

Pittards[®]
WORLD CLASS LEATHER

PITTARDS PLC
**ANNUAL REPORT
AND ACCOUNTS 2013**



Pittards is a global brand supplying premium leather and leather products, working with leading international brands, retailers and manufacturers. Our future strategy is founded upon product innovation, targeted marketing and efficient logistics, together with the development of new raw material sources.



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11

Shoe-shine kit in black, £120, Daines & Hathaway (01935 474321; www.dainesandhathaway.com)



12

1

The Pittards England range uses the finest glove leather in the latest fashion shades to add a new twist to a classic biker style jacket.

2

Daines & Hathaway uses distinctive 'pop' colours such as Aqua to bring its technical products such as this iPad tablet wallet up to the minute.

3

Labelling for the Pittards England range, both designed and made in England, reflects our Somerset heritage.

4

Exquisitely designed gloves show off the beauty and fine quality of our dress glove leathers.

5

Both the Deputy PM Nick Clegg and the Ethiopian Minister of Foreign Affairs Dr Tedros Adhanom were very interested in our products being shown by CEO Reg Hankey at the Africa Jubilee Business Forum in London.

6

Active lifestyle brand J Lindeberg features Pittards WR100X water resistant leather in its Tech Leather ski jacket, reflecting our position as manufacturers of some of the most technically advanced leathers in the world.

7

Leinster rugby star Leo Cullen visited our PPM factory in Ethiopia in his role as ambassador for the GOAL charity which helps to rehabilitate poor and vulnerable people and get them into employment. PPM currently employs 18 staff who have been trained and educated by GOAL.

8

FootJoy's new D.N.A footwear, described as "the most feature laden golf shoe in their history, uses Pittards ChromoSkin™ Leather system to deliver superb technical performance with a superior feel and comfort level.

9

The Pikemen and Musketeers of the Artillery Company, ceremonial bodyguards of the Lord Mayor of London, were presented with gauntlets made with Pittards World Class leather at the annual Glovers Banquet at the Mansion House.

10

Brasher's Supalite boot features Pittards WR100X full grain leather to keep it light, waterproof and abrasion resistant.

11

Daines & Hathaway's traditional shoeshine kit, part of the Heritage Collection from our archive, featured in Country Life's February 2014 edition.

12

The Pittards shop in Yeovil is always first to showcase new products from our ever increasing range and includes our impressive glove wall.

Results in brief

	2013	2012
	£'m	£'m
Revenue	35.8	37.0
Profit from operations before finance costs	2.0	0.6
Profit before taxation	1.7	0.3
Net debt	7.1	5.7
Net assets	16.9	15.8
		Pence per share
Per weighted average ordinary 1p share:		
Profit (basic)	0.31	0.06
Per weighted average 50p share (post share consolidation; Note 29):		
Profit (basic)	15.68	3.00
Net assets:		
Per 1p share	3.66	3.57
Per 50p share (post share consolidation; Note 29)	182.97	178.66
Gearing	42%	36%

Highlights

- Revenue down 3%
- Profit from trading activities before finance costs £2.0m (2012: £0.6m)
- Profit before tax up to £1.7m (2012: £0.3m)
- EBITDA up to £2.364m (2012: £1.310m)
- Cash used in operating activities of £0.7m (2012: generated £0.2m)
- Net assets increased to £16.9m (2012: £15.8m)
- Gearing now 42% (2012: 36%)

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Chairman's statement

I am pleased to report that the recovery noted in my interim statement, following the turbulence of 2012, continued throughout 2013.

Turnover of £35.8m represented a reduction from £37.0m in 2012, and was due to a lower proportion of commodity style leather sales where high skin prices in early 2013 had made us temporarily uncompetitive, hence the mix of products sold in 2013 produced a higher gross margin of 20.4% compared to 17.4% in 2012. This was achieved despite hide prices staying firm all year. This, coupled with tight control of costs in the business, led to a profit from operations before finance costs of £2.004m compared to £0.574m in 2012.

The dollar was stronger in the first half of 2013 than it had been in 2012 which was beneficial given our level of dollar denominated export sales, but the decline to nearly \$1.65 at the end of the year had an adverse effect on both turnover in the final quarter and the balance sheet, which tempered the overall result somewhat.

Net finance costs were slightly higher than last year due to high skin prices in the first half of the year leading to higher borrowings in Ethiopia where interest rates are higher than in the UK, but skin prices eased to more normal levels in the second half of the year. Profit before tax was £1.712m (2012: £0.300m) and EBITDA therefore improved to £2.364m from £1.310m in 2012.

There is a taxation charge of £0.265m for the year (2012: £0.030m representing withholding tax only). This is principally due to the effect of changes in UK tax rate on the deferred taxation asset but as we have brought forward tax losses no tax will actually be payable in the near future.

Net assets increased again to £16.912m from £15.795m with inventory and receivables up following a busy December. Net debt therefore rose from £5.7m to £7.1m but gearing of 41.9% (2012: 35.8%) remained well within our target of below 50%. Our banking relationships with Lloyds in UK and Commercial Bank of Ethiopia remain strong and supportive.

Following the balance sheet restructuring in February 2013 we now have positive retained earnings of £7.492m. The share consolidation exercise on a 1:50 basis was approved by shareholders at a general meeting in January 2014; hence we have included some statistics on both bases within this Report. As indicated previously, payment of a dividend is now feasible as soon as it is felt appropriate for the business.

Both industrial glove and dress glove production at our Pittards Products Manufacturing (PPM) factory in Ethiopia increased and are becoming more significant to our total turnover as efficiencies continue to improve and we train more staff.

The Design Centre in Yeovil is now a fully fledged production unit making for both our Pittards and Daines & Hathaway brands and we were delighted to recently receive a New to Apprentices award in the Somerset Apprenticeship awards to reflect our efforts in recruiting apprentices for this new area of the business. We are now looking to add to our retail presence as recognition of our brand continues to grow and the Made In Britain movement advances still further.

Our combined workforce of over 1300 across the UK and Ethiopian factories has shown great commitment during the year and it is pleasing to see our results reflect this level of effort.

Louise Cretton stepped down as a non-executive director at the end of 2013 after 12 years' valuable service and I thank her for the valuable contribution she made to the business during that time. We were pleased to welcome Godfrey Davis, Chairman of Mulberry, onto the board in February this year and look forward to receiving his insights, particularly on the luxury leathersgoods market.

Chairman's statement (continued)

The global trading situation looks brighter than it has since the recession and should provide many opportunities to grow the business and continue with our core strategy in the future. The current relative weakness of the dollar is a concern but we will seek to mitigate its effect wherever possible.

Stephen Boyd Chairman

17 March 2014



Directors and officers

S D Boyd | BSc Hons, Chairman, non-executive ^{A B C}

Stephen Boyd (64) joined the Group in 2004 as Executive Chairman. He became non-executive Chairman on 7 December 2007. He is also Chairman of Pure Wafer plc and senior non-executive director at The Mission Marketing Group plc. He owns a number of private companies including Axminster Carpets.

G P Davis | FCA non-executive ^{A B}

Godfrey Davis (65) joined the Group in February 2014. He is non-executive Chairman of Mulberry Group plc, having previously been Chairman and Chief Executive for ten years until 2012. He is also a director of Hestercombe Gardens Ltd and Kings Schools Taunton Ltd.

R H Hankey | FSLTC, LCGI, FCMI, CDipAF ^C

Reg Hankey (58) was appointed to the board in January 1998 having joined the Group as Technical Director of the Yeovil Division in 1990. He was appointed Chief Executive on 19 July 2007. He is a director of UK Leather Federation (formerly BLC Research).

J G Holmstrom | non-executive ^{A B C}

Jan Holmstrom (61) joined the Group in March 2010. He is Managing Director of Browallia AB in Sweden and holds a number of UK directorships including Densitron Technology plc, International Fibres Group Limited and Leeds Group plc.

J Williams | LLB Hons, ACA, Secretary

Jill Williams (56) joined the Group as Finance and Planning Manager in 1989. She became Company Secretary in 1991, and Finance Director on 1 June 2007. She is a non-executive director of SATRA.

^A Member of the audit committee.

^B Member of the remuneration committee.

^C Member of nominations committee.

