



# LEEDS

GROUP PLC

**Annual Report and Accounts 2017**

THURSDAY



\*A6FXSO1T\*

A21

28/09/2017

#433

COMPANIES HOUSE

## Contents

Leeds Group Financial Highlights	1
Directors	2
Group Information and Advisers	3
Chairman's Statement	4
Strategic Report	5
Directors' Report	8
Independent Auditor's Report	13
Consolidated Statement of Comprehensive Income	15
Consolidated Statement of Financial Position	16
Consolidated Cash Flow Statement	17
Consolidated Statement of Changes in Equity	18
Notes to the Consolidated Financial Statements	19
Company Statement of Financial Position (prepared under FRS 101 "Reduced Disclosure Framework")	43
Company Statement of Changes in Equity	44
Notes to the Financial Statements of the Company	45
Five Year Summary of Results and Capital Employed	48
Notice of Annual General Meeting	49

## Leeds Group Financial Highlights

- ❑ Leeds Group profit before tax £1,448,000 (2016: £1,507,000).
- ❑ Leeds Group sales revenue increased by 13.2% to £41,053,000 (2016: £36,272,000).
- ❑ The weakness of sterling during the year has had a material impact on the Group's results. An unrealised gain of £310k has been recognised in the accounts and the net assets increased by £1,707,000 since last year end, because of this.
- ❑ Capital expenditure in the year £2,280,000 (2016: £4,156,000) partly on the acquisition of a German warehouse which had previously been rented.
- ❑ Leeds Group finished the year with bank debt net of cash £5,520,000 (2016: £2,646,000).
- ❑ Leeds Group net asset value per share (excluding treasury shares) 66.9p (2016: 56.5p).
- ❑ Earnings per Leeds Group share 4.1p (2016: 3.8p).
- ❑ In view of the recent investments, the Directors do not propose a dividend.

## Directors

### **Jan G Holmstrom (Non-Executive Chairman)**

Born 1953, Jan has worked in the financial services sector during his entire career, and has a wealth of experience working internationally e.g. in the UK, Hong Kong and Sweden. Jan is the Chairman of Johnson and Starley Limited and a non-executive director of International Fibres Group AB. Jan joined the Board of Leeds Group in November 2011 and was appointed Chairman in October 2014.

### **Jörg Hemmers (Executive Director)**

Born 1967, Jörg has worked his whole life in the wholesale and retail textile business. He was one of the first in the trade to realise the potential of sourcing products from China. Leeds Group acquired the Hemmers wholesale operation in 1999 and appointed Jörg as Managing Director. Jörg retained a financial interest in the retail operation until 2010, but focused entirely on profitable growth of the wholesale business. Amongst his achievements is the successful integration in 2003 of the Leeds Group Itex business, based in Holland, to create Hemmers/Itex GmbH and the successful start-up in 2007 of Chinoh-Tex, a subsidiary based in Shanghai. Jörg joined the Board of Leeds Group in March 2015.

### **Johan Claesson (Non-Executive Director)**

Born 1951, Johan has been a major shareholder in Leeds Group since 1999, and has extensive business interests, both private and in the public arena. Johan is Chairman of Claesson & Anderzén, a private property company. Johan is also a non-executive director of K3 Business Technology Group plc (specialising in business software) and NightHawk Energy plc (an oil exploration company). Johan joined the Board of Leeds Group in September 2004.

### **David Cooper (Independent Non-Executive Director)**

Born 1958, David is a chartered accountant and member of the Institute of Chartered Accountants of Scotland. Previously David was Group Finance Director and Company Secretary of AIM-listed Dawson International PLC, gaining over 25 years' experience in the global textiles industry. He now operates his own financial consultancy business. David joined the Board of Leeds Group in October 2014.

## Group Information and Advisers

### Subsidiary Companies

#### **Hemmers-Itex Textil Import Export GmbH**

Twentestrasse 1  
48527 Nordhorn  
Germany

***Director during the year***

Jörg Hemmers

***Principal activity***

Import, sale & distribution of fabric

#### **Leeds Property GmbH**

Twentestrasse 1  
48527 Nordhorn  
Germany

***Director during the year***

Jörg Hemmers

***Principal activity***

Vehicle to hold the Group's German property assets.

#### **Chinoh-Tex Ltd**

F2, Building1, 111 Shennan Road  
Xinzhuang Industry Area  
201108 Shanghai  
China

***Wholly owned subsidiary of Hemmers Textil Import Export GmbH.***

***Principal activity***

Textile trading

## Group Advisers

### **Solicitors**

Walker Morris  
Kings Court  
12 Kings Street  
Leeds  
LS1 2HL

Tel: 0113 283 2500

### **Solicitors**

DLA Piper UK LLP  
Princes Exchange  
Princes Square  
Leeds  
LS1 4BY

Tel: 08700 111111

### **Financial Advisers**

#### **And Brokers**

Cairn Financial Advisers LLP  
62-63 Cheapside  
London  
EC2V 6AX

Tel: 020 7213 0880

### **Registrars**

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

Tel: 0871 664 0300\*

### **Auditors**

BDO LLP  
Central Square  
29 Wellington Street  
Leeds  
LS1 4DL

Tel: 0113 244 3839

### **Principal Bankers**

Bank of Scotland  
116 Wellington Street  
Leeds  
LS1 4LT

Tel: 0113 388 3200

\* Calls to the Capita shareholder helpline cost 10p a minute plus network extras. Lines are open 8.30am-5.30pm Mon-Fri.

## Chairman's Statement

I am pleased to present the results for the year ended 31 May 2017.

### Results

The Group achieved sales for the year of £41,053,000 (2016: £36,272,000) and made a profit after tax of £1,114,000 (2016: £1,039,000). The weakness of sterling during the year has had a material impact upon the Group's results. Sales growth of 13.2% comprises a fall of 1.1% in sales at constant exchange rates, disguised by the translation effect of weaker sterling, which increased reported sales by 14.3%. In addition there has been a gain of £310,000 in the value of the Euro-denominated parent company loan to Hemmers.

Similarly the translation effect has increased net assets by £1,707,000 since last year end. Net assets at 31 May 2017 increased to £18,302,000 (2016: £15,512,000) and the value per share was 66.9p (2016: 56.5p). Following capital expenditure of £2,280,000 in the year (2016: £4,156,000), partly on the acquisition of a warehouse in Germany adjacent to the existing facilities which had previously been rented, the Group closed the year with net bank debt of £5,520,000 (2016: £2,646,000).

### Hemmers-Itex Textil Import Export GmbH ("Hemmers")

Fabric sales for the year at Hemmers, Leeds Group's principal trading company, in Euro terms remained at a similar level to last year €44,182,000 (2016: €44,295,000). Growth was achieved in the retail and garment manufacturing sectors but this was offset by reduced sales in the wholesale sector. In sterling terms, however the revenue increased by 14.6% to £37,544,000 (2016: £32,775,000) as a result of the weakened sterling.

Further investment in warehousing and equipment was made during the year €2,660,000 (£2,260,000). This together with the capital expansion last year has enabled the management to establish the infrastructure required to achieve growth and efficiencies in the forthcoming year. However, with the restructuring and additional cost base this had led to a pre-tax profit in the current year of £1,045,000 (2016: £1,309,000).

The KMR joint venture continues to trade in line with expectations. Sales were 40% higher than the last year and new shops were opened in Berlin, Leipzig and Chemnitz. However, the investment in new shops and the implementation of new business software across all the shops has resulted in a pre tax profit which is lower than last year.

Chinoh-Tex, the Hemmers subsidiary based in Shanghai, achieved external sales revenue of £3,499,000 (2016: £3,497,000) and pre-tax profit of £47,000 (2016: £267,000) with the reduction in profit due to increased infrastructure and administrative costs. Though small Chinoh-Tex also provides valuable assistance to its European parent in terms of purchasing, quality inspection and bulk shipping of material bought in China.

### Dividend

Leeds Group has made further investment in the Nordhorn facility this year. Therefore, as last year, the Directors do not propose a dividend. In the opinion of the Board, this maximises the long-term value of the Group to the benefit of all shareholders.

### Employees

On behalf of shareholders, I thank the management and staff of Hemmers, Chinoh-Tex and KMR for their continued hard work and commitment that has produced such a highly satisfactory result.

### Outlook

We continue to believe potential growth opportunities exist for Hemmers in both their traditional wholesale business, and the domestic retail business in which we have invested more recently.

At this early point in the current financial year, sales have been broadly in line with the expectations of the Board.



Jan G Holmstrom  
Chairman

28 July 2017

# Strategic Report

## Business review

The Companies Act 2006 requires the directors to set out in this report a fair review of the business of the Group during the year ended 31 May 2017, including an analysis of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. This information includes a discussion of the Key Performance Indicators used by the directors to monitor the business which are:

- Sales volumes and revenue
- gross profit margin
- operating overheads and central costs
- profit before tax
- earnings per share
- working capital levels

## Group result

Group revenue in the year was £41,053,000 (2016: £36,272,000), and pre-tax profit was £1,448,000 (2016: £1,507,000). Sterling is considerably weaker at 31 May 2017 than last year. The closing rate is 12.05% weaker against the Euro than had been the case a year earlier; its average rate for the year as a whole was also weaker by 12.93%. Thus group revenue is £5,195,000 higher than it would have been had the results of the overseas subsidiaries been translated at last year's average rates.

The parent company has granted a loan denominated in Euros to its subsidiary Hemmers and, as sterling has weakened during the financial year, an unrealised gain has arisen in the Parent Company and the Group accounts of £310,000 (2016: £100,000).

The tax charge in the year was £334,000 including a deferred tax charge of £13,000 relating to temporary differences on financial derivatives. Earnings per share were 4.1p (2016: 3.8p).

## Hemmers Europe

This German-based business is engaged in the import, warehousing and wholesaling of fabrics.

