0m). Raw materials include £0.3m of goods in transit at the year-end (2018: £1.5m).

NOTES TO THE CONSOLIDATED ACCOUNTS

14. Current financial assets

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade and other receivables				
Trade receivables	3,296	3,141	2,879	2,630
Less provision for impairment of trade receivables	(540)	(804)	(536)	(801)
Trade receivables net	2,756	2,337	2,343	1,829
Other receivables	323	401	195	108
Prepayments and accrued income	270	568	89	182
Financial derivatives	113	–	–	–
Amounts owed by Group undertakings	–	–	3,661	6,175
	3,462	3,306	6,288	8,294

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

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Up to 60 days	952	442	934	415
60-90 days	156	31	157	16
More than 90 days	85	223	82	107
	1,193	696	1,173	538

There are £1.5m (2018: £1.5m) of trade receivables which are not due and not impaired as at 31 December 2019. There are no concerns regarding the recoverability of these amounts.

As at 31 December the provision against trade receivables was £0.5m (2018: £0.8m) for the Group and £0.5m (2018: £0.8m) for the Company. The ageing of the receivables impaired against which part provisions have been made is as follows:

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Not overdue	398	252	398	252
Up to 60 days	–	272	–	272
60-90 days	–	31	–	31
More than 90 days	306	357	299	351
	704	912	697	906

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.

An analysis of the currencies in which trade receivables are held is shown in Note 26 (c).

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash and cash equivalents				
Cash and cash equivalents	180	598	11	17

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

	Note	Group		Company	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
Trade payables		2,514	2,320	1,712	1,394
Corporation tax payable		159	262	–	–
Other taxes and social security costs		174	212	133	148
Accruals and deferred income		352	1,092	384	853
Other payables		231	412	41	68
Financial derivatives	26	–	52	–	52
Amounts owed to Group undertakings		–	–	356	53
		3,430	4,350	2,626	2,568

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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Secured:				
Overdrafts	6,313	4,293	5,574	3,846
Loans	2,897	3,375	1,155	1,365
Obligations under finance leases	171	88	142	88
	9,381	7,756	6,871	5,299

Facilities with Lloyds bank which form principally our overdraft of £6.3m and mortgage of £1.7m are renewed annually and a signed undertaking to renew facilities by the end of March 2020 was received from Lloyds at the time of signing these accounts which will extend facilities until March 2021.

NOTES TO THE CONSOLIDATED ACCOUNTS

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

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Secured:				
Loans	326	461	–	–
Obligations under leases	50	105	18	105
	376	566	18	105
Repayable as follows:				
1-5 years	376	566	18	105
After more than 5 years	–	–	–	–
	376	566	18	105

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.

18. Obligations under leases

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Future minimum lease payments under lease obligations				
Not later than one year	182	96	148	96
After one year but not more than five years	49	104	15	104
	231	200	163	200
Less: finance charges allocated to future periods	(10)	(7)	(3)	(7)
Present value of minimum lease payments	221	193	160	193
Present value of minimum lease payments is analysed as follows:				
Not later than one year	171	88	142	88
After one year but not more than five years	50	105	18	105
	221	193	160	193

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 recognise a deferred tax asset of £0.1m in 2019

	Group		Company	
	2019 £'000	Restated 2018 £'000	2019 £'000	2018 £'000
Deferred tax asset	100	–	100	–
Deferred tax liability	(730)	(810)	–	(112)
Deferred tax assets (net)	(630)	(810)	100	(112)

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

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
At 1 January	(810)	1,761	(112)	1,832
Income Statement / Statement of Comprehensive Income (debit)/credit	180	(2,569)	212	(1,944)
Exchange differences	–	(2)	–	–
At 31 December	(630)	(810)	100	(112)

(a) Deferred tax assets

The analysis of the deferred tax asset is as follows:

Recognised	Group and Company		
	Tax losses £'000	Other timing difference £'000	Total £'000
At 1 January 2018	1,875	26	1,901
Income Statement credit	(1,875)	(26)	(1,901)
At 1 January 2019	–	–	–
Income Statement credit	100	–	100
At 31 December 2019	100	–	100

The Group and company have deferred tax assets of £0.1m (2018: £nil).