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

Advisers

Stockbrokers

WH Ireland, 4 Colston Avenue, Bristol BS1 4ST

Nominated advisers

WH Ireland, 4 Colston Avenue, Bristol BS1 4ST

Independent auditors

PricewaterhouseCoopers LLP, Chartered Accountants & Statutory Auditors, 31 Great George Street, Bristol BS1 5QD

Bankers

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

Registrars

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

Strategic report

for the year ended 31 December 2013

Principal activities

The principal activities of the Company are the design, production and procurement of technically advanced leather for sale to manufacturers and distributors of shoes, gloves, luxury leathersgoods and sports equipment, the provision of consultancy services within the global leather industry and the retail of leather, leathersgoods and leather garments. The principal activities of its subsidiaries are the production of leather, leathersgoods, leather garments and gloves.

Business review

Financial results

Revenue reduced by £1.2m to £35.8m in 2013 as less commodity style leather was sold in the first half and raw material supply issues in the second half reduced leather sales, though there was a higher proportion of finished product sales in that period.

The profit from operations before finance costs increased by £1.4m to £2.0m as the business settled into more normal trading patterns after the previous year's disruptions.

Total finance costs were similar to 2012 at £0.35m (2012: £0.34m).

There was a tax charge of £0.265m (2012: £0.030m) representing movement in the Group's deferred tax position plus withholding tax on payment of royalties from Ethiopia to the parent company.

Year end position

Net assets at 31 December 2013 were £16.9m (2012: £15.8m) reflecting improved profitability in the year.

Total net debt (including obligations, finance leases and overdrafts) was £7.09m, (2012: £5.66m), with gearing increasing to 41.9% (2012: 35.8%), still well within the target range of 10% to 50%.

Business environment

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

The Group operates mainly in the UK, where it sources most of its hides, and in Ethiopia where it sources the majority of its hairsheep skins, however it exports over 90% of its production to most areas of the world.

Strategy

The Group is seeking to increase its hides and goatskins business in the UK as more of its sheepskin business is carried out in Ethiopia. It has established various new sources of skins to process into its technically advanced leathers in Yeovil, and this sourcing continues to be refined.

The Group's strategy is to increase the consumer facing side of its business, building on its brand values of innovation, service and integrity with new ranges of finished products. This was initiated in 2011 with the establishment of Pittards Products Manufacturing (PPM) in Ethiopia and has developed further as PPM is now producing small volumes of specialised dress gloves. The Design Centre in Yeovil is now a fully fledged production unit making both Pittards England and Daines & Hathaway products alongside our Walsall facility.

Principal risks and uncertainties

The following are identified as the principal risks and uncertainties facing the Group:

- The volatility of the US dollar. The Group manages this by using forward exchange contracts if appropriate or selling any surplus US dollars when the rate is favourable. Some purchases are also made in US dollars. Future cashflow forecasts are updated weekly and monthly.
- The availability of quality raw materials. The Group owns ETSC (which is its main supplier of Ethiopian skins) and has strong relationships with other major suppliers of skins and hides in the UK, Ethiopia and around the world.
- Continuing escalation in energy and environmental costs. The Group uses industry experts to obtain the best energy rates available and continuous improvements are sought in reducing waste of all kinds from the business. For instance, projects are ongoing to produce a range of products utilising the small pieces of leather remaining from cutting out larger pieces for bags, gloves etc, where the trimmings might otherwise have gone to landfill.
- The availability of working capital to finance its operations. The Group monitors its weekly and monthly financial requirements closely against facility to ensure its needs are met. The banking relationship with Lloyds Bank remains strong and facilities have been renewed at the same level for 2014.

Strategic report (continued)

for the year ended 31 December 2013

Key performance indicators

The principal key performance indicators used to assess the performance and position of the Group are as follows:

- Profit before tax. The Group's profit before taxation of £1.71m represented a good recovery from £0.30m achieved in 2012.
- Gearing. The Group's gearing moved from 35.8% in 2012 to 41.9%, which remains well within the target level of between 10% and 50%.
- Environmental measures. The Group has targets to improve energy and processed water usage on which it reports in its regular Environmental update. The 2010 report can be found on the Company's website at www.pittardsleather.com
- Borrowings. The Group monitors its bank balances against facilities on a daily basis and prepares weekly, monthly and annual cashflow forecasts to ensure that it has sufficient funds to run the business. Borrowings at the end of 2013 were higher than in 2012 due to higher skin prices in the first half of the year increasing the value of raw materials being purchased, plus expansion of the consumer product side of the business which increased working capital.

This report was approved by the board on 17 March 2014 and signed on its behalf by

J Williams

Company Secretary
17 March 2014

Directors' report

The directors submit their report together with the audited consolidated financial statements of the Group and the Company for the year ended 31 December 2013.

Principal activities

The principal activities of the Company are the design, production and procurement of technically advanced leather for sale to manufacturers and distributors of shoes, gloves, luxury leathersgoods and sports equipment, the provision of consultancy services within the global leather industry and the retail of leather, leathersgoods and leather garments. The principal activities of its subsidiaries are the production of leather, leathersgoods, leather garments and gloves.

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 and 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. It will continue to establish itself as a recognised consumer brand via both the Pittards brand and the Daines & Hathaway brand, seeking more retail outlets to increase customer recognition of the brand and building its online sales.

Dividends and reserves

No interim dividend was paid in respect of 2013 (2012: nil) and the directors do not recommend payment of a final dividend (2012: nil). A profit of £1.45m is transferred to reserves (2012: £0.27m).

During the year the restructuring of the reserves was completed to enable payment of a dividend when the board consider it to be in the best interests of the business. In January 2014 a share consolidation on a 1:50 basis was carried out to facilitate this further, see Notes 22 and 29 for further details.

Going concern

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

Research and development

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

Directors' report (continued)

Treasury policies

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

Overall, some 69% of Group revenue is in US dollars, 14% in sterling, 7% in birr and 10% in euros. Group policy is to sell away surplus dollars.

14% of the Group's raw material purchases are in US dollars, and this forms a natural hedge against a proportion of the dollar sales.

The Group's principal borrowings are in pounds sterling, US dollars and Ethiopian Birr (for ETSC, PPM and PGS) which are used to manage timing differences in cash flows arising from trading activities as set out in Note 27d. The debt is a combination of floating and fixed rate. The Group's policy is to use interest rate caps to manage exposure to significant fluctuations in interest rates when it believes that the risk justifies the cost, however at the year-end no interest rate caps were in place (2012: no caps in place).

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. No specific policy exists with regard to liquidity. Short-term and medium term floating rate debt is favoured and the Group set up some medium-term borrowings in 2012 in Ethiopia, which were renewed in 2013.

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 working closely with its suppliers and committing to purchase on the basis of anticipated and actual forward sales orders. The purchase of ETSC enabled this risk in respect of Ethiopian skins and hides to be managed more closely, with greater market information.

Creditor payment policy

The Group does not follow a particular code for the payment of suppliers. It is the Group's policy in respect of major suppliers to settle terms of payment when the terms of each transaction are agreed, to ensure the supplier is made aware of the terms of payment and to abide by the terms of payment. For small local suppliers the policy is to pay within 45 days of invoice and for other suppliers to pay within 60 days. Trade payables at the year end represented 42 days' purchases (2012: 38 days).

Disabled employees

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

Employee consultation and involvement

The Group recognises the need for good communications with employees and places great importance on employee involvement. Joint consultative committees have been active for many years and a Staff Forum was established in 2009. Management are encouraged to develop the skills and attitudes required for clear communications and consultation. Matters of particular interest or importance are communicated to all employees through special briefing meetings.

Substantial interests

In addition to those disclosed under directors' interests, the Company has been notified of the following interests under section 793 Companies Act 2006 as at 17 March 2014:

	Holding of 1p shares	Holding of 50p shares post consolidation	
Artemis Investment Management LLP discretionary	83,250,000	1,665,000	(18.0%)
Bronstadet AB	84,554,850	1,691,097	(18.2%)
Hargreave Hale discretionary client portfolios	68,027,000	1,360,540	(14.7%)
Hargreave Hale Nominees Ltd	29,142,300	582,846	(6.3%)
Pension Protection Fund	39,537,399	790,747	(8.5%)

Directors' report (continued)

Directors

The persons named on page 3 are the directors during the period and up to the date of approval of the Annual Report and Accounts. L M Cretton resigned as a director on 19 December 2013. J Holmstrom retires by rotation and offers himself for re-election. GP Davis was appointed a director on 6 February 2014 and offers himself for re-election at the forthcoming AGM.