Fabric sales for the year at Hemmers, Leeds Group's principal trading company, in Euro terms remained at a similar level to last year €44,182,000 (2016: €44,295,000). Growth was achieved in the retail and garment manufacturing sectors but this was offset by reduced sales in the wholesale sector. In sterling terms, however the revenue increased by 14.6% to £37,544,000 (2016: £32,775,000) as a result of the weakened sterling.

Gross margins reduced slightly to 20.8% (2016: 21.5%). Overhead expenditure in local currency increased by 7.3% as a result of increased infrastructure and administration costs. Pre-tax profit for the year was €1,191,000 (2016: €1,705,000).

In December 2014 Hemmers acquired a 50% interest in Stoff-Ideen-KMR GmbH ("KMR"), a chain of retail fabric and haberdashery stores, at a cost of €500,000. KMR is operated as a joint venture and in May 2015 each of the two joint venture partners subscribed for additional capital of €250,000. During this year an additional investment of €80,000 (£68,000) was made by both joint venture partners bringing the total investment by Hemmers to €830,000 (£723,000). The Group's share of the post-tax income of KMR in the year was £33,000 (2016: £51,000). Additional information regarding KMR can be found in note 14 to the consolidated financial statements.

During the year Hemmers purchased a warehouse adjacent to the existing warehouse and office facility that it had previously been renting. The previous warehouse extension has now been completed with all the additional machinery installed in order to increase the double folding capacity to meet the customer requirement to double-fold our fabrics before sale. This will eliminate the need to outsource this work in the forthcoming year.

Largely as a result of this investment programme, the Hemmers bank debt, net of cash, increased in the year to £6,619,000 (2016: £3,647,000). This bank debt is secured on the assets of Hemmers.

Hemmers has developed a new 3 year plan 2017 – 2020 with focus on growing the business both domestically and internationally with maintained margins.

## Strategic Report (continued)

### Hemmers China

Chinoh-Tex is a textile trading subsidiary of Hemmers. It is based in Shanghai and has been trading for eight years. It purchases fabric from Chinese suppliers and in 2017 sold to customers in 32 countries. 31% of sales were made to EU countries (2016: 40%) with the reduction caused chiefly by certain European customers being supplied from Hemmers rather than from Chinoh-Tex, who compensated for this by doubling their sales in China.

External sales revenue remained at a similar value £3,499,000 (2016: £3,487,000), a small fall in volumes was offset by translation gains, and gross margin also remained at a similar percentage 18% (2016: 18%). Overhead spending increased to £662,000 (2016: £484,000) due to administrative and infrastructure costs and therefore the pre-tax profit has reduced to £47,000 (2016: £267,000).

Chinoh-Tex also provides valuable assistance to its European parent with the purchasing, inspection and shipping of material. Internal sales revenue, based on arms length prices, amounted to £511,000 (2016: £622,000).

### Holding Company's Costs

The holding company generated net income in the year as follows:

	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
Holding company's costs net of interest receivable	(10)	(73)
Exchange gain on Group loan	310	100
Net holding company's income	300	27

### Fixed Assets

Capital additions in the year amounted to £2,280,000 (2016: £4,156,000) and included expenditure of £846,000 in respect of the purchase of a warehouse adjacent to the existing facilities in Nordhorn which had previously been rented. The net book amount of tangible fixed assets in the Consolidated Statement of Financial Position is £8,452,000 (2016: £5,864,000).

### Working Capital

Working capital which comprises inventories, trade and other receivables, and trade and other payables increased in the year by £1,007,000 (2016: £127,000).

### Net Asset Value

Net assets increased in the year by £2,790,000 as follows:

	Net assets £000	Per share pence
At 31 May 2016	15,512	56.7
Profit after tax	1,114	4.1
Purchase of own shares for treasury (cost)	(31)	(0.1)
Translation differences	1,707	6.2
At 31 May 2017	18,302	66.9

## Strategic Report (continued)

### Debt Profile

The funding policy of the Group continues to be to match its funding requirement in trading subsidiaries in a cost-effective fashion with an appropriate combination of short and longer-term debt. The warehouse constructed in 2008 in Germany is financed by a 20-year loan at a fixed interest rate of 4.07%. Property investments in the year have been financed partly from cash generated in the year, but principally from loans at fixed interest rates between 1.05% and 3.40%. Working capital finance, when required, is via short term loans of three months currently attracting interest at approximately 1.25%.

Bank debt in the subsidiaries is secured by charges on inventories, receivables and property and is without recourse to the Parent Company.

### Principal risks and uncertainties

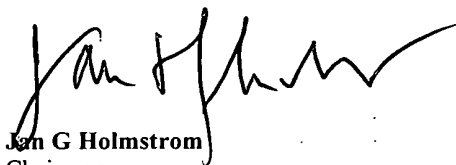
Following the UK referendum result in favour of leaving the European Union ("EU"), the economic environment has become much more uncertain. However, the business of Leeds Group is conducted entirely by subsidiaries incorporated in Germany or China, and their exports to the UK account for approximately 3% of Group revenue. For this reason, the Directors do not believe that a material risk to Leeds Group will arise from the terms on which the UK will, in the future, have access to EU markets, and vice versa.

Of greater risk is the possibility of reduced demand owing to falling consumer confidence, although the business has proved robust in earlier recessions with some evidence that reduced consumer spending on ready-made apparel or furnishings generates increased demand for Hemmers fabrics that customers use to make equivalent goods in the home.

The currency markets in particular dislike the current air of uncertainty, and sterling immediately lost ground on news of the referendum result. This benefits Leeds Group since, as the pound weakens, the value of the revenues, profits and net assets of foreign subsidiaries is increased in sterling terms. This effect has been seen in this year's trading and statement of financial position.

Most fabric purchased by Hemmers is paid for in US dollars, while the Euro is the principal currency in which Hemmers sells its product. Thus the Euro/dollar rate is of greater significance to Leeds Group than the strength of sterling. We shall continue to manage this transactional currency risk by a combination of forward exchange contracts with reputable banks and sales price increases where necessary.

Fire risk is mitigated by insurance, including consequential loss insurance to cover the loss of business opportunity while replacement stocks are obtained. There is an adequate disaster recovery programme in place with regard to essential computer systems. The commercial risks of operating in the highly competitive European fabric market are limited by the fact that Hemmers has a wide range of suppliers, and no customer accounts for more than 5% of revenues. The Directors therefore consider the principal operating risks of operating in this market to be the financial risks identified in note 3 to the financial statements.



Jan G Holmstrom  
Chairman  
28 July 2017

## Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 May 2017.

### Results and dividend

The results of the Group are set out in detail in the Strategic Report. The directors do not recommend the payment of a dividend (2016: £nil).

### Directors and directors' interests

The Directors who held office during the year were Mr Johan Claesson, Mr David Cooper, Mr Jörg Hemmers and Mr Jan G Holmstrom and their remuneration for the year is set out in note 5 to the financial statements.

The Directors retiring by rotation are Jörg Hemmers and David Cooper who, being eligible, offer themselves for re-appointment at the forthcoming Annual General Meeting.

The directors who held office at the end of the year had the following interests in the ordinary shares of the Company:

	Number of shares			
	Interest at end of year		Interest at beginning of year	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Johan Claesson	7,978,050	-	7,978,050	-
David Cooper	-	-	-	-
Jörg Hemmers	-	-	-	-
Jan G Holmstrom	-	-	-	-

There are no outstanding share options granted to directors or employees of the Company.

No changes in directors' share interests or share options have taken place between the end of the year and 28 July 2017.

### Major shareholdings

The Company is aware of the following shareholders having 3% or more of the issued share capital at 28 July 2017:

	% of issued share capital	% of issued share capital excluding shares held in treasury
Mr Johan Claesson and associates	25.25	29.17
Mr Peter Gyllenhammar and associates	21.31	24.62
Sunningdale Investments Ltd	8.91	10.30

### Directors' and officers' liability insurance

The Group maintains directors' and officers' liability insurance that gives appropriate cover for any legal actions brought against its directors or senior managers. This policy remained in force on the date on which the financial statements of the Group were approved by the Board.

### Leeds Group plc Ordinary shares of 12 pence each

The market value of Leeds Group shares between 1 June 2016 and 31 May 2017 ranged between 34.0p and 40.0p. The average market value for the year was 37.2p, and at 31 May 2017 the market value was 36.0p (31 May 2016: 39.5p).

### Political and charitable contributions

The Group made no political contributions, nor any donations to UK charities in the years ended 31 May 2017 and 31 May 2016.

## Directors' Report (continued)

### Creditor payment policy

It is Group policy to agree the terms of payment with suppliers when agreeing each transaction and to abide by the terms of payment. At 31 May 2017, the amount of trade creditors shown in the consolidated statement of financial position represents 32 days (2016: 29 days). There are no trade creditors shown in the Company statement of financial position (2016: nil).

### Going concern

After making enquiries, and notwithstanding the present uncertainties in the global economy, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

### Treasury shares

The Company bought back 85,000 of its own Ordinary Shares for treasury in the year at a cost of £30,600. The directors intend to continue to buy back shares which are available for purchase in the future. The terms on which the Company may purchase its own shares for treasury are detailed in Resolution 5 of the Notice of Annual General Meeting. In buying back the Company's ordinary shares, the Board is returning capital to those shareholders who wish to sell their shares whilst improving the net asset value per share of the remaining shareholders.

### Corporate Governance

Leeds Group plc is a UK registered company and is quoted on AIM, the London Stock Exchange market for smaller companies. It is regulated by UK and EU legislation and by the AIM rules for Companies. AIM companies are not required to comply with the UK Corporate Governance Code. Leeds Group has instead chosen to follow the principles of the Corporate Governance Code for Small and Medium Sized Companies issued by the Quoted Companies Alliance ("the QCA Code").

The Board recognises its responsibility for the proper management of the Company and is committed to maintaining a high standard of corporate governance which is appropriate to the size of the Company and the interests of its Shareholders. Below we set out the measures in place to ensure that this is achieved.