(b) Deferred tax liabilities

The Group deferred tax liability of £0.7m (2018 Restated: £0.8m) and Company deferred tax liability of £0.0m (2018: £0.1m) represent temporary timing differences.

NOTES TO THE CONSOLIDATED ACCOUNTS

20. Share capital

	2019 £'000	2018 £'000
Issued and fully paid		
At 31 December	6,944	6,944

	2019 Shares	2018 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.

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 2019, the trust held a total of 19,026, 50p shares (2018: 19,026) with a market value at that date of £13,604 (2018: £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 (used in)/generated from operations

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Profit/(loss) before taxation	579	354	(311)	(476)
Adjustments for:				
Depreciation of property, plant and equipment	780	705	357	324
Amortisation	63	62	63	62
Bank and other interest charges	596	638	227	198
Share-based payment expense	92	115	92	115
Other non-cash items in Income Statement	(276)	194	26	–
Operating cash flows before movement in working capital	1,835	2,068	454	223
Movements in working capital (excluding exchange differences on consolidation):				
Increase in inventories	(1,980)	(710)	(1,739)	(705)
(Increase)/decrease in receivables	(383)	792	234	614
Increase/(decrease) in payables	35	(567)	50	(443)
Cash (used in)/generated from operations	(494)	1,583	(1,001)	(311)

23. Analysis of the changes in cash and cash equivalents

Group	As at 1 January 2019 £'000	Cash flow £'000	Exchange movements £'000	As at 31 December 2019 £'000
	Cash at bank and in hand			598
Bank overdraft	(4,293)	(2,085)	65	(6,313)
	(3,695)	(2,419)	(19)	(6,133)
Company	As at 1 January 2019 £'000	Cash flow £'000	Exchange movements £'000	As at 31 December 2019 £'000
Cash at bank and in hand	17			(6)
Bank overdraft	(3,846)	(1,728)	–	(5,574)
	(3,829)	(1,734)	–	(5,563)

NOTES TO THE CONSOLIDATED ACCOUNTS

24. Analysis of the changes in liabilities from financing activities

Group	As at 1 January 2019 £'000	Loan repayments £'000	New loans £'000	Term renegotiations £'000	Exchange movements £'000	As at 31 December 2019 £'000
Long term borrowings	462	(874)	804	–	(66)	326
Short term borrowings	3,375	(187)	–	–	(291)	2,897
Lease liabilities	192	(171)	200	–	–	221
	4,029	(1,232)	1,004	–	(357)	3,444

Company	As at 1 January 2019 £'000	Loan repayments £'000	New loans £'000	Term renegotiations £'000	Exchange movements £'000	As at 31 December 2019 £'000
Long term borrowings	–	–	–	–	–	–
Short term borrowings	1,365	(210)	–	–	–	1,155
Lease liabilities	193	(147)	114	–	–	160
	1,558	(357)	114	–	–	1,315

25. Related party transactions

(a) Related party trading

Group

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

	Group	
	2019 £'000	2018 £'000
Transactions with related parties		
Purchases from related parties	26	18

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 43.

	Group	
	2019 £'000	2018 £'000
Year end balances arising from purchases		
Payables to related parties	18	9

Company

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

	Company	
	2019 £'000	2018 £'000
Transactions with subsidiaries		
Purchases from subsidiaries	7,628	8,032
Sales to subsidiaries	318	710

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	
	2019 £'000	2018 £'000
Amounts due from subsidiaries – current		
Pittard Garnar Services Limited	3,266	5,117
Ethiopia Tannery Share Company	296	739
Pittards Global Sourcing Private Limited Company	2	2
Pittards Products Manufacturing Share Company	97	317
	3,661	6,175
Amounts due from subsidiaries – non-current		
Ethiopia Tannery Share Company	1,489	–
Pittards Products Manufacturing Share Company	383	–
	1,872	–
Amounts due to subsidiaries		
Pittard Group Limited	(30)	(30)
Ethiopia Tannery Share Company	(290)	–
Pittards Global Sourcing Private Limited Company	(19)	(23)
Pittards Products Manufacturing Share Company	(17)	–
	(356)	(53)

(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 89% (2018: 90%) of the Group's revenue is from sales outside the UK, with some 84% (2018: 80%) in US dollars. US dollar based raw material purchases amounted to 32% in 2019 (2018: 31%).