Directors' interests

The directors at the end of the year and their interests in the shares of the Company were:

	At end of year Ordinary Shares of 1p			At beginning of year Ordinary Shares of 1p		
	Total interests fully paid		Share options	Total interests fully paid		Share options
	Post consolidation 50p shares	1p shares		1p shares	1p shares	
SD Boyd	362,666	18,133,333	–	17,883,333	1,666,667	
RH Hankey	158,734	7,936,719	–	7,421,719	2,000,000	
J Williams	23,426	1,171,315	–	1,171,315	316,667	
J Holmstrom	6,000	300,000	–	–	–	

Details of the share consolidation are set out in Note 29.

The only change which took place in the interests of directors in the shares of the Company between 31 December 2013 and 17 March 2014 was that R H Hankey purchased 63,281 shares on 10 January 2014 before the close period commenced.

Annual general meeting

A special resolution (number 5) will be proposed to enable the Company to make market purchases of its own shares.

An ordinary resolution (number 4) will be proposed to enable the Company to issue and allot shares up to an aggregate nominal value of £463,102. This authority lasts until the 2015 AGM and updates the resolution passed at the last AGM. A special resolution (number 6) will be proposed to increase the authority to allot equity shares for cash to a nominal amount of £463,102. The authority will last until the 2015 AGM and updates the resolution passed at the last AGM.

Disclosure of information to the auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditors

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

This report was approved by the board on 17 March 2014 and signed on its behalf by

J Williams

Company Secretary
17 March 2014

Statement of directors' responsibilities in relation to financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group 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 the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

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

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

Independent auditor's report to the members of Pittards plc

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit and of the Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Parent Company financial statements (the "financial statements"), which are prepared by Pittards plc, comprise:

- the Consolidated Income Statement for the year ended 31 December 2013;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Statements of Changes in Equity for the year then ended;
- the Group and Company Balance Sheets as at 31 December 2013;
- the Group and Company Statements of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company, as applied in accordance with the provisions of the Companies Act 2006.

Independent auditor's report to the members of Pittards plc (continued)

What an audit of the financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report & Accounts 2013 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the Group and Parent Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Parent Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

17 March 2014

Consolidated income statement

for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Continuing operations:			
Revenue	3	35,813	37,029
Cost of sales		(28,487)	(30,590)
Gross profit		7,326	6,439
Distribution costs		(2,279)	(2,389)
Administrative expenses		(3,043)	(3,152)
Administrative expenses – exceptional restructuring costs	4	–	(324)
Profit from operations before finance costs		2,004	574
Finance costs	9	(350)	(335)
Finance income	9	58	61
Profit before taxation	5	1,712	300
Taxation	10	(265)	(30)
Profit for the year after taxation		1,447	270
Profit attributable to:			
Owners of the parent		1,449	270
Non-controlling interest		(2)	–
		1,447	270
Earnings per share attributable to the owners of the parent			
Basic	11	0.31p	0.06p
Diluted	11	0.31p	0.06p

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	Note	£'000	£'000
Profit for the year after taxation		1,447	270
Other comprehensive income (expense)			
Items that will not be reclassified to profit or loss			
Revaluation of land and buildings	12	139	266
		139	266
Items that may be subsequently reclassified to profit or loss			
Unrealised exchange loss on translation of overseas subsidiaries		(469)	(776)
		(469)	(776)
Other comprehensive expense		(330)	(510)
Total comprehensive income (expense) for the year		1,117	(240)
Total comprehensive income (expense) attributable to:			
Owners of the parent		1,131	(215)
Non-controlling interest		(14)	(25)

The accompanying notes on pages 14 to 39 form an integral part of the Financial Statements.

Consolidated statement of changes in equity

for the year ended 31 December 2013

Group	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Share options reserve £'000	Capital reserve £'000	Retained earnings £'000	Translation reserve £'000	Shares held by ESOP £'000	Revaluation reserve £'000	Total attributable to owners of the parent £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2012		4,410	5,250	8,158	48	6,475	(7,683)	(1,773)	(495)	1,211	15,601	213	15,814
Comprehensive income for the year													
Profit for the year after taxation		-	-	-	-	-	270	-	-	-	270	-	270
Other comprehensive income													
Gain on the revaluation of buildings	12	-	-	-	-	-	-	-	-	262	262	4	266
Unrealised exchange loss on translation of foreign subsidiaries		-	-	-	-	-	-	(644)	-	(103)	(747)	(29)	(776)
Total other comprehensive (expense) income		-	-	-	-	-	-	(644)	-	159	(485)	(25)	(510)
Total comprehensive income (expense) for the year		-	-	-	-	-	270	(644)	-	159	(215)	(25)	(240)
Transactions with owners													
Proceeds from shares issued	21	221	-	-	-	-	-	-	-	-	221	-	221
Total transactions with owners		221	-	-	-	-	-	-	-	-	221	-	221
At 1 January 2013		4,631	5,250	8,158	48	6,475	(7,413)	(2,417)	(495)	1,370	15,607	188	15,795
Comprehensive income for the year													
Profit (loss) for the year after taxation		-	-	-	-	-	1,449	-	-	-	1,449	(2)	1,447
Other comprehensive income													
Gain (loss) on the revaluation of buildings	12	-	-	-	-	-	-	-	-	148	148	(9)	139
Unrealised exchange loss on translation of foreign subsidiaries		-	-	-	-	-	-	(374)	-	(92)	(466)	(3)	(469)
Total other comprehensive (expense) income		-	-	-	-	-	-	(374)	-	56	(318)	(12)	(330)
Total comprehensive income (expense) for the year		-	-	-	-	-	1,449	(374)	-	56	1,131	(14)	1,117
Transactions with owners													
Reserves transfer	22	-	(5,250)	(8,158)	(48)	-	13,456	-	-	-	-	-	-
Total transactions with owners		-	(5,250)	(8,158)	(48)	-	13,456	-	-	-	-	-	-
At 31 December 2013		4,631	-	-	-	6,475	7,492	(2,791)	(495)	1,426	16,738	174	16,912

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2013

Company	<i>Note</i>	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Share options reserve £'000	Retained earnings £'000	Shares held by ESOP £'000	Total £'000
At 1 January 2012		4,410	5,250	8,158	48	(7,012)	(495)	10,359
Comprehensive income for the year								
Retained profit for the year		–	–	–	–	1,216	–	1,216
Total comprehensive income for the year		–	–	–	–	1,216	–	1,216
Transactions with owners								
Proceeds from shares issued	21	221	–	–	–	–	–	221
Total transactions with owners		221	–	–	–	–	–	221
At 1 January 2013		4,631	5,250	8,158	48	(5,796)	(495)	11,796
Comprehensive income for the year								
Retained profit for the year		–	–	–	–	1,757	–	1,757
Total comprehensive income for the year		–	–	–	–	1,757	–	1,757
Transactions with owners								
Reserves transfer	22	–	(5,250)	(8,158)	(48)	13,456	–	–
Total transactions with owners		–	(5,250)	(8,158)	(48)	13,456	–	–
At 31 December 2013	22	4,631	–	–	–	9,417	(495)	13,553