#### The Board

Director	Position	Board Meetings Attended	Independent
Jan Holmstrom	Non-Executive Chairman	4/4	No
Johan Claesson	Non-Executive Director	4/4	No
David Cooper	Non-Executive Director	4/4	Yes
Jörg Hemmers	Executive Director	4/4	No

Biographical details of each director are set out on page 2 of this annual report.

The Board meets formally at least three times a year. In addition, telephone Board meetings are convened throughout the year as required to address any particular issues arising and to approve significant items of expenditure. There were seven telephone Board meetings held during the year.

To enable the Board to discharge its duties, all Directors receive appropriate and timely information including monthly financial reporting packs and Board briefing packs which are issued in advance of all Board meetings.

Each director has access to the advice of the Company Secretary who is responsible for ensuring that all Board procedures are complied with and that the directors are kept aware of regulatory compliance developments. Directors may also take independent legal or financial advice at the expense of the Company if this is necessary for the proper performance of their duties. No such advice was sought during the year.

The Board is responsible for setting the overall strategy of the group; reviewing and approving the annual revenue and capital budgets; monitoring performance against budget and ensuring action is taken to mitigate any adverse performance; establishing appropriate frameworks for Corporate Governance and internal controls. Certain functions are delegated to Board committees which report back to the full Board.

## Directors' Report (continued)

### *The Board (continued)*

#### *Audit Committee*

The audit committee comprises the three non-executive Directors of the Company, and is chaired by the Group's independent non-executive Director, Mr David Cooper. The audit committee meets not less than twice a year, and receives and reviews reports from the Company's auditors relating to the annual accounts and to the internal control procedures in use throughout the Group. It is responsible for ensuring that the financial performance of the Group is properly reported with particular regard to legal requirements, accounting standards and the AIM Rules for Companies.

#### *Remuneration Committee*

The remuneration committee comprises the three non-executive Directors of the Company. It meets not less than once a year. It is responsible for determining and reviewing the terms and conditions of service (including remuneration) of the senior management of the trading subsidiary, Hemmers ITEX Textil Import Export GmbH.

#### *Financial control and non-financial risk assessment*

The Board is responsible for the systems of internal control and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against misstatement or loss. Due to the size of the group it is not deemed necessary or cost effective to have an internal audit function. The Board obtains assurance of internal financial control by establishing and reviewing key policies and detailed monthly review of financial results compared with approved budgets.

The identification and management of the principal operating risks facing Leeds Group are dealt with in note 3 to the financial statements.

The Company maintains appropriate insurance cover in respect of the operations of the Group and the actions of its Directors and Officers.

#### *Director Independence and Shareholder Communication*

The Board considers that there is sufficient independence and expertise on the Board given the size and complexity of the Group.

The principal forum for shareholder dialogue is the Annual General Meeting. Details of this year's meeting and business to be conducted there are set out on pages 49 to 53 of this report. Shareholders are encouraged to attend the meeting and question the Board on any matters of interest or concern regarding the results and prospects of the Group. In addition, shareholders may contact the Chairman or the Independent Non-Executive Director during the course of the year to raise any questions they have which require more immediate attention. Contact details may be obtained from the Company Secretary at the Company's registered office. The Chairman and Independent Non-Executive Director are responsible for bringing any such matters raised to the attention of the Board.

#### *Directors' conflicts of interest and share dealings*

The Board has effective procedures in place to identify, record and deal with conflicts of interest. Each director is made aware of his responsibility to bring any potential conflict of interest to the attention of the Board.

The Directors comply with Rule 21 of the AIM Rules for Companies and the EU Directive on Market Abuse Regulation which came into effect on 3 July 2016 relating to directors' and applicable employees' dealings in the Company's securities.

#### *Auditor Independence*

The external auditors, BDO LLP ("BDO") were first appointed in 2006. The Company is satisfied that there are adequate safeguards in place to ensure that BDO maintain their objectivity and independence. Proposals for any non-audit work must be approved by the audit committee. Periodic rotation of audit partners has now become standard practise within the auditing profession.

Fees paid to BDO in respect of audit and non-audit services are set out in note 4 to the financial statements.

## Directors' Report (continued)

### ***Compliance with QCA Code Principles***

The Board considers that it follows the principles of the QCA code except as follows:

- The Company has only one independent non-executive director rather than two as recommended by the Code. The Board considers that this is appropriate given the current size and complexity of the Group and is kept under review.
- The Company does not have a formal Board evaluation process.
- There is no Nominations Committee. The Board considers that a Nominations Committee is unnecessary as the composition of the Board, succession planning for Board members and Board vacancies are considered to be a matter for the Board as a whole.
- The Company does not have a Chief Executive Officer. The Board considers that this is appropriate given the current size and complexity of the Group. The Managing Director of the principal trading subsidiary is a member of the Board and the sole executive director. The Chairman does not act as Chief Executive Officer.
- The Company does not publish a Corporate Social Responsibility Statement. The Board considers that it complies with or exceeds all applicable legal, environmental and employment requirements in all jurisdictions where it operates.

### ***The City Code on Takeovers and Mergers***

The Company is subject to The City Code on Takeovers and Mergers.

### **Directors' responsibilities**

The directors are responsible for preparing the strategic report, 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 elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Company financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

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 Company and of the profit or loss of the Group for that year. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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 they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

## Directors' Report (continued)

### Directors' responsibilities (continued)

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 enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Website publication

The directors are responsible for ensuring that the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

In accordance with Section 489 of the Companies Act 2006, Resolution 4 is to be proposed at the forthcoming Annual General Meeting for the re-appointment of BDO LLP as auditors of the Company, to hold office from the conclusion of the meeting until the conclusion of the next annual general meeting of the Company at which the accounts are laid.

By Order of the Board



**Dawn Henderson**  
Company Secretary  
28 July 2017

Old Mills  
Whitehall Grove  
Drighlington  
Bradford, BD11 1BY

## Independent Auditor's Report to the Shareholders of Leeds Group plc

We have audited the financial statements of Leeds Group plc for the year ended 31 May 2017, which are set out on pages 15 to 47 and comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Company Statement of Financial Position, the Company Statement of Changes in Equity, and all related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

### **Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 May 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

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

- the information given in the strategic report and directors' report for the financial year [period] for which the financial statements are prepared is consistent with the financial statements;
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## **Independent Auditor's Report to the Shareholders of Leeds Group plc (continued)**

### **Matters on which we are required to report by exception**

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

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

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



**Linda Cooper (senior statutory auditor)**  
For and on behalf of BDO LLP, statutory auditor  
Leeds

28 July 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**Consolidated Statement of Comprehensive Income**  
for the year ended 31 May 2017

	Note	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
Revenue	6	41,053	36,272
Cost of sales		(32,468)	(28,563)
Gross profit		8,585	7,709
Distribution costs		(2,610)	(2,216)
Administrative expenses		(4,398)	(3,949)
Profit from operations	4	1,577	1,544
Finance expense	7	(163)	(92)
Finance income	7	1	4
Share of post-tax profit of joint venture	14	33	51
Profit before tax		1,448	1,507
Tax expense	8	(334)	(468)
Profit for the year attributable to the equity holders of the Parent Company		1,114	1,039
Other comprehensive income			
Translation differences on foreign operations		1,707	693
Other comprehensive income for the year		1,707	693
Total comprehensive income for the year attributable to the equity holders of the Parent Company		2,821	1,732

The results shown in the consolidated statement of comprehensive income derive wholly from continuing operations. There is no tax effect relating to other comprehensive income for the year.

Amounts included in other comprehensive income may be reclassified subsequently as profit or loss.

**Earnings per share attributable to the equity holders of the Company**

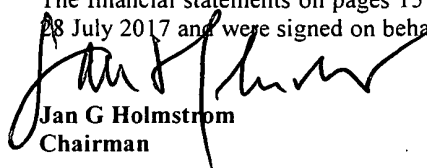
	Note	Year ended 31 May 2017	Year ended 31 May 2016
Basic and diluted earnings per share (pence)	9	4.1p	3.8p

The notes on pages 19 to 42 form part of these financial statements.

**Consolidated Statement of Financial Position**  
at 31 May 2017

Company number 00067863	Note	31 May 2017 £000	31 May 2016 £000
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant and equipment	11	8,452	5,864
Intangible assets	12	1,055	855
Investment in joint venture	14	832	640
<b>Total non-current assets</b>		<b>10,339</b>	<b>7,359</b>
<i>Current assets</i>			
Inventories	15	10,123	7,765
Trade and other receivables	16	6,753	5,779
Corporation tax recoverable		313	-
Cash and cash equivalents	18	1,567	1,612
<b>Total current assets</b>		<b>18,756</b>	<b>15,156</b>
<b>Total assets</b>		<b>29,095</b>	<b>22,515</b>
<b>Liabilities</b>			
<i>Non-current liabilities</i>			
Loans and borrowings	20	(3,984)	(3,843)
Deferred tax	8	(275)	(230)
<b>Total non-current liabilities</b>		<b>(4,259)</b>	<b>(4,073)</b>
<i>Current liabilities</i>			
Trade and other payables	19	(3,383)	(2,283)
Loans and borrowings	20	(3,103)	(415)
Derivative financial liability	17	(48)	(40)
Corporation tax liability		-	(192)
<b>Total current liabilities</b>		<b>(6,534)</b>	<b>(2,930)</b>
<b>Total liabilities</b>		<b>(10,793)</b>	<b>(7,003)</b>
<b>TOTAL NET ASSETS</b>		<b>18,302</b>	<b>15,512</b>
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	21	3,792	3,792
Capital redemption reserve	21	600	600
Treasury share reserve	21	(798)	(767)
Foreign exchange reserve		2,349	642
Retained earnings		12,359	11,245
<b>TOTAL EQUITY</b>		<b>18,302</b>	<b>15,512</b>

The financial statements on pages 15 to 42 were approved and authorised for issue by the Board of directors on 28 July 2017 and were signed on behalf of the Board by:-

  
Jan G Holmstrom  
Chairman

The notes on pages 19 to 42 form part of these financial statements.