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 2019, 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 23 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

26. Financial instruments (continued)

– 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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
US dollar	3,324	2,178	(160)	(32)	(3,653)	(873)
Euro	233	208	(6)	(262)	(466)	(2,529)
Ethiopian Birr	646	495	(4,055)	(4,337)	(430)	310
Other	23	19	–	(1)	(81)	85
	4,226	2,900	(4,221)	(4,632)	(4,630)	(3,007)
GBP	1,230	525	(319)	(2,924)	(1,503)	(512)
Total	5,456	3,425	(4,540)	(7,556)	(6,133)	(3,519)

(d) Foreign currency sensitivity

As 84% (2018: 80%) 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 strengthening of pound against the US dollar. 10 US cents 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 whereas a negative number indicates a loss which can occur if sterling strengthens to dollar.

As the group hedges between 50% to 80% of currency effects and enjoys some natural hedging due to its purchase of material in dollar, it estimates that currency effects are reduced by approximately 65%, for this reason a 10c change in \$ has the following effect assuming the group is unable to pass on any of the currency effects to customers.

	Group	
	2019 £'000	2018 £'000
Loss ¹	(497)	(1,884)

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 2019 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 next 12 months and maintains cover on a rolling 12 months and it aims to cover between 50% and 80% of the anticipated risk.

The notional value of open forward foreign currency contracts as at 31 December 2019 was £6.5m (2018: £4.3m). The net fair value profit on open contracts held in the cash flow hedge reserve at 31 December 2019 was £0.2m. This will be recycled to the income statement within interest over the next 12 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. Given a 1% increase in interest rate on £10m debt, an increase in cost of £0.1m would result. 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 rate tables

The interest rate profile of the non-derivative financial liabilities of the Group and its contractual maturity as at 31 December 2019 and at 31 December 2018 are as follows:

	Group					Total £'000
	Less than 3 months £'000	3 months to 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	
As at 31 December 2019						
Fixed rate						
Lease obligations	–	111	21	89	–	221
Variable rate						
Bank overdrafts and loans	8,148	1,508	375	345	–	10,376
Trade and other payables	1,268	–	–	–	–	1,268

NOTES TO THE CONSOLIDATED ACCOUNTS

26. Financial instruments (continued)

(f) Liquidity and interest rate risk (continued)

As at 31 December 2018	Group					Total £'000
	Less than 3 months £'000	3 months to 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	
Fixed rate						
Lease obligations	–	–	159	34	–	193
Variable rate						
Bank overdrafts and loans	5,563	–	2,765	–	–	8,328
Trade and other payables	3,127	–	–	–	–	3,127

The Group has the following undrawn borrowing facilities:

	Group	
	2019 £'000	2018 £'000
Variable rate		
Expiring within one year	2,645	3,907
	2,645	3,907

The facilities expiring within one year are subject to review at various dates in 2020, however Lloyds have confirmed their commitment to the business and renewal of the facilities for 2021 and although a formal agreement has yet to be signed, Lloyds have written a letter to confirm the facility has been agreed with credit committee and will be in place by the end of March 2020.

(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 2019, 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 2019 and 2018 were as follows:

	Group	
	2019 £'000	2018 £'000
Total borrowings	9,757	8,322
Less cash at bank and in hand	(180)	(598)
Net debt	9,577	7,724
Total equity	17,520	17,881
Gearing ratio	54.7%	43.2%

27. Investments

	Company	
	2019 £'000	2018 £'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	Holding company	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 leathersgoods	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.