Balance sheets

as at 31 December 2013

	Note	Group		Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	6,095	6,165	1,669	1,552
Intangible assets	13	164	112	164	112
Investments in subsidiary undertakings	28	–	–	186	865
Deferred income tax asset	20	1,194	1,602	1,194	1,597
Available for sale financial instruments	28	2	5	–	–
Total non-current assets		7,455	7,884	3,213	4,126
Current assets					
Inventories	14	15,441	14,287	8,770	7,928
Trade and other receivables	15	5,312	4,534	9,664	8,091
Cash and cash equivalents	15	522	817	84	386
Current income tax recoverable		84	30	–	–
Deferred income tax asset	20	606	403	606	403
Total current assets		21,965	20,071	19,124	16,808
Total assets		29,420	27,955	22,337	20,934
LIABILITIES					
Current liabilities					
Deferred income tax liability	20	(27)	–	–	–
Trade and other payables	16	(4,868)	(5,681)	(4,449)	(5,620)
Current income tax liability		–	–	–	–
Interest bearing loans, borrowings and overdrafts	17	(6,196)	(5,373)	(4,293)	(3,483)
Total current liabilities		(11,091)	(11,054)	(8,742)	(9,103)
Non-current liabilities					
Interest bearing loans, borrowings and overdrafts	18	(1,417)	(1,106)	(42)	(35)
Total non-current liabilities		(1,417)	(1,106)	(42)	(35)
Total liabilities		(12,508)	(12,160)	(8,784)	(9,138)
Net assets		16,912	15,795	13,553	11,796
EQUITY					
Share capital	21	4,631	4,631	4,631	4,631
Share premium account	22	–	5,250	–	5,250
Capital redemption reserve	22	–	8,158	–	8,158
Capital reserve	22	6,475	6,475	–	–
Shares held by ESOP	22	(495)	(495)	(495)	(495)
Retained earnings	22	7,492	(7,413)	9,417	(5,796)
Translation reserve	22	(2,791)	(2,417)	–	–
Revaluation reserve	22	1,426	1,370	–	–
Share options reserve	22	–	48	–	48
Total equity attributable to owners of the parent		16,738	15,607	13,553	11,796
Non-controlling interest		174	188	–	–
Total equity		16,912	15,795	13,553	11,796

The financial statements on pages 10 to 39 were approved and authorised for issue by the board of directors on 17 March 2014 and signed on its behalf by:

J Williams

Finance Director

Statement of cash flows

for the year ended 31 December 2013

	Note	Group		Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash flows from operating activities					
Cash (used in) generated from operations	23	(685)	170	(680)	308
Tax paid		(63)	(69)	–	–
Interest paid		(334)	(343)	(106)	(87)
Net cash (used in) generated from operating activities		(1,082)	(242)	(786)	221
Cash flows from investing activities					
Investment in subsidiaries		–	–	–	(17)
Purchases of property, plant and equipment		(358)	(639)	(224)	(264)
Purchases of intangible assets		(57)	(103)	(57)	(103)
Net cash used in investing activities		(415)	(742)	(281)	(384)
Cash flows from financing activities					
Proceeds from borrowings		1,265	1,638	–	–
Repayment of bank loans		(1,029)	(609)	–	–
Repayment of obligations under finance leases and hire purchase obligations		(38)	–	(38)	–
Proceeds from issue of shares		–	221	–	221
Net cash generated from (used in) financing activities		198	1,250	(38)	221
(Decrease) increase in cash and cash equivalents		(1,299)	266	(1,105)	58
Cash and cash equivalents at beginning of the year		(3,105)	(3,412)	(3,074)	(3,158)
Exchange gains on cash and cash equivalents		16	41	15	26
Cash and cash equivalents at end of the year	24	(4,388)	(3,105)	(4,164)	(3,074)

Notes to the consolidated accounts

1. Statement of accounting policies

(a) General information

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as endorsed by the European Union.

The consolidated financial statements have been prepared in accordance with the Companies Act 2006, applicable to Companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of 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 accounting policies outlined below have been consistently applied.

Notes to the consolidated accounts (continued)

1. Statement of accounting policies (continued)

(b) Going concern

The Group meets its day-to-day working capital requirements through its bank facilities. During the year the Group negotiated an additional £1.265m overdraft facility with the Commercial Bank of Ethiopia. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements. Further information on the Group's borrowings is given in Note 27.

(c) New and amended standards adopted by the Group

The IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 are shown below. The directors consider that they do not have a material impact on the Group:

IAS1 Presentation of Financial Statements
IFRS13 Fair value measurement
IAS32 Financial instruments: Presentation
IFRS7 Financial instruments: Disclosure
IFRS10 Consolidated financial statements

(d) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2013 and not early adopted

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

IFRS9 Financial instruments

The presentational impact of these standards and interpretations is being assessed. The directors expect that the adoption of these standards and interpretations will have no material impact on the financial statements of the Group.

(e) Basis of consolidation

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

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

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

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

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

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

In accordance with the exemptions given by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income or Income Statement. The Company achieved a profit of £1.757m (2012: £1.216m).

Notes to the consolidated accounts (continued)

1. Statement of accounting policies (continued)

(f) Subsidiaries

On consolidation, the assets and liabilities of the Group's overseas operations are translated into the Group's presentation 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.

(g) Revenue recognition

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

i) Sales of goods

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

ii) Sales of services

Where services are provided revenue is recognised on an accruals basis in the accounting period in which the service is rendered. Intergroup services are charged through Pittard Garnar Services Limited which bills group companies for royalties and for agreed fees in the respect of group employee consultancy costs.

(h) Finance income

Finance income comprises interest receivable in respect of overdue debtors.

(i) Finance expenses

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

(j) Foreign currency translation

a) Functional and presentation currency

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 presentation currency.

b) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement as gain or loss on foreign exchange. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within administrative expenses (Note 5).

(k) Exceptional items

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

(l) 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.

Notes to the consolidated accounts (continued)

1. Statement of accounting policies (continued)

(l) Intangible assets (continued)

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 (1-7 years).

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

(m) Property, plant and equipment

Property, plant and equipment (other than freehold 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 so as to write off the cost or valuation of assets on a straight-line basis over their estimated useful lives, as follows:

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

A revaluation policy is applied to freehold buildings. Buildings were revalued at December 2013 and December 2012 based on the fair value as determined by an independent licensed loss assessor qualified to value buildings in Ethiopia. The increase in value has been reflected via a revaluation of land and buildings in other comprehensive income. Buildings have been depreciated at 2%. No depreciation has been charged on the building being constructed by Pittards Global Sourcing Private Limited Company in Ethiopia as it is still 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.

(n) Leased assets

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

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

(o) Inventories

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

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

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

Notes to the consolidated accounts (continued)

1. Statement of accounting policies (continued)

(p) 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.

(q) Retirement benefit costs

The Group operates a stakeholder pension scheme for the benefit of its employees in the UK but makes no contribution to the scheme. Pension contributions are made for employees at ETSC, PPM and PGS under the Ethiopian Social Security Agency scheme.

(r) Provisions

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

(s) Financial instruments

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

Investment

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

Trade and other receivables

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

Trade payables

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

Cash and cash equivalents

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

Bank borrowings

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

(t) Share based payments

The Group has applied the requirements of IFRS 2 Share-based Payment to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2007.

The Group has periodically issued equity-settled share based payments to certain employees and invited all employees to participate in Save As You Earn share option schemes.

Notes to the consolidated accounts (continued)

1. Statement of accounting policies (continued)

(t) Share based payments (continued)

Equity-settled share based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value is expressed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured by use of the Black-Scholes pricing model.

A cash-settled share bonus scheme (The Share Tracker Bonus Plan) potentially rewards participants for movements in the share price and was designed to incentivise key employees in the business and align them with investors. A liability is recognised at the current fair value as determined at each balance sheet date. The plan ended in 2012.

(u) 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.

(v) 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.

(w) 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

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. Estimates are revised periodically through the year to ensure that absorption of overheads is materially correct as at the end of the year.

The Group reviews its finished goods 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. The level of inventory provisions at year end represents the consistent application of an agreed formula plus additional specific provisions which management have deemed to be appropriate.

(b) Recognition of deferred tax asset

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

3. Business segments information

Management has determined the operating segments based on the reports reviewed by the board that are used to make strategic decisions. The board consider the business from a product perspective by type of raw material, (hides and skins) by income from Ethiopia and by other revenue streams, including the consumer products section which is not yet sufficiently material to be a separate category. The unallocated segment represents cross-departmental assets and liabilities. The segment information is shown below:

Notes to the consolidated accounts (continued)

3. Business segments information (continued)

2013	Skins £'000	Hides £'000	Ethiopia £'000	Other £'000	Unallocated £'000	Total £'000
Turnover	16,904	13,889	14,160	3,320	–	48,273
Inter-segmental trading	(52)	(71)	(9,972)	(2,365)	–	(12,460)
	16,852	13,818	4,188	955	–	35,813
Gross profit	3,135	1,629	2,372	190	–	7,326
Taxation	–	–	(29)	–	(236)	(265)
Assets	–	–	15,736	–	13,684	29,420
Liabilities	–	–	(8,475)	–	(4,033)	(12,508)
2012	Skins £'000	Hides £'000	Ethiopia £'000	Other £'000	Unallocated £'000	Total £'000
Turnover	19,259	11,763	13,826	3,605	–	48,453
Inter-segmental trading	(51)	(46)	(8,759)	(2,568)	–	(11,424)
	19,208	11,717	5,067	1,037	–	37,029
Gross profit	3,375	1,676	1,126	262	–	6,439
Taxation	–	–	–	–	30	30
Assets	–	–	14,191	–	13,764	27,955
Liabilities	–	–	(6,850)	–	(5,310)	(12,160)

The total of non-current assets other than deferred tax assets located in the UK is £2.020m (2012: £1.664m).