## Consolidated Cash Flow Statement

for the year ended 31 May 2017

	Note	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
<b>Cash flows from operating activities</b>			
Profit for the year		1,114	1,039
<b>Adjustments for:</b>			
Depreciation	11	531	300
Amortisation of intangible assets	12	4	-
Finance expense	7	163	92
Finance income	7	(1)	(4)
Movement in fair value of derivatives	17	4	99
Loss on sale of property, plant and equipment		3	1
Share of post-tax profit of joint venture	14	(33)	(51)
Income tax expense	8	334	468
<b>Cash flows from operating activities before changes in working capital and provisions</b>		<b>2,119</b>	<b>1,944</b>
(Increase) in inventories	15	(1,271)	(44)
(Increase)/decrease in trade and other receivables	16	(211)	538
Increase/(decrease) in trade and other payables	19	475	(621)
<b>Cash generated from operating activities</b>		<b>1,112</b>	<b>1,817</b>
Income taxes paid	8	(838)	(613)
<b>Net cash flows from operating activities</b>		<b>274</b>	<b>1,204</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	11	(2,280)	(4,156)
Purchase of intangible assets	12	(83)	-
Increase in joint venture investment	14	(68)	-
Bank interest received	7	1	4
<b>Net cash used in investing activities</b>		<b>(2,430)</b>	<b>(4,152)</b>
<b>Financing activities</b>			
Purchase of treasury shares	21	(31)	(42)
Bank borrowings drawn down	20	2,191	2,640
Bank interest paid	7	(163)	(92)
<b>Net cash generated in financing activities</b>		<b>1,997</b>	<b>2,506</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(159)</b>	<b>(442)</b>
Translation gain on cash and cash equivalents		114	27
Cash and cash equivalents at the beginning of the year	18	1,612	2,027
<b>Cash and cash equivalents at the end of the year</b>	<b>18</b>	<b>1,567</b>	<b>1,612</b>

The notes on pages 19 to 42 form part of these financial statements.

**Consolidated Statement of Changes in Equity**  
for the year ended 31 May 2017

	Share capital £000	Capital redemption reserve £000	Treasury share reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £000
<b>At 31 May 2015</b>	<b>3,792</b>	<b>600</b>	<b>(725)</b>	<b>(51)</b>	<b>10,206</b>	<b>13,822</b>
Profit for the year	-	-	-	-	1,039	1,039
Other comprehensive income	-	-	-	693	-	693
<i>Total comprehensive income</i>	-	-	-	693	1,039	1,732
<i>Transaction with Shareholders:</i>						
Purchase of treasury shares	-	-	(42)	-	-	(42)
<b>At 31 May 2016</b>	<b>3,792</b>	<b>600</b>	<b>(767)</b>	<b>642</b>	<b>11,245</b>	<b>15,512</b>
Profit for the year	-	-	-	-	1,114	1,114
Other comprehensive income	-	-	-	1,707	-	1,707
<i>Total comprehensive income</i>	-	-	-	1,707	1,114	2,821
<i>Transaction with Shareholders:</i>						
Purchase of treasury shares	-	-	(31)	-	-	(31)
<b>At 31 May 2017</b>	<b>3,792</b>	<b>600</b>	<b>(798)</b>	<b>2,349</b>	<b>12,359</b>	<b>18,302</b>

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share capital	The nominal value of issued ordinary shares in the Company.
Capital redemption reserve	Amounts transferred from share capital on redemption of issued shares.
Treasury share reserve	Cost of own shares held in treasury.
Foreign exchange reserve	Gains/losses arising on retranslation of the net assets of overseas operations into sterling.
Retained earnings	Cumulative net gains/losses recognised in the consolidated statement of comprehensive income after deducting the cost of cancelled treasury shares.

The notes on pages 19 to 42 form part of these financial statements.

## Notes

*forming part of the financial statements for the year ended 31 May 2017*

### 1 Accounting policies

#### **Basis of preparation**

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements have been prepared under the historical cost convention subject to fair valuing of financial instruments.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRS"), and with the Companies Act 2006 applicable to companies reporting under IFRS.

#### **Changes in accounting policies**

*The following IFRS, IAS and IFRIC interpretations, which are potentially relevant to the Group, are endorsed for use in the EU and will be mandatory for the accounting period ending 31 May 2019:*

IFRS 9 Financial instruments

IFRS 15 Revenue from Contracts with Customers

IFRS 15, 'Revenues from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. The Group recognises revenue from its principal activity of the sale of fabric to retail and wholesale customers.

A full assessment of the impact of IFRS 15 has not yet been completed. It is not practical to provide a reasonable estimate of the financial effect until a review has been completed but the transition to IFRS15 is not expected to have a significant impact on the financial statements.

IFRS 9 'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and Measurement'. The standard is effective for accounting periods beginning on or after 1 January 2018. The standard covers three elements:

- Classification and measurement: Changes to a more principle based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset;
- Impairment: Moves to an impairment model based on expected credit losses based on a three stage approach; and
- Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the Group's underlying risk management. A new International Accounting Standards Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities' financial statements.

A full assessment of the impact of IFRS9 has not yet been completed. It is not practical to provide a reasonable estimate of the financial effect until a review has been completed. The transition to IFRS9 could result in changes to the way in which trade debtor recoverability is assessed and therefore impact on the level impairment recognised. Otherwise it is not expected to have a significant impact on the financial statements.

## Notes

*forming part of the financial statements for the year ended 31 May 2017*

### 1 Accounting policies (continued)

#### Changes in accounting policies (continued)

*The following IFRS, IAS and IFRIC interpretations, which are potentially relevant to the Group, are not currently endorsed for use in the EU but are expected to be mandatory for future accounting periods:*

IFRS 16 Leases

Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)

Disclosure Initiative: Amendments to IAS 7

Clarifications to IFRS 15 revenue from Contracts with Customers

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Amendments to IAS 4: Transfers of Investment Property

IFRIC 23 Uncertainty over Income Tax Treatments

Where future new and amended standards have been identified as potentially relevant management are assessing their future impact.

#### Revenue

Revenue is shown in the consolidated statement of comprehensive income net of VAT, rebates and returns, and is based on the fair value of consideration receivable by the Group in the ordinary course of its business for the sale of fabric. Revenue on sale of goods is recognised in the consolidated statement of comprehensive income when the significant risks and rewards of ownership have been transferred, which is typically upon despatch of goods to the customer. With regards to rebates these costs are calculated to reflect the expected amount of customer claims in respect of these items. The statement of financial position includes an accrual for claims yet to be received for rebates.

#### Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

In the consolidated statement of financial position, the acquired entity's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

#### Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets acquired, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income.

#### Trademarks

The cost of any trademarks purchased is capitalised as an intangible asset.

## Notes

*forming part of the financial statements for the year ended 31 May 2017*

### 1 Accounting policies (continued)

#### Segment reporting

The Board considers that the Group's business comprises two operating segments, namely Hemmers Europe and Hemmers China. The remainder of Group activities comprise holding companies.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who is identified as the Board of Directors which is responsible for allocating resources, assessing performance of the operating segments and making strategic decisions.

#### Impairment of non-financial assets (excluding inventories and deferred tax assets)

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the end of the financial period. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest Group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the consolidated statement of comprehensive income, except to the extent they reverse gains previously recognised in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed.

#### Foreign currency

The consolidated financial statements are presented in sterling, which is the functional currency of the Parent Company and the presentational currency of the Group.

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the date of the statement of financial position. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the date of the statement of financial position. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve").

Exchange differences recognised in the income statement of Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

## Notes

*forming part of the financial statements for the year ended 31 May 2017*

### 1 Accounting policies (continued)

#### Financial assets

The Group classifies its financial assets into one of the three categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

The Group's accounting policy for each category is as follows:

#### *(i) Fair value through profit or loss:*

This category comprises only in-the-money derivatives (see financial liabilities section for out-of-the-money derivatives). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the cost of sales line. Other than these derivative financial instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

#### *(ii) Loans and receivables:*

Group loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest rate less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counter-party or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate.

Cash and cash equivalents include cash in hand, deposits held at call with banks, and bank overdrafts. Cash and cash equivalents have maturities of three months or less. Bank overdrafts are shown within loans and borrowings in current liabilities in the statement of financial position.

The Group does not engage in hedge accounting.

## Notes

*forming part of the financial statements for the year ended 31 May 2017*

### 1 Accounting policies (continued)

#### Financial liabilities

The Group classifies its financial liabilities into one of the two categories below, depending on the purpose for which the liability was incurred. The Group's accounting policy for each category is as follows:

##### *(i) Fair value through profit or loss:*

This category comprises only out-of-the-money derivatives (see financial assets for in-the-money derivatives). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the cost of sales line. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

##### *(ii) Other financial liabilities:*

Other financial liabilities include the following items, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method:

- Bank borrowings
- Trade payables

#### Retirement benefits

The Group operates no defined benefit pension schemes. The Group operates a defined contribution pension scheme for its UK employees, and contributions are charged to the consolidated statement of comprehensive income in the period to which they relate. The Group does not operate pension schemes in Germany or China where pension arrangements are provided by the state.

#### Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

#### Taxation

The charge for taxation is based on the results for the year, and takes into account deferred taxation.

#### Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

## Notes

*forming part of the financial statements for the year ended 31 May 2017*

### 1 Accounting policies (continued)

#### **Share capital**

The Group's ordinary shares are classified as equity instruments.

#### **Dividends**

Interim dividends are recognised when paid and final dividends are recognised when approved by the shareholders at the AGM.

#### **Property, plant and equipment**

Other than freehold land, all items of property, plant and equipment are carried at depreciated cost. Freehold land is not depreciated. Depreciation is provided on all other items of property, plant and equipment to write off the carrying value of items on a straight line basis over their expected useful economic lives as follows:

Land and buildings	8 - 33 years
Plant and machinery	5 – 15 years

#### **Treasury shares**

Consideration paid/(received) for the purchase/(sale) of treasury shares is recognised directly in equity. The cost of treasury shares held is presented as a separate component of equity (the "treasury share reserve"). Any excess of the consideration received on the sale of treasury shares over the weighted average cost of the shares sold is credited to the share premium account.