28. Prior year restatement

Deferred tax, amounting to £0.648m, in relation to the temporary timing difference caused by the revaluation of buildings in Ethiopia, was previously not recognised from the net assets of the group at 1 January 2018. As a result the opening reserves at 1 January 2018 have been restated along with the deferred tax provision. There has been no impact on the previously reported consolidated income statement.

FIVE-YEAR REVIEW

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Revenue	22,301	28,469	30,287	27,009	30,523
Percentage sold outside UK	90%	90%	91%	92%	90%
Profit/(loss) from operations before finance costs	1,177	992	934	(3,591)	1,115
Profit/(loss) on ordinary activities before taxation	579	354	413	(4,071)	655
Profit/(loss) on ordinary activities after taxation	406	(1,929)	497	(4,146)	471
Net assets	17,520	17,881	19,764	21,274	24,150
Inventory	17,341	16,306	15,332	17,353	18,872
Inventory days of sale	411	279	241	308	288
Net debt	9,577	7,724	7,990	10,109	6,458
Gearing	55%	42%	40%	48%	27%
Earnings/(loss) per 50p ordinary share (restated from 1p share)	2.93p	(13.91p)	3.58p	(29.89p)	3.98p
Dividends per ordinary share	-	-	-	-	-

FINANCIAL CALENDAR

Annual General Meeting (Currently still planned at Yeovil site as normal, but any change will follow government advice on Coronavirus (COVID-19))

14 May 2020

Announcement of half year results for 2020

15 September 2020

Announcement of 2020 results

19 March 2021

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 111th 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 14 May 2020 to consider and, if thought fit, pass the resolutions set out in this Notice.

All of the resolutions in this Notice, apart from Resolution 6, are proposed as ordinary resolutions. Resolution 6 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 2019, 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 re-appoint PKF Francis Clark LLP as the Company's auditors and to authorise the directors to determine their remuneration.

Special business

5. That the directors of the Company ("**Directors**") be and are hereby unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "**Act**") to exercise all powers of the Company to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £694,434 (in substitution for, and to the exclusion of, all previous allotment authorities granted prior to the date of this resolution) to such persons, and at such time and on such terms, as they think proper during the period commencing on the date of the passing of this resolution and expiring on the date falling 15 months after the passing of this resolution or the conclusion of the next Annual General Meeting of the Company (whichever is the earlier) unless previously revoked, varied or extended by the Company in general meeting; and the Company be and is hereby authorised to make, prior to the expiry of such period, any offer or agreement which would or might require equity securities to be allotted after the expiry of said period and the Directors may allot equity securities in pursuance of any such an offer or agreement notwithstanding the expiry of the authority given by this resolution.
6. That the Company be and is hereby granted general and unconditional authority, for the purposes of section 701 of the Companies Act 2006 (the "**Act**") to make one or more market purchases (as defined in section 693(4) of the Act) of any of its ordinary shares of 50 pence each ("**Ordinary Shares**") on such terms and in such manner as the directors of the Company may from time to time determine, provided that the authority conferred by this resolution shall:
 - (a) be limited to a maximum number of 1,388,869 Ordinary Shares to be purchased (being 10% of the Company's Ordinary Shares in issue as at the date of this resolution).
 - (b) not permit the price (exclusive of expenses) which may be paid per Ordinary Share to be more than 5% above the average middle market quotation for an Ordinary Share (as derived from the London Stock Exchange Daily Official List) for the five business' days immediately preceding the day on which such Ordinary Share(s) are contracted to be purchased, or to be less than 50p per Ordinary Share, and
 - (c) expire on the date falling 15 months after the passing of this resolution or the conclusion of the next Annual General Meeting of the Company (whichever is the earlier), but during this period the Company may enter into a contract to purchase Ordinary Shares, which would, or might, be completed or executed wholly or partly after the authority ends and the Company may purchase Ordinary Shares pursuant to any such contract as if such authority had not ended.

By order of the Board
Richard Briere
CFO and Company Secretary

Pittards plc
Sherborne Road
Yeovil
Somerset
BA21 5BA
Date: 20 March 2020

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. 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).



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