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

2013	Skins £'000	Hides £'000	Ethiopia £'000	Other £'000	Total £'000
UK	841	1,810	5	722	3,378
Europe	2,980	2,342	251	121	5,694
North America	1,279	24	1,333	112	2,748
Rest of the world	11,752	9,642	2,599	–	23,993
	16,852	13,818	4,188	955	35,813
2012	Skins £'000	Hides £'000	Ethiopia £'000	Other £'000	Total £'000
UK	645	1,208	–	916	2,769
Europe	3,357	562	7	22	3,948
North America	3,077	12	855	94	4,038
Rest of the world	12,129	9,935	4,205	5	26,274
	19,208	11,717	5,067	1,037	37,029

Revenues of approximately £5.006m (2012: £5.132m) within the skins segment are derived from one customer. Revenues of approximately £8.295m (2012: £7.953m) within the hides segment are derived from another customer. Both customers' revenues fall within the Rest of the world geographical segment.

Notes to the consolidated accounts (continued)

4. Exceptional items

	2013	2012
	£'000	£'000
Administrative expenses – exceptional restructuring costs	–	(324)

The imposition of the crust tariff in Ethiopia in 2011 necessitated a redundancy exercise for production staff in 2012 plus various other exceptional costs of reorganisation which totalled £0.324m.

5. Profit before taxation

The following items have been included in arriving at profit before taxation	2013	2012
	£'000	£'000
Depreciation of property, plant and equipment	355	730
Amortisation of intangible assets	5	6
Operating lease rentals recognised as an expense	302	285
Staff costs (Note 6)	7,524	7,664
Employee benefit expense	120	110
Research and development expenditure	175	172
Gain on foreign currency translation	78	71

Employee benefit expense represents amounts paid in respect of life insurance and health insurance.

Auditors' remuneration

The analysis of fees payable to the Company's auditors is as follows:	2013	2012
	£'000	£'000
Fees payable to the Company's auditors in respect of the audit of the parent company and consolidated accounts	40	38
Fees payable to the Company's auditors in respect of the audit of subsidiaries	5	5
Total audit fees	45	43
Total fees payable	45	43

No non-audit fees were paid during the year (2012: £nil).

6. Staff costs

The average number of employees of the Group (including executive directors), on an average monthly basis was	2013	2012
	No.	No.
Production	1,111	1,002
Sales, distribution and administration	202	198
Directors	5	5
	1,318	1,205
Their aggregate remuneration comprised:	£'000	£'000
Wages and salaries	6,801	6,982
Social Security costs	682	622
Other pension costs	41	60
	7,524	7,664

Notes to the consolidated accounts (continued)

7. Share options

Matching share options were granted to directors and managers as part of the fund raising exercise approved by shareholders in December 2009. Options were granted in return for investing in the placing and were exercisable up to the third anniversary of their grant. The Matching Share Option Plan is equity settled.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2013		2012	
	No. of options	Weighted average exercise price pence	No. of options	Weighted average exercise price pence
Outstanding at the beginning of the period	5,819,999	1.64	6,653,336	1.64
Granted during the period	–	–	–	–
Exercised during the period	–	–	–	–
Forfeited during the period	(5,819,999)	1.64	(833,337)	1.64
Outstanding at the end of the period	–	–	5,819,999	1.64
Exercisable at the end of the period	–	–	5,819,999	1.64

All share options outstanding at the end of 2012 expired in February 2013. They had a weighted average exercise price of 1.64 pence.

The total charge for the year relating to employee equity settled share-based payment plans was £nil (2012: £nil).

In March 2010 the Share Tracker Bonus Plan was approved by the Remuneration Committee of Pittards plc. This was a cash settled bonus scheme which potentially rewarded participants for movements in the share price and was intended to incentivise key employees in the business and goal align them with investors. The plan ended in 2012.

The total charge for cash settled share based payments was £nil (2012: £nil).

8. Directors' remuneration

	Salary and fees £'000	*Benefits £'000	2013	2012
			Total £'000	Total £'000
Executive				
R H Hankey	195	13	208	202
J Williams	105	8	113	110
Non-executive				
S D Boyd	64	4	68	67
L M Cretton	34	–	34	34
J G Holmstrom	34	–	34	31
	432	25	457	444

*Benefits received consist of health insurance and life assurance. The values of the benefits are based on the taxable value. No pension contributions are made to directors.

Key management compensation

Key management includes the directors of the Yeovil supervisory board. The compensation paid or payable to key management for employee services is shown below:

	2013 £'000	2012 £'000
Salaries and other short-term employee benefits	526	500
Total	526	500

Notes to the consolidated accounts (continued)

8. Directors' remuneration (continued)

Share options

Share options granted to directors under the matching share option scheme described in Note 7 were as follows:

	Number of options at 01 January 2013	Granted during year	Lapsed during year	Number of options at 31 December 2013
R H Hankey	2,000,000	–	(2,000,000)	–
J Williams	316,667	–	(316,667)	–
S D Boyd	1,666,667	–	(1,666,667)	–
L M Cretton	–	–	–	–
J G Holmstrom	–	–	–	–
	3,983,334	–	(3,983,334)	–

The aggregate amount of gains made by directors on the exercise of share options was £nil (2012: £nil).

9. Finance costs and income

	2013 £'000	2012 £'000
a) Finance costs		
Interest on bank loans and overdrafts	347	313
Interest on obligations under finance leases and hire purchase contracts	3	1
Unwinding of discount on deferred consideration	–	21
	350	335
b) Finance income		
Interest on overdue debtors	(58)	(61)

10. Taxation

(a) Analysis of the charge in the year	2013 £'000	2012 £'000
The charge based on the profit for the year comprises:		
Corporation tax on profit for the year	–	–
Foreign tax	36	30
Total current tax	36	30
Deferred Tax		
Origination and reversal of temporary differences	40	(90)
Impact of change in UK tax rate	189	90
Total deferred tax	229	–
Income tax charge	265	30

The standard rate of Corporation Tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 23.25% and will be taxed at 23% in the future.

Notes to the consolidated accounts (continued)

10. Taxation (continued)*(b) Factors affecting the charge for the year*

	2013	2012
	£'000	£'000
Profit on ordinary activities before tax	1,712	300
Tax calculated at domestic tax rates applicable to profits in the respective countries	552	335
Income not subject to tax	(141)	(7)
Expenses not deductible for tax purposes	90	100
Allowable tax deductions	(265)	(199)
Foreign tax paid	36	30
Double tax relief	(11)	(30)
Movement of deferred tax asset in respect of temporary differences	40	(90)
Utilisation of tax losses	(225)	(199)
Impact of change in UK tax rate	189	90
Total tax charge for the year (Note 10(a))	265	30

(c) Factors that may affect future tax charges

Resolutions passed by the UK parliament during March 2013 reduced the main rate of corporation tax to 23% from 1 April 2013, to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes were substantially enacted on 2 July 2013 therefore all UK deferred tax assets have been measured using the rate in place at the time they expect to be realised or settled.

The Group has recognised a deferred tax asset of £1.773m (2012: £2.005m) out of a total potential deferred tax asset of £2.244m (2012: £2.696m). The element of the deferred tax asset not yet recognised would be available to be utilised against future UK taxable profits (Note 20).