#### **Inventories**

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost is used to determine the cost of ordinarily interchangeable items.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and on short term deposit, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

#### **Provisions**

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.

Where the buyer has the right to return the goods the Group estimates the return rate based on past experience with similar sales and recognises revenue on this transaction with a corresponding provision against revenue for estimated returns.

## Notes

*forming part of the financial statements for the year ended 31 May 2017*

### 1 Accounting policies (continued)

#### Joint arrangements

The group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The group classifies its interests in joint arrangements as either:

- *Joint ventures*: where the group has rights to only the net assets of the joint arrangement
- *Joint operations*: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement
- The legal form of joint arrangements structured through a separate vehicle
- The contractual terms of the joint arrangement agreement
- Any other facts and circumstances (including any other contractual arrangements).

The Group accounts for its interests in joint ventures using the equity method. Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

### 2 Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### **(i) Impairment of goodwill**

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary.

#### **(ii) Useful lives of property, plant and equipment**

Property, plant and equipment are depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

#### **(iii) Impairment of trade receivables**

The management team of Hemmers-Itex manages the credit risk in its customer base by taking credit references before dealing with new customers, by closely monitoring customer payments against agreed terms, and by taking credit risk insurance wherever possible. Customers that are graded as "high risk" are placed on a restricted customer list, and future sales are made on a prepayment basis with approval of the Hemmers-Itex managing director. Where there is objective evidence that a customer may fail to pay in full an amount that is owed, an impairment charge is made based on the difference between the amount of the doubtful receivable and the estimated amount (if any) that may prove collectible. The main Board directors review the Hemmers-Itex debtor profile on a quarterly basis.

## Notes

*forming part of the financial statements for the year ended 31 May 2017*

### 2 Critical accounting estimates and judgements (continued)

#### *(iv) Inventory*

The Company reviews the net realisable value of, and demand for, its inventory on a regular basis to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include competitor actions, supplier prices and economic trends.

#### *(v) Classification of joint arrangements*

For all joint arrangements structured in separate vehicles the Group must assess the substance of the joint arrangement in determining whether it is classified as a joint venture or joint operation. This assessment requires the Group to consider whether it has rights to the joint arrangement's net assets (in which case it is classified as a joint venture), or rights to and obligations for specific assets, liabilities, expenses, and revenues (in which case it is classified as a joint operation). Factors the group must consider include:

- Structure
- Legal form
- Contractual agreement
- Other facts and circumstances

Upon consideration of these factors, the directors have determined that the joint arrangement in respect of Stoff-Ideen-KMR GmbH is structured through a separate vehicle giving the Group rights to the net assets, and is therefore classified as a joint venture.

### 3 Financial instruments - risk management

The Group is exposed through its operations to the following financial risks:

- **Credit risk**
- **Market risk** in the form of: -
  - Fair value or cash flow interest rate risk
  - Foreign exchange risk
  - Other market price risk
- **Liquidity risk**

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

During the year the Group's current bank debt increased from £415,000k to £3,103,000 and the non-current bank debt increased from £3,843,000 to £3,943,000 to finance capital expenditure. Other than that, there have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

#### **Principal financial instruments**

The principal financial instruments used by the Group, giving rise to financial instrument risk, are as follows:

- Trade receivables
- Cash at bank
- Bank overdrafts
- Trade and other payables
- Fixed rate bank loans
- Forward currency contracts

## Notes

*forming part of the financial statements for the year ended 31 May 2017*

### 3 Financial instruments - risk management (continued)

#### **General objectives, policies and processes**

The directors have overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, they have delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Hemmers-Itex management team and, to the limited extent that risk arises in the UK, to the company secretary. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

#### **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering into contracts.

A credit policy has been established under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from senior management. These limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

The directors monitor the utilisation of the credit limits regularly and at the reporting date do not expect losses from non-performance by the counterparties to exceed amounts that have been provided. Details of the provisions held against trade receivables are given in note 16 to the financial statements.

#### **Market risk**

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

##### **(i) Cash flow interest rate risk**

The Group manages its cash flow interest rate risk by borrowing at fixed interest rates wherever possible. Working capital is financed by short or medium term bank debt at fixed rates, leaving a small residual overdraft at variable rates.

The borrowings of overseas subsidiaries are denominated in Euros, their functional currency, in order to avoid those subsidiaries being exposed to unnecessary foreign exchange risk. Bank borrowings or cash deposits of the Parent Company are denominated in Sterling.

##### **(ii) Foreign exchange risk**

The Group has operations located in Germany and China whose functional currencies are, respectively, the Euro and the RMB. Foreign exchange risk arises when these entities enter into transactions denominated in a currency other than their functional currency, which almost invariably involves sales or purchases denominated in US Dollars. It is Group policy that Euro / US Dollar exposures should be commercially hedged locally by entering into forward contracts with reputable banks wherever appropriate. Exposure and risk relating to RMB / US Dollar transactions is small and is not hedged.

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 3 Financial instruments - risk management (continued)

#### (ii) Foreign exchange risk

At the date of the consolidated statement of financial position, a 10% strengthening of Sterling against the Euro and the RMB, all other variables held constant, would have resulted in an estimated decrease of £1,381,000 in the reported net asset value of the Group. A 10% weakening of Sterling against the Euro and the RMB at the date of the statement of financial position, on the same basis, would have resulted in an estimated increase of £1,689,000 in the reported net asset value of the Group.

#### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Board monitors and manages the Group's net indebtedness by reference to cash flow forecasts prepared in their functional currencies by subsidiary companies. These forecasts are regularly updated, allowing the Board to ensure that the Group will always be able to meet its liabilities when they become due by maintaining adequate cash balances and committed loan facilities. The Group also seeks to reduce liquidity risk by fixing interest rates (and hence cash flows) on a portion of its long-term borrowings. This is further discussed in the 'interest rate risk' section above.

#### Capital policy

The Group's capital comprises equity as shown in the consolidated statement of financial position plus net debt, which is set out in note 20 to the financial statements. The Board'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 a capital structure that optimises the cost of capital. In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, sell assets or reduce debts.

### 4 Profit from operations

	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
<b>Profit from operations is stated after charging:</b>		
Auditor's fees		
<i>Statutory audit services</i>		
- Audit of the Parent Company and the consolidated accounts	17	17
- Audit of subsidiary companies	33	28
<i>Non-audit related services</i>		
- Tax compliance	5	5
<b>Total auditor's fees</b>	<b>55</b>	<b>50</b>
Staff costs	5,761	4,515
Depreciation of property, plant and equipment	531	300
Operating lease expense		
- Plant and machinery	134	119
- Property	87	210
Loss on disposal of property, plant and equipment	3	1

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 5 Staff costs

The average number of persons employed in the year by the Group (including directors) was as follows:

	Management	Sales and customer service	Warehousing	Administration	Group total
2017	8	65	79	34	186
2016	9	56	74	32	171

Staff costs, including directors, comprise	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
Wages, salaries and directors' fees	4,800	3,754
Defined contribution pension cost	3	4
Employer's national insurance contributions and similar taxes	958	757
<b>Total staff costs</b>	<b>5,761</b>	<b>4,515</b>

Included in employer's national insurance contributions and similar taxes are the amounts paid by Hemmers-Itex Textil Import / Export GmbH to fund employees' pension entitlements provided by the German state.

	Salary & Fees £000	Bonus £000	Taxes £000	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
<b>Executive director</b>					
Jörg Hemmers	206	30	13	249	223
<b>Non -executive directors</b>					
Johan Claesson	15	-	-	15	15
David Cooper	15	-	-	15	15
Jan G Holmstrom	25	-	-	25	25
	261	30	13	304	278

Jörg Hemmers is managing director of Hemmers-Itex Textil Import / Export GmbH, a wholly owned subsidiary of Leeds Group plc, and based in Germany. No recharge of his salary is made to the parent company.

The fees relating to Johan Claesson and Jan G Holmstrom are paid, respectively, to Johan & Marianne Claesson Aktiebolag and Somerset Aktiebolag who invoice the Company for the services of these directors.

Outstanding share options granted to employees or directors at 31 May 2017 were nil (2016: nil).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, and comprise the directors of the Group listed on page 2.

	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
Salary and fees	261	223
Bonuses	30	44
Employer's national insurance contributions and similar taxes	13	11
<b>Total remuneration of key management personnel</b>	<b>304</b>	<b>278</b>

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 6 Segmental information

The Group's trading businesses are Hemmers-Itex Textil Import Export GmbH, and its subsidiary Chinoh-Tex Limited. Hemmers is incorporated in Germany and is engaged in the import and distribution of fabric from its principal place of business in Nordhorn, Germany. Chinoh-Tex is incorporated in China and based in Shanghai, buying fabric from Chinese manufacturers to be sold internationally.

The chief operating decision maker is the Board, which considers that the Hemmers business comprises two operating segments, namely Hemmers Europe and Hemmers China. These two segments report to the Board under local GAAP, and the adjustments required to permit the Group to report under IFRS are made centrally.

The following tables set out a segmental analysis of the Group's operations. The Holding Company is not in itself an operating segment, but its net costs are shown in order that the segmental information presented to the Board can be reconciled to the Consolidated Statement of Comprehensive Income.

#### Analysis of revenue by category

	Year ended 31 May 2017			Year ended 31 May 2016		
	Hemmers Europe £000	Hemmers China £000	Total Group £000	Hemmers Europe £000	Hemmers China £000	Total Group £000
Sale of goods	37,554	3,499	41,053	32,775	3,497	36,272
<b>Total revenue</b>	<b>37,554</b>	<b>3,499</b>	<b>41,053</b>	<b>32,775</b>	<b>3,497</b>	<b>36,272</b>

Since sales to no customer amount to more than 5% of total revenue, the directors hold the opinion that the Group is not reliant upon trade with any major customer.