11. Earnings per ordinary share

	2013	2012
	£'000	£'000
Analysis of the profit in the year		
Profit for the year attributable to owners of the parent	1,449	270
Weighted average number of ordinary shares in issue (excluding the shares owned by the Pittards Employee Share Ownership Trust)	'000's	'000's
Basic	462,150	442,031
Diluted	462,150	444,188
Basic earnings per ordinary 1p share	0.31p	0.06p
Diluted earnings per ordinary 1p share	0.31p	0.06p
After share consolidation (Note 29)		
Basic earnings per ordinary 50p share	15.68p	3.00p
Diluted earnings per ordinary 50p share	15.68p	3.00p

Notes to the consolidated accounts (continued)

12. Property, plant and equipment

	Group			Company	
	Freehold buildings £'000	Plant, machinery & motor vehicles £'000	Total £'000	Plant, machinery & motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2012	3,598	15,620	19,218	11,219	11,219
Exchange differences	(343)	(415)	(758)	–	–
Additions	96	543	639	264	264
Disposals	–	(8)	(8)	–	–
Revaluation of property	196	–	196	–	–
As 1 January 2013	3,547	15,740	19,287	11,483	11,483
Exchange differences	(216)	(256)	(472)	–	–
Additions	15	411	426	292	292
Revaluation of property	66	–	66	–	–
At 31 December 2013	3,412	15,895	19,307	11,775	11,775
Accumulated depreciation					
At 1 January 2012	–	12,777	12,777	9,511	9,511
Exchange differences	–	(307)	(307)	–	–
Charge for year	70	660	730	420	420
Disposals	–	(8)	(8)	–	–
Release of depreciation on revaluation	(70)	–	(70)	–	–
At 1 January 2013	–	13,122	13,122	9,931	9,931
Exchange differences	–	(192)	(192)	–	–
Charge for year	73	282	355	175	175
Release of depreciation on revaluation	(73)	–	(73)	–	–
At 31 December 2013	–	13,212	13,212	10,106	10,106
Net book value					
At 31 December 2013	3,412	2,683	6,095	1,669	1,669
At 31 December 2012	3,547	2,618	6,165	1,552	1,552
At 31 December 2011	3,598	2,843	6,441	1,708	1,708

Depreciation of £0.336m (2012: £0.691m) has been charged to cost of sales and £0.019m (2012: £0.039m) to administrative expenses in the Income Statement.

Included in the Group's and Company's plant, machinery and motor vehicles are leased assets and assets being acquired under hire purchase agreements with a net book value of £0.170m (2012: £0.097m).

Freehold buildings includes an amount of £0.515m (2012: £0.547m) 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 reduction in value is due to the devaluation of the birr against sterling.

Notes to the consolidated accounts (continued)

12. Property, plant and equipment (continued)

The Group's buildings were revalued to fair value based on market rates as at 31 December 2013. Fair value was determined by Getachew Tesfaye, licensed loss assessor, who is an independent valuer.

If buildings were stated on historic cost basis the net book value would be £0.900m (2012: £1.034m).

13. Intangible assets

	Group Computer software £'000	Company Computer software £'000
Cost		
At 1 January 2012	1,582	1,574
Additions	103	103
At 1 January 2013	1,685	1,677
Additions	57	57
At 31 December 2013	1,742	1,734
Accumulated amortisation		
At 1 January 2012	1,567	1,559
Charge for year	6	6
At 1 January 2013	1,573	1,565
Charge for year	5	5
At 31 December 2013	1,578	1,570
Net book value		
At 31 December 2013	164	164
At 31 December 2012	112	112

14. Inventories

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Raw material and sundry inventory	5,182	4,410	2,705	2,165
Work in progress	4,516	3,690	1,969	1,648
Finished goods	5,743	6,187	4,096	4,115
	15,441	14,287	8,770	7,928

During the year £0.003m in respect of a stock provision was credited to the Income Statement (2012: £0.079m) as part of the cost of sales, and £18.836m inventory was charged to the Income Statement as cost of sales (2012: £22.321m). Raw material and sundry inventory includes £0.277m of goods in transit at year end (2012: £0.422m).

Notes to the consolidated accounts (continued)

15. Current financial assets

Trade and other receivables

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade receivables	4,352	3,620	3,983	3,467
Less provision for impairment of trade receivables	(289)	(307)	(289)	(307)
Trade receivables net	4,063	3,313	3,694	3,160
Other receivables	963	738	309	201
Prepayments and accrued income	286	483	241	313
Amounts owed by Group undertakings	–	–	5,420	4,417
	5,312	4,534	9,664	8,091

Movement on the provision for impairment of trade receivables was as follows:

As at 1 January	307	301	307	301
(Release) increase of provision for receivables impairment	(24)	4	(24)	4
Receivables written off during the year as uncollectable	6	2	6	2
As at 31 December	289	307	289	307

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

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Up to 60 days	611	769	624	764
60 – 90 days	21	3	19	(16)
More than 90 days	284	450	189	244
	916	1,222	832	992

As at 31 December the provision against trade receivables was £0.289m (2012: £0.307m) for the Group and £0.289m (2012: £0.307m) for the Company. The ageing of the receivables impaired against which part provisions have been made is as follows:

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Not overdue	35	27	35	27
Up to 60 days	323	780	323	780
60 – 90 days	36	15	36	15
More than 90 days	28	13	28	13
	422	835	422	835

The directors consider that the carrying amounts of trade and other receivables approximate to their fair value and that the above unprovided elements are recoverable.

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

Notes to the consolidated accounts (continued)

15. Current financial assets (continued)

<i>Cash and cash equivalents</i>	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Cash and cash equivalents	522	817	84	386

Credit risk

The Group's credit risk is attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for impaired receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Where possible, the Group mitigates its credit risk by using credit insurance policies to insure its credit sales and as a result the reserve made for irrecoverable amounts is not material. The maximum exposure, representing trade and other receivables not covered by insurance, impaired, or due from government or similar institutions was £1.569m (2012: £0.775m). Management carries out a review of trade receivables past due date and makes provision for any debts which are considered to be impaired. Provision is also made for any customer claims or allowances where a credit note has yet to be issued. The Group does not hold any collateral as security. However, the Group has traded with a high proportion of its customers for several years and is experienced in managing this risk, resulting in low levels of impairment.

16. Trade and other payables

	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade payables	3,676	3,604	1,983	1,804
Other taxes and social security costs	175	201	153	188
Accruals and deferred income	865	1,679	1,172	1,347
Other payables	152	197	7	54
Amounts owed to Group undertakings	–	–	1,134	2,227
	4,868	5,681	4,449	5,620

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

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

	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Unsecured:				
Loans	165	339	–	–
Secured:				
Overdrafts	4,910	3,922	4,247	3,460
Loans	1,075	1,089	–	–
Obligations under finance leases	46	23	46	23
	6,196	5,373	4,293	3,483

Notes to the consolidated accounts (continued)

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

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Unsecured:				
Loans	40	–	–	–
Secured:				
Loans	1,335	1,071	–	–
Obligations under finance leases	42	35	42	35
	1,417	1,106	42	35
Repayable as follows:				
Between one and five years by instalments	1,417	1,106	42	35
	1,417	1,106	42	35

During 2013 ETSC took a loan for £1.265m with the Commercial Bank of Ethiopia. The loan has been taken for a period of four years at an interest rate of 9.5% and is secured against assets of ETSC.

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

19. Obligations under leases*Operating lease agreements where the Group is lessee*

The Group has entered into commercial leases on certain properties and items of machinery.

Future aggregate minimum rentals payable under non-cancellable operating leases are as follows:

	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Not later than one year	302	302	302	302
After one year but not more than five years	705	1,007	705	1,007
	1,007	1,309	1,007	1,309

During 2007 the Group entered into a sale and leaseback agreement for its Yeovil operating facility. The lease is for a term of 10 years following a six month rent free period. The first rent review took place in July 2012.

Notes to the consolidated accounts (continued)

19. Obligations under leases (continued)

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

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Future minimum payments due:				
Not later than one year	48	22	48	22
After one year but not more than five years	57	42	57	42
	105	64	105	64
Less finance charges allocated to future periods	(18)	(6)	(18)	(6)
Present value of minimum lease payments	87	58	87	58
The present value of minimum lease payments is analysed as follows:				
Not later than one year	46	23	46	23
After one year but not more than five years	42	35	42	35
	88	58	88	58

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

20. Deferred taxation

The Group has recognised and unrecognised deferred tax assets in respect of temporary differences and losses. In accordance with the requirements of IAS12 the directors considered the potential utilisation of the deferred tax asset and have decided to recognise £1.800m of the deferred tax asset in the current year in view of the Group's continued profitability.