Year ended 31 May 2017	Hemmers Europe £000	Hemmers China £000	Inter segmental £000	Total Hemmers £000	Holding company £000	IFRS adjustments		Total Group £000
						Financial derivatives £000	Goodwill £000	
External revenue	37,554	3,499	-	41,053	-	-	-	41,053
Inter-segmental revenue	-5	-511	(516)	-	-	-	-	-
Cost of sales	(29,739)	(3,301)	528	(32,512)	-	44	-	(32,468)
<b>Gross profit</b>	<b>7,820</b>	<b>709</b>	<b>12</b>	<b>8,541</b>	<b>-</b>	<b>44</b>	<b>-</b>	<b>8,585</b>
Distribution costs	(2,309)	(301)	-	(2,610)	-	-	-	(2,610)
Admin expenses	(4,123)	(361)	-	(4,484)	86	-	-	(4,398)
<b>Profit from operations</b>	<b>1,388</b>	<b>47</b>	<b>12</b>	<b>1,447</b>	<b>86</b>	<b>44</b>	<b>-</b>	<b>1,577</b>
Finance expense	(163)	-	-	(163)	-	-	-	(163)
Finance income	-	-	-	-	1	-	-	1
Internal interest	(213)	-	-	(213)	213	-	-	-
Share of JV profit	33	-	-	33	-	-	-	33
<b>Profit before tax</b>	<b>1,045</b>	<b>47</b>	<b>12</b>	<b>1,104</b>	<b>300</b>	<b>44</b>	<b>-</b>	<b>1,448</b>

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 6 Segmental information (continued)

At 31 May 2017	Hemmers Europe £000	Hemmers China £000	Inter segmental £000	Total Hemmers £000	Holding company £000	IFRS adjustments		Total Group £000
						Financial derivatives £000	Goodwill £000	
Total assets	26,137	1,727	(24)	27,840	283	-	972	29,095
Total liabilities	(12,722)	(621)	-	(13,343)	2,825	-	(275)	(10,793)
<b>Net assets</b>	<b>13,415</b>	<b>1,106</b>	<b>(24)</b>	<b>14,497</b>	<b>3,108</b>	<b>-</b>	<b>697</b>	<b>18,302</b>

Year ended 31 May 2016	Hemmers Europe £000	Hemmers China £000	Inter segmental £000	Total Hemmers £000	Holding company £000	IFRS adjustments		Total Group £000
						Financial derivatives £000	Goodwill £000	
External revenue	32,775	3,497	-	36,272	.	-	-	36,272
Inter-segmental revenue	10	622	(632)	.	.	-	-	-
Cost of sales	(25,731)	(3,368)	635	(28,464)	.	(99)	-	(28,563)
<b>Gross profit</b>	<b>7,054</b>	<b>751</b>	<b>3</b>	<b>7,808</b>	<b>-</b>	<b>(99)</b>	<b>-</b>	<b>7,709</b>
Distribution costs	(1,964)	(252)	-	(2,216)	.	-	-	(2,216)
Admin expenses	(3,582)	(232)	-	(3,814)	(135)	-	-	(3,949)
<b>Profit from operations</b>	<b>1,508</b>	<b>267</b>	<b>3</b>	<b>1,778</b>	<b>(135)</b>	<b>(99)</b>	<b>-</b>	<b>1,544</b>
Finance expense	(92)	-	-	(92)	.	-	-	(92)
Finance income	-	-	-	.	4	-	-	4
Internal interest	(158)	-	-	(158)	158	-	-	-
Share of JV profit	51	-	-	51	.	-	-	51
<b>Profit before tax</b>	<b>1,309</b>	<b>267</b>	<b>3</b>	<b>1,579</b>	<b>27</b>	<b>(99)</b>	<b>-</b>	<b>1,507</b>

At 31 May 2016	Hemmers Europe £000	Hemmers China £000	Inter segmental £000	Total Hemmers £000	Holding company £000	IFRS adjustments		Total Group £000
						Financial derivatives £000	Goodwill £000	
Total assets	19,488	1,633	(32)	21,089	571	-	855	22,515
Total liabilities	(8,371)	(630)	-	(9,001)	2,268	(40)	(230)	(7,003)
<b>Net assets</b>	<b>11,117</b>	<b>1,003</b>	<b>(32)</b>	<b>12,088</b>	<b>2,839</b>	<b>(40)</b>	<b>625</b>	<b>15,512</b>

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 6 Segmental information (continued)

#### Analysis of revenue by destination

	Year ended 31 May 2017			Year ended 31 May 2016		
	Hemmers Europe £000	Hemmers China £000	Total Group £000	Hemmers Europe £000	Hemmers China £000	Total Group £000
UK	1,071	162	1,233	1,205	100	1,305
Germany	23,816	42	23,858	22,088	71	22,159
Rest of EU	10,119	867	10,986	7,762	1,230	8,992
Total EU	35,006	1,071	36,077	31,055	1,401	32,456
Rest of Europe	2,005	257	2,262	1,186	335	1,521
Total Europe	37,011	1,328	38,339	32,241	1,736	33,977
North America	225	235	460	187	580	767
Asia	100	1,480	1,580	140	831	971
Oceania	118	239	357	80	301	381
South America	99	183	282	108	19	127
Africa	1	34	35	19	30	49
Total revenue	37,544	3,499	41,053	32,775	3,497	36,272

#### Other information

	Year ended 31 May 2017			Year ended 31 May 2016		
	Hemmers Europe £000	Hemmers China £000	Group total £000	Hemmers Europe £000	Hemmers China £000	Group total £000
Additions to property, plant & equipment	2,259	21	2,280	4,147	9	4,156
Depreciation	507	24	531	279	21	300

### 7 Finance income and expense

	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
<b>Finance income</b>		
Interest received on bank deposits	1	4
<b>Finance expense</b>		
Interest paid on bank overdrafts and loans	(163)	(92)
<b>Net finance expense recognised in comprehensive income</b>	<b>(162)</b>	<b>(88)</b>

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 8 Tax expense

	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
<b>Current tax expense</b>		
UK corporation tax and income tax of overseas operations on profits for the year	331	441
Adjustments for (over)/under provision in prior years	(10)	55
<b>Total current tax expense</b>	<b>321</b>	<b>496</b>
Deferred tax expense/(credit) for the year	13	(28)
<b>Total tax expense</b>	<b>334</b>	<b>468</b>

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to the profit for the year are as follows:

	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
Profit before taxation	1,448	1,507
Expected tax charge based on the standard rate of corporation tax in the UK of 20% (2016: 20%)	290	301
Expenses not deductible for tax purposes	3	10
Income not subject to taxation	(7)	(10)
Unrelieved losses	2	-
Utilisation of past losses	(60)	(6)
Current tax (over)/under provision in previous years	(10)	55
Different tax rates applied in overseas jurisdictions	116	118
<b>Total tax expense (see above)</b>	<b>334</b>	<b>468</b>

The Group has UK capital losses carried forward of £13,085,000 and unrelieved UK trading losses of £1,155,000. No recognition has been made of deferred tax assets in respect of these losses carried forward as the directors believe it unlikely that there will be sufficient profits to reverse these temporary differences in the foreseeable future.

The deferred tax liability relates to a timing difference arising as a result of a difference in accounting under German GAAP, and the movement in the year is analysed as follows:

	Deferred tax £000
Liability at 31 May 2016	230
Provision increase in the year	13
Effect of movements in foreign exchange rates	32
<b>Liability at 31 May 2017</b>	<b>275</b>

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 9 Earnings per share

Since there are no outstanding share options, there is no difference between basic and diluted earnings per share.

#### Numerator

Profit for the year from continuing operations, being the earnings used in earnings per share

Year ended  
31 May 2017

Year ended  
31 May 2016

£1,114,000

£1,039,000

#### Denominator

Weighted average number of shares used in earnings per share (excluding treasury shares)

27,422,227

27,506,459

Basic and diluted earnings per share

4.1p

3.8p

### 10 Dividend

The directors have not proposed a dividend in respect of the year ended 31 May 2017 nor for the year ended 31 May 2016.

### 11 Property, plant and equipment

	Land and buildings £000	Plant and machinery £000	Total £000
<b>Cost</b>			
<b>Balance at 31 May 2015</b>	<b>1,776</b>	<b>1,495</b>	<b>3,271</b>
Additions	3,697	459	4,156
Disposals	-	(36)	(36)
Effect of movements in foreign exchange rates	248	101	349
<b>Balance at 31 May 2016</b>	<b>5,721</b>	<b>2,019</b>	<b>7,740</b>
Additions	1,120	1,160	2,280
Disposals	-	(32)	(32)
Effect of movements in foreign exchange rates	812	296	1,108
<b>Balance at 31 May 2017</b>	<b>7,653</b>	<b>3,443</b>	<b>11,096</b>
<b>Accumulated depreciation</b>			
<b>Balance at 31 May 2015</b>	<b>484</b>	<b>1,027</b>	<b>1,511</b>
Depreciation charge for the year	74	226	300
Disposals	-	(35)	(35)
Effect of movements in foreign exchange rates	34	66	100
<b>Balance at 31 May 2016</b>	<b>592</b>	<b>1,284</b>	<b>1,876</b>
Depreciation charge for the year	241	290	531
Disposals	-	(26)	(26)
Effect of movements in foreign exchange rates	89	174	263
<b>Balance at 31 May 2017</b>	<b>922</b>	<b>1,722</b>	<b>2,644</b>

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 11 Property, plant and equipment (continued)

	Land and buildings £000	Plant and machinery £000	Total £000
<b>Net book amount</b>			
At 31 May 2015	1,292	468	1,760
At 31 May 2016	5,129	735	5,864
At 31 May 2017	6,731	1,721	8,452

### 12 Intangible assets

#### Goodwill and trademarks

	£000
<b>Balance at 31 May 2015</b>	<b>802</b>
Effect of movements in foreign exchange rates	53
<b>Balance at 31 May 2016</b>	<b>855</b>
Trademarks purchased during the year	83
Amortisation of trademarks	(4)
Effect of movements in foreign exchange rates	121
<b>Balance at 31 May 2017</b>	<b>1,055</b>

Goodwill arose in 1999 on the acquisition of the cash-generating unit Hemmers-Itex Textil Import Export GmbH, whose recoverable amount has been determined from value-in-use calculations based on expected cash flows. Principal assumptions underlying this calculation are the achievement of improved profit in 2018 reflecting planned volume growth and the cost savings flowing from capital expenditure in previous years, and thereafter an annual growth rate into perpetuity of 2% in revenue, profits and working capital. Forecasted operating margins and expenses are based on past experience and future expectations that reflect anticipated economic and market conditions, and a pre-tax discount rate of 13% has been applied to anticipated cash flows. On this basis, the recoverable amount of the cash-generating unit exceeds its carrying value with considerable headroom and in view of this excess, the Directors do not consider the impairment calculation to be unduly sensitive to changes to the above assumptions, and are of the opinion that no provision for impairment is required.