Deferred tax assets

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Deferred tax asset to be recovered after more than 12 months	1,194	1,602	1,194	1,597
Deferred tax asset to be recovered within 12 months	606	403	606	403
	1,800	2,005	1,800	2,000

Deferred tax liabilities

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Deferred tax asset to be recovered after more than 12 months	(27)	–	–	–
Deferred tax asset to be recovered within 12 months	–	–	–	–
	(27)	–	–	–
Deferred tax asset (net)	1,773	2,005	1,800	2,000

Notes to the consolidated accounts (continued)

20. Deferred taxation (continued)

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

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
At 1 January	2,005	42,005	2,000	2,005
Income Statement charge	(232)	–	(200)	–
At 31 December	1,773	2,005	1,800	2,005

The analysis of the deferred tax asset is as follows:

Recognised	Group		
	Tax losses £'000	ACA £'000	Total £'000
At 1 January 2012	2,005	–	2,005
Income Statement (charge) credit	(199)	199	–
At 1 January 2013	1,806	199	2,005
Income Statement (charge) credit	(206)	1	(205)
At 31 December 2013	1,600	200	1,800

In addition the Group has £0.430m of unrecognised deferred tax assets in relation to tax losses (2012: £0.563m) and £0.041m in relation to temporary timing differences (2012: £0.133m).

Recognised	Company		
	Tax losses £'000	ACA £'000	Total £'000
At 1 January 2012	2,000	–	2,000
Income Statement (charge) credit	(199)	199	–
At 1 January 2013	1,801	199	2,000
Income Statement (charge) credit	(201)	1	(200)
At 31 December 2013	1,600	200	1,800

In addition the Company has £0.430m of unrecognised deferred tax assets in relation to tax losses (2012: £0.563m) and £0.041m in relation to temporary timing differences (2012: £0.133m).

The deferred tax liability of £0.027 (2012: £nil) represents temporary timing differences.

Notes to the consolidated accounts (continued)

21. Share capital

	2013	2012
	£'000	£'000
Issued and fully paid		
At 1 January	4,631	4,410
Proceeds from shares issued in the year	–	221
At 31 December	4,631	4,631
	Shares	Shares
Number of ordinary shares of 1p each		
At 1 January	463,101,933	441,049,460
Shares issued in the year	–	22,052,473
At 31 December	463,101,933	463,101,933

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

A share consolidation, which took place in January 2014, is described in Note 29.

Share options

At 31 December 2013 directors and employees held nil options to subscribe for shares (2012: 5,819,999).

22. Reserves

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

The capital redemption reserve represented shares redeemed by the Company at various times.

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

As indicated previously, the process of restructuring the balance sheet to allow the payment of dividends was approved by the Company Court in February 2013 and the share premium and capital redemption reserve were cancelled and the balances transferred to retained earnings.

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

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, Pittards Products Manufacturing and Pittards Global Sourcing Private Limited Company undertaken annually.

The share options reserve represented the cost to the Company of the Matching Share Options issued to directors and employees following the placing exercise in December 2009. Following the lapsing of all options the reserve was transferred to retained earnings at year end.

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 2013 the trust held a total of 951,328 shares (2012: 951,328) with a market value at that date of £28,540 (2012: £19,000).

Notes to the consolidated accounts (continued)

23. Cash (used in) generated from operations

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Profit before taxation	1,712	300	1,957	1,216
Adjustments for:				
Depreciation of property, plant and equipment	355	730	175	420
Amortisation	5	6	5	6
Bank and other interest charges	334	343	106	87
Other non-cash items in Income Statement	(44)	104	663	(26)
Operating cash flows before movement in working capital	2,362	1,483	2,906	1,703
Movements in working capital (excluding exchange differences on consolidation):				
(Increase) decrease in inventories	(1,541)	(440)	(842)	813
Increase in receivables	(963)	(1,039)	(1,573)	(981)
(Decrease) increase in payables	(543)	166	(1,171)	(1,227)
Cash (used in) generated from operations	(685)	170	(680)	308

24. Analysis of the changes in cash and cash equivalents and bank overdrafts

	As at 1 January 2013 £'000	Cashflow £'000	Exchange movements £'000	As at 31 December 2013 £'000
Group				
Cash at bank and in hand	817	(283)	(12)	522
Bank overdraft	(3,922)	(1,016)	28	(4,910)
	(3,105)	(1,299)	16	(4,388)
Company				
Cash at bank and in hand	386	(302)	–	84
Bank overdraft	(3,460)	(803)	15	(4,248)
	(3,074)	(1,105)	15	(4,164)

Notes to the consolidated accounts (continued)

25. Related party transactions

(a) Related party trading

Group

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

Transactions with related parties:	Group	
	2013 £'000	2012 £'000
Purchases from related parties	59	79
Sales to related parties	8	–

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

Year end balances arising from purchases:	Group	
	2013 £'000	2012 £'000
Payables to related parties	23	10
Receivables from related parties	8	–

Company

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

Transactions with subsidiaries:	Company	
	2013 £'000	2012 £'000
Purchases from subsidiaries	9,261	8,738
Sales to subsidiaries	2,728	1,605

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	
	2013 £'000	2012 £'000
Amounts due from subsidiaries:		
Pittard Garnar Services Limited	4,903	3,834
Ethiopia Tannery Share Company	252	459
Pittards Global Sourcing	1	1
Pittards Products Manufacturing	264	123
	¹⁵ 5,420	4,417
Amounts due to subsidiaries:		
R & A Kohnstamm Limited	–	(1,286)
Pittards Group Limited	(30)	(30)
Ethiopia Tannery Share Company	(1,088)	(905)
Pittards Global Sourcing	(16)	(6)
	¹⁶ (1,134)	(2,227)

(b) Transactions with directors

Disclosures required under IAS24 regarding remuneration of key management personnel are covered by the Directors' remuneration disclosure in Note 8 and interests in shares are disclosed in the Directors' Report.

Notes to the consolidated accounts (continued)

26. Major shareholders

Artemis Investment Management LLP held 19.5% of the share capital of Pittards plc at year end (90,300,000 shares).

Bronsstadet AB, a company incorporated and registered in Sweden, held 19.4% of the share capital of Pittards plc at year end (89,554,872 shares). Its ultimate parent company is Peter Gyllenhammar AB.

27. Financial instruments

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management systems seek to minimise potential adverse effects on the Group's financial performance. The Group can use derivative financial instruments to mitigate its foreign currency exposure risk where appropriate and also uses credit insurance policies to mitigate its credit risk. 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.

(a) Risk management policies

Foreign currency exchange rate risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar, Euro and Ethiopian Birr. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. This risk is managed by the use of fixed contracts and options where applicable and the selling of surplus US dollars.

Approximately 91% (2012: 93%) of the Group's revenue is from exports, with some 69% (2012: 72%) in US dollars. US dollar based raw material purchases amounted to 14% in 2013 (2012: 16%), creating a partial natural hedge.

Price risk

Price risk includes the variability in selling prices 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 sheepskins sourced in Ethiopia.

Interest rate risk

The Group mitigates its exposure to interest rate fluctuations by using fixed rates where possible and when it is felt to be beneficial and the directors 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 to improve cash flow where necessary.

Credit risk

The Group is exposed to credit risk to the extent of non-payment by either its customers or the counterparties of its financial instruments. The Group utilises credit insurance policies to mitigate its risk from its trading exposure or seeks secure terms or payment in advance. It mitigates its financial exposure on financial instruments by only using instruments from banks and financial institutions with a minimum rating of 'A'.

(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.

Notes to the consolidated accounts (continued)

27. Financial instruments (continued)

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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
US dollar	2,812	2,210	1,077	507	76	233
Euro	523	375	(98)	(93)	–	–
Ethiopian birr	156	241	(4,931)	(4,368)	362	205
Other	4	4	14	21	–	–
	3,495	2,830	(3,938)	(3,933)	438	438
GBP	568	483	(7,503)	(6,348)	84	379
Total	4,063	3,313	(11,441)	(10,281)	522	817

(d) Foreign currency sensitivity

As 69% (2012: 72%) of the Group's revenue is in US dollars, the sensitivity analysis is only on the US dollar impact.

The following table details the Group's sensitivity to a 10% increase in pounds sterling against the US dollar. 10% is considered to be a reasonable movement and also enables the users of the accounts to calculate other % 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 the reporting period. A positive number indicates an increase in profit or loss and other equity where pounds sterling decrease against the respective currency.