During the year, Hemmers-Itex Textil Import Export GmbH acquired trademarks amounting to £83,000.

### 13 Subsidiaries

The subsidiaries of Leeds Group plc, all of which were wholly owned in both 2017 and 2016, and which have been included in these consolidated statements, are as follows:

Name	Country of incorporation	Nature of business
* Hemmers-Itex Textil Import Export GmbH.	Germany	Import, sale, and distribution of textiles
* Leeds Property GmbH.	Germany	Property investment
** Chinoh-Tex Ltd.	China	Textile trading
* Wholly owned subsidiaries of Leeds Group plc.		
** Wholly owned subsidiary of Hemmers-Itex Textil Import Export GmbH.		

The registered addresses of these subsidiaries are shown on page 3.

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 14 Investment in joint venture

	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
At 1 June	640	553
Share of post-tax profit of year ended 31 May 2016	-	51
Additional capital investment	68	-
Share of post-tax profit of year ended 31 May 2017	33	-
Effect of movements in foreign exchange rates	91	36
<b>At 31 May</b>	<b>832</b>	<b>640</b>

The Group's subsidiary Hemmers-Itex Textil Import/Export GmbH ("Hemmers") owns 50% of the issued share capital of Stoff-Ideen-KMR GmbH ("KMR"), at an investment cost of of £575,000. A further investment of £68,000 was made during the year by both joint venture partners. Completion documentation included revised articles of KMR providing for its two partners to share joint control of the company, its assets and its operations. Leeds Group accounts for this joint venture under the equity method.

KMR is a retailer of fabric and haberdashery, operating a total of sixteen leased shops in various German cities. KMR had long been a customer of Hemmers, and this relationship continues on an arm's length basis. In the year ended 31 May 2017, Hemmers sales to KMR amounted to £1,673,000 (2016 £1,282,000). For the purposes of reporting the Group's share of the profit of the joint venture, the profit after tax reported by KMR is adjusted for the movement in the period of the unrealised profit within KMR inventories purchased from Hemmers.

#### Summarised accounts of KMR:

All values translated at closing rates.	Unaudited Year ended 31 May 2017 £000	Unaudited Year ended 31 May 2016 £000
Sales	9,451	6,734
Cost of sales	(6,763)	(4,966)
<b>Gross margin</b>	<b>2,668</b>	<b>1,768</b>
Depreciation	(249)	(50)
Other overheads	(2,308)	(1,527)
Interest	(35)	(8)
Tax	(31)	(64)
<b>Profit after tax</b>	<b>65</b>	<b>119</b>

	31 May 2017 £000	31 May 2016 £000
Non-current assets	1,830	277
Inventories	3,561	2,366
Trade and other receivables	89	132
Cash and cash equivalents	271	35
Corporation tax	101	-
<b>Total assets</b>	<b>5,852</b>	<b>2,810</b>
Non-current loans and borrowings	(2,225)	(426)
Trade and other payables	(1,453)	(728)
Current loans and borrowings	-	(169)
<b>Total liabilities</b>	<b>(3,678)</b>	<b>(1,323)</b>
<b>Net assets</b>	<b>2,174</b>	<b>1,487</b>

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 15 Inventories

	31 May 2017 £000	31 May 2016 £000
<b>Finished goods and goods for resale</b>	<b>10,123</b>	<b>7,765</b>

The amount of inventories recognised as an expense during the year was £28,025,000 (2016: £25,171,000).

### 16 Trade and other receivables

	31 May 2017 £000	31 May 2016 £000
Trade receivables	6,353	5,537
Less provision for impairment of trade receivables	(975)	(921)
<b>Net trade receivables</b>	<b>5,378</b>	<b>4,616</b>
Other receivables	1,211	1,051
Prepayments	164	112
<b>Total trade and other receivables</b>	<b>6,753</b>	<b>5,779</b>

	31 May 2017 £000	31 May 2016 £000
Net trade receivables	5,378	4,616
Cash and cash equivalents (note 18)	1,567	1,612
<b>Total financial assets classified as loans and receivables</b>	<b>6,945</b>	<b>6,228</b>

In the opinion of the directors, the book value of assets classified as loans and receivables approximates to their fair value.

Management monitors trade receivable accounts, and provisions for bad and doubtful debts are raised where it is deemed appropriate.

As at 31-May 2017 trade receivables of £4,841,000 were not due for payment (2016: £3,845,000).

As at 31 May 2017 trade receivables of £556,000 were past due but not impaired (2016: £644,000). They relate to customers that have not been able to pay to agreed terms in what are difficult trading conditions but that the directors regard as good for their debts. The ageing analysis of these receivables is as follows:

	31 May 2017 £000	31 May 2016 £000
Up to 3 months overdue	445	519
Overdue by 3 to 6 months	48	96
Overdue by 6 to 12 months	1	29
Overdue more than 12 months	62	-
<b>Total trade receivables past due but not impaired</b>	<b>556</b>	<b>644</b>

Concentrations of credit risk with respect to trade receivables are limited given that the Group's customer base is large and unrelated and, due to this, the directors believe there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables set out above.

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 16 Trade and other receivables (continued)

As at 31 May 2017 trade receivables of £956,000 were past due and impaired (2016: £1,048,000). The amount of the provision was £975,000 (2016: £921,000). These receivables relate to customers who have not been able to pay to agreed terms in what are difficult trading conditions. In determining the amount of the impairment, the directors have taken into account their knowledge of the customer base, the extent to which receivables relate to goods delivered on terms that include retention of title, and the extent to which credit insurance is in place. The ageing of these receivables is as follows:

	31 May 2017 £000	31 May 2016 £000
Overdue by 3 to 6 months	-	72
Overdue by 6 to 12 months	-	29
Overdue by more than 12 months	956	947
<b>Total trade receivables past due and impaired</b>	<b>956</b>	<b>1,048</b>

Movements on the Group provision for impairment of trade receivables are as follows:

	31 May 2017 £000	31 May 2016 £000
<b>At 1 June</b>	<b>921</b>	<b>637</b>
Provided during the year	44	287
Receivables written off during the year	(117)	(44)
Effect of movements in foreign exchange rates	127	41
<b>At 31 May</b>	<b>975</b>	<b>921</b>

The movement on the provision for impaired receivables has been included in the administrative expenses line in the consolidated statement of comprehensive income.

Other classes of financial assets included within trade and other receivables do not contain impaired assets.

The carrying values of the Group's trade and other receivables are denominated in the following currencies:

	31 May 2017 £000	31 May 2016 £000
Euro	5,908	4,829
Chinese Yuan	264	446
US Dollar	517	410
Sterling	64	94
<b>Total trade and other receivables</b>	<b>6,753</b>	<b>5,779</b>

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable set out above.

### 17 Derivative financial instruments

#### *Cash flow forward exchange contracts at fair value through profit and loss*

Foreign exchange risk arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. Where the risk to the Group is considered to be significant, the operation makes use of currency derivatives in order to provide an economic hedge over future transactions and cash flows.

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 17 Derivative financial instruments (continued)

At 31 May 2017 the maximum notional principal amount of outstanding forward exchange contracts taken out in Euros was £nil (2016: £1,309,000). These forward contracts, gave rise to a financial derivatives liability of £nil (2016: liability €52,000). The movement in the year of €52,000 is a credit to the profit and loss account which, translated into sterling at the average rate for the year, equated to £44,000 (2016: charge £99,000). For the purposes of the consolidated statement of financial position, the financial derivatives liability is translated at closing rate, and equates to £nil (2016: liability £40,000) which, in the opinion of the Directors, is the fair value of the derivative financial instruments.

Additional forward contracts have been taken out during the year to hedge the loan from the UK parent company to Hemmers. The movement in the year of £48,000 is a charge to profit. As at 31 May 2017, the financial derivatives liability amounted to £48,000 (2016: nil) which, in the opinion of the Directors, is the fair value of the derivative financial instruments.

### 18 Cash and cash equivalents

	31 May 2017 £000	31 May 2016 £000
<b>Cash on demand or on short-term deposit</b>	<b>1,567</b>	<b>1,612</b>

Cash held by the Parent Company is deposited with Bank of Scotland, earning interest at variable rates. Cash held by subsidiaries is mainly the excess of property related loans drawn down over amounts spent to date and working capital required by the subsidiaries. In the opinion of the directors, the carrying value of cash and cash equivalents approximates to its fair value.

### 19 Trade and other payables

	31 May 2017 £000	31 May 2016 £000
Trade payables	2,494	1,394
Other tax and social security taxes	71	54
Accruals	379	380
Other payables	439	455
<b>Total trade and other payables</b>	<b>3,383</b>	<b>2,283</b>

Trade payables, other payables and accruals are non-interest bearing and principally comprise amounts outstanding for trade purchases and continuing overhead expense. The average credit period taken is 32 days (2016: 29 days). The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

### 20 Loans and borrowings

The book value of loans and borrowings are as follows:	31 May 2017 £000	31 May 2016 £000
<b>Current</b>		
Secured bank loans	3,103	415
<b>Non - current</b>		
Secured bank loans	3,984	3,843
<b>Total loans and borrowings</b>	<b>7,087</b>	<b>4,258</b>

Since all short-term loans have less than three months to maturity, and the fixed interest rate attaching to long-term loans is in line with market rates, it is the opinion of the directors that the fair value of loans and borrowings approximates to their book values.