Group	2013 £'000	2012 £'000
Loss (i)	(2,041)	(2,086)

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

(e) Forward foreign exchange contracts

It is the policy of the Group to sell surplus dollars and to enter into forward foreign exchange contracts to manage the risk associated with anticipated foreign currency sales and purchase transactions, when this is felt appropriate, however no such contracts were entered into in 2013 or 2012.

(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 floating 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 year and held constant throughout the reporting period. 50 basis point has been applied in the sensitivity analysis as this is considered to be an indicative movement for the analysis of interest rate risk.

At the reporting date, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's net profit would decrease by £0.033m (2012: £0.031m). This is attributable to the Group's exposure to interest rates on its variable borrowings.

Notes to the consolidated accounts (continued)

27. Financial instruments (continued)

iii) Liquidity risk management

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

iv) Liquidity and interest risk tables

The interest rate profile of the non-derivative financial liabilities of the Group and its contractual maturity as at 31 December 2013 and at 31 December 2012 are as follows:

As at 31 December 2013

Group

Fixed rate	Less than 3 months £'000	3 months to 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Other loans	–	205	–	–	–	205
Obligations under finance leases	–	–	88	–	–	88
Floating rate						
Bank overdrafts and loans	4,910	–	–	2,200	–	7,110
Trade and other payables	3,829	–	–	–	–	3,829
Other loans	–	210	–	–	–	210

As at 31 December 2012

Group

Fixed rate	Less than 3 months £'000	3 months to 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Other loans	–	339	–	–	–	339
Obligations under finance leases	–	–	–	58	–	58
Floating rate						
Bank overdrafts and loans	3,922	–	–	1,638	–	5,560
Trade and other payables	3,803	–	–	–	–	3,803
Other loans	–	525	–	–	–	525

The Group has the following undrawn borrowing facilities.

Group

	2013 £'000	2012 £'000
Floating rate		
Expiring within one year	752	1,085
Expiring beyond one year	–	–
	752	1,085

The facilities expiring within one year are subject to review at various dates in 2014.

Notes to the consolidated accounts (continued)

27. Financial instruments (continued)

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 2013, 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 2013 and 2012 were as follows:

Group	2013	2012
	£'000	£'000
Total borrowings	7,613	6,479
Less cash and cash equivalents	(522)	(817)
Net debt	7,091	5,662
Total equity	16,912	15,795
Gearing ratio	41.9%	35.8%

28. Investments

Company	2013	2012
	£'000	£'000
At 1 January	865	848
Dissolution of R & A Kohnstamm	(679)	–
Investment in Pittards Global Sourcing Private Limited Company	–	17
At 31 December	186	865

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

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

Notes to the consolidated accounts (continued)

28. Investments (continued)

Pittards plc holds directly or indirectly all the issued ordinary share capital and voting rights of its principal trading subsidiary undertakings except for Pittards Global Sourcing Private Limited Company where it holds 67% of the capital and voting rights.

	Non-consolidated subsidiaries	
	2013	2012
	£'000	£'000
Non-consolidated investments held	2	5

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

29. Events after the reporting period

On 15 January 2014 the shareholders approved a 1:50 share consolidation which changed the structure of the share capital from 463,101,933 1p shares to 9,262,039 50p shares. Where appropriate the new and old holdings have been reflected in this report.

Analysis of shareholders

as at 31 December 2013

Ordinary shares	Number of holders	% held	Number of shares held	% held
Category:				
Individuals	1,502	99.48	332,285,415	71.75
Trust and investment companies	4	0.26	92,017,869	19.87
Pension funds	4	0.26	38,798,649	8.38
	1,510	100.00	463,101,933	100.00
Size of holding				
Up to 999 shares	653	43.24	292,756	0.06
1,000 to 9,999 shares	521	34.50	1,853,464	0.40
10,000 to 49,999	139	9.21	3,371,154	0.73
50,000 shares and over	197	13.05	457,584,559	98.81
	1,510	100.00	463,101,933	100.00

Five year review

	2013	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000
Revenue	35,813	37,029	38,194	36,086	24,617
Percentage exports	91%	93%	93%	91%	88%
Profit from operations before finance costs	2,004	574	3,050	3,297	3,042
Profit on ordinary activities before taxation	1,712	300	2,758	2,931	2,834
Profit on ordinary activities after taxation	1,447	270	3,637	3,662	2,824
Equity attributable to owners of the parent	16,738	15,607	15,601	11,551	8,784
Earnings per ordinary 1p share (basic)	0.31p	0.06p	0.83p	0.85p	1.24p
Dividends per ordinary 1p share	–	–	–	–	–

Financial calendar

Annual General Meeting	15 May 2014
Announcement of half year results for 2014	September 2014
Payment of interim dividend for 2014 (if declared) to shareholders registered on 10 October 2014 (ex dividend date 9 October 2014)	6 November 2014
Announcement of 2014 results	March 2015

Notice of meeting

Notice is hereby given that the 105th Annual General Meeting of Pittards plc will be held at the registered office at 12 noon on 15 May 2014 for the following purposes:

Ordinary resolutions

- 1 To receive the annual statement of accounts for the year ended 31 December 2013 and the directors' and auditor's reports thereon.
- 2 To re-elect the following director retiring by rotation:
 - (i) Mr J G Holmstrom
 To re-elect the following director appointed since the last AGM:
 - (ii) Mr G P Davis
- 3 To re-appoint the auditors, PricewaterhouseCoopers, and to authorise the directors to determine their remuneration.
- 4 To consider and if thought fit resolve that the directors be and they are hereby unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal value of £463,102 (in substitution for and to the exclusion of previous allotment authorities granted prior to the meeting) 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 at the 2015 AGM unless previously revoked, varied or extended by the Company in general meeting; and the Company be and is 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 the said period and the Directors may allot equity securities in pursuance of any such an offer or agreement notwithstanding the expiry of the authority given by this resolution.

Special Business

- 5 To consider and, if thought fit, resolve that in accordance with Article 5 of the Articles of Association of the Company and Section 693(4) of the Companies Act 2006, the Company be hereby granted general and unconditional authority to make market purchases of any of its own shares on such terms and in such manner as the Board of Directors of the Company may from time to time determine provided that the authority conferred by this Resolution shall:
 - (a) be limited to 926,203 Ordinary Shares of 50p each (10% of the issued Ordinary Shares)
 - (b) not permit the price (exclusive of expenses) to be paid per share to be more than 5% above the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the 5 business days before the purchase is made or to be less than 50p, and
 - (c) expire on the date falling 15 months after the passing of this Resolution or the date of the next Annual General Meeting of the Company, whichever is the earlier, except in relation to the purchase of shares the contract for which was concluded before the expiration of the said period and which is executed wholly or partly after such date.
- 6 To consider and if thought fit resolve that, subject to and conditional upon the passing of resolution 4 above, the directors be and are hereby empowered, pursuant to section 570 of the Act, to allot equity securities (as defined in section 560 of the Act) for cash, pursuant to the authority under section 551 of the Act conferred on the directors pursuant to resolution 4 above, as if section 561(1) of the Act did not apply to any such allotment, such power to operate in addition to any previous or subsequent power given to the directors pursuant to section 95(1) of the Companies Act 1985 or section 570 of the Act (whichever is relevant) and to expire at the next Annual General Meeting (unless previously revoked, varied or extended by the Company in general meeting), and provided that such power shall be limited to the allotment of equity securities having an aggregate nominal value of up to £463,102 save that the Company may at any time prior to the expiry of such power make an offer or enter into an agreement (subject to the foregoing limitations) which would or might require equity securities to be allotted after the expiry of such power and the directors may allot equity securities (subject to the foregoing limitations) in pursuance of such an offer or agreement as if such power had not expired.

By order of the board

J Williams
 Company Secretary
 Yeovil, Somerset
 Date: 17 March 2014

Note:

A member entitled to attend and vote at the above meeting may appoint a proxy, who need not be a member, to attend and vote instead of him/her. The register of directors' holdings and copies of directors' contracts of service will be available for inspection at the registered office of the Company during the usual business hours from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting from at least fifteen minutes prior to and until the conclusion of the meeting.

Pittards plc

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