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 20 Loans and borrowings (continued)

The Group's loans and borrowings are exclusively within the accounts of Hemmers-Itex Textil Import Export GmbH (Hemmers). They are denominated in Euros, and their principal terms are as follows:

#### *Current loans and borrowings*

At 31 May 2017 current loans and borrowings of £3,103,000 (2016: £415,000) comprise short term loans of £2,422,000 and instalments due on long term loans detailed below of £681,000. The interest rate on the short-term loans is 1.25% (2016: 1.1%) and these loans are secured on the inventories and trade receivables of Hemmers.

The short term loans are drawn down by Hemmers against short term borrowing facilities of €7,500,000. Neither the Parent Company nor any of its subsidiaries other than Hemmers have borrowing facilities. Following the recent review of bank facilities, the directors have a reasonable expectation that these facilities will remain available for the foreseeable future.

#### *Non-current loans and borrowings*

A non-current loan was drawn down in 2007 from Kreissparkasse to finance the freehold extension of the warehouse in Nordhorn that was at that time leased by Hemmers. In 2016 further loans were drawn down and in the year ended 31 May 2017 a further loan was assumed from Kreissparkasse to finance the purchase of a further leased warehouse adjacent to the original warehouse. Amounts outstanding at 31 May 2017 were:

	Fixed Interest Rate	Repayment Profile	Final repayment date	31 May 2017 £000	31 May 2016 £000
Loan 1	4.07%	Equal monthly instalments	September 2027	614	653
Loan 2	3.40%	Single bullet repayment	March 2020	1,046	919
Loan 3	2.15%	Equal monthly instalments	March 2018	-	356
Loan 4	1.65%	Equal quarterly instalments	September 2025	1,814	1,915
Loan 5	1.05%	Equal quarterly instalments	March 2027	510	-
<b>Non-current loans</b>				<b>3,984</b>	<b>3,843</b>

The carrying values of assets that the Group has pledged as collateral for liabilities or contingent liabilities are as follows:	31 May 2017 £000	31 May 2016 £000
Inventories	9,949	7,526
Trade receivables	5,021	4,215
Freehold land and buildings	7,601	5,129
<b>Total carrying value of assets pledged as collateral</b>	<b>22,571</b>	<b>16,870</b>

The maturity profile of anticipated cash flows, including interest, in respect of loans and borrowings is as follows:	31 May 2017 £000	31 May 2016 £000
Not later than 1 year	3,219	787
Later than one year and not later than five years	2,803	2,538
Later than five years	1,599	1,377
	7,621	4,702
Less interest included in the above	(534)	(444)
<b>Total loans and borrowings</b>	<b>7,087</b>	<b>4,258</b>

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 20 Loans and borrowings (continued)

Reconciliation of movements in net debt	31 May 2017 £000	31 May 2016 £000
Decrease in cash and cash equivalents in the year	(159)	(442)
Translation gain on cash and cash equivalents	114	27
Increase in loans	(2,191)	(2,640)
Translation loss on loans	(638)	(187)
Increase in net debt	(2,874)	(3,242)
Net (debt)/cash at the beginning of the year	(2,646)	596
<b>Net debt at the end of the year</b>	<b>(5,520)</b>	<b>(2,646)</b>

Classification of financial liabilities	31 May 2017 £000	31 May 2016 £000
Trade payables	2,494	1,394
Accruals	379	380
Other payables	510	455
Loans and borrowings	7,087	4,258
<b>Total of financial liabilities at amortised cost</b>	<b>10,470</b>	<b>6,487</b>

### 21 Share capital

Issued and fully paid	2017 Number	2017 £000	2016 Number	2016 £000
<b>At beginning and end of the year</b>	<b>31,600,000</b>	<b>3,792</b>	<b>31,600,000</b>	<b>3,792</b>

At 31 May 2017, no options over ordinary shares of the Company were outstanding (2016: nil).

The Group has made purchases of its own ordinary shares of 12 pence each to be held in treasury as follows:-

	Number of shares	Cost £000
Shares purchased as at 31 May 2016	9,162,760	1,816
Shares purchased in year ended 31 May 2017	85,000	31
<b>Total shares purchased</b>	<b>9,247,760</b>	<b>1,847</b>
Shares cancelled as at 31 May 2017 and 31 May 2016	(4,998,603)	(1,049)
<b>Shares held in treasury at 31 May 2017</b>	<b>4,249,157</b>	<b>798</b>
Shares held in treasury at 31 May 2016	4,164,157	767

The cost of cancelled shares has been calculated on a "first in, first out" basis, and the nominal value of cancelled shares (£599,832) is shown in the consolidated statement of financial position as the capital redemption reserve, a component of equity. The cost of shares held in treasury is shown in the consolidated statement of financial position as the treasury share reserve, again as a component of equity.

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 22 Leases

The Group holds no assets under finance leases. The Group owns the freehold title to warehouse and office facilities at Nordhorn, Germany, part of which was previously leased prior to its purchase in 2016. During the year it has also occupied other warehousing in Nordhorn on short-term leases that expired in February 2017 until that additional warehouse was purchased during 2017. It has also occupied various warehouse and office premises in China under short-term leases which will expire in 2017 and has taken out long-term leases on a warehouse and office facility which will expire in January 2020 and a further warehouse where the lease will expire in July 2019. The Group holds operating leases in respect of plant and machinery used in Germany.

The total future values of minimum lease payments in respect of all operating leases are due as follows:

	31 May 2017 £000	31 May 2016 £000
Not later than one year	145	96
Later than one year and not later than five years	174	79
<b>Total future values of minimum lease payments</b>	<b>319</b>	<b>175</b>

### 23 Commitments

At 31 May 2017 capital commitments authorised and committed amounted to £153,000 (2016: £1,000,000). There were no amounts authorised but not committed (2016: £nil).

### 24 Related party transactions

Mr Jörg Hemmers is an executive director of Leeds Group plc ("the Company") and managing director of Hemmers-Itex Textil Import Export GmbH ("Hemmers GmbH"), and is considered to be part of the key management of the Group. During the year ended 31 May 2017 Hemmers GmbH paid rental of £nil (2016: €185,000) in respect of a warehouse and office facility to a company in which Mr Hemmers has a financial interest. On 28 January 2016 the Company announced that Hemmers GmbH had agreed the purchase of this property for a consideration of €2,700,000, which price was supported by an independent professional valuation.

In December 2014 Hemmers GmbH acquired a 50% interest in Stoff-Ideen-KMR GmbH ("KMR"), a chain of retail shops which sources its product in part from Hemmers GmbH. Details of this investment and of sales made by Hemmers GmbH to KMR are disclosed in note 14 to the consolidated accounts. In addition, KMR paid to Hemmers in the year €151,000 (2016: €99,000) in respect of warehouse rent and management fees.

The directors consider that all the above transactions have been made on an arm's length basis.

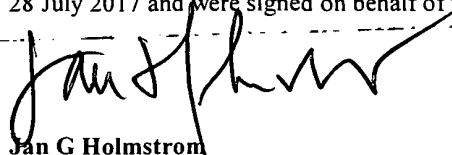
**Company Statement of Financial Position at 31 May 2017**  
**Prepared under FRS 101 "Reduced Disclosure Framework"**

Company number 00067863

	Note	31 May 2017 £000	31 May 2016 £000
<b>Fixed assets</b>			
Investments in subsidiary undertakings	4	3,370	3,370
<b>Total fixed assets</b>		<b>3,370</b>	<b>3,370</b>
<b>Current assets</b>			
Debtors	5	2,948	2,328
Cash at bank and in hand		263	548
		<b>3,211</b>	<b>2,876</b>
Creditors – amounts falling due within one year	6	(103)	(37)
<b>Net current assets</b>		<b>3,108</b>	<b>2,839</b>
<b>NET ASSETS</b>		<b>6,478</b>	<b>6,209</b>
<b>Capital and reserves</b>			
Called up equity share capital	7	3,792	3,792
Capital redemption reserve		600	600
Treasury share reserve		(798)	(767)
Profit & loss account		2,884	2,584
<b>CAPITAL AND RESERVES</b>		<b>6,478</b>	<b>6,209</b>

The profit after tax of the company for the year was £300,000 (2016: £28,000).

The financial statements on pages 43 to 47 were approved and authorised for issue by the Board of directors on 28 July 2017 and were signed on behalf of the Board by: -



Jan G Holmstrom  
Chairman  
28 July 2017

The notes on pages 45 to 47 form part of these financial statements.

## Company Statement of Changes in Equity for the year ended 31 May 2017

	Share capital £000	Capital redemption reserve £000	Treasury share reserve £000	Retained earnings £000	Total equity £000
<b>At 31 May 2015</b>	<b>3,792</b>	<b>600</b>	<b>(725)</b>	<b>2,556</b>	<b>6,223</b>
Profit for the year	-	-	-	28	28
<i>Transaction with Shareholders:</i> Purchase of treasury shares	-	-	(42)	-	(42)
<b>At 31 May 2016</b>	<b>3,792</b>	<b>600</b>	<b>(767)</b>	<b>2,584</b>	<b>6,209</b>
Profit for the year	-	-	-	300	300
<i>Transaction with Shareholders:</i> Purchase of treasury shares	-	-	(31)	-	(31)
<b>At 31 May 2017</b>	<b>3,792</b>	<b>600</b>	<b>(798)</b>	<b>2,884</b>	<b>6,478</b>

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share capital	The nominal value of issued ordinary shares in the Company.
Capital redemption reserve	Amounts transferred from share capital on redemption of issued shares.
Treasury share reserve	Cost of own shares held in treasury.
Retained earnings	Cumulative net gains/losses recognised in the Company's profit and loss account after deducting the cost of cancelled treasury shares.

The notes on pages 45 to 47 form part of these financial statements.

## Notes

*forming part of the financial statements of the Company for the year ended 31 May 2017*

### 1 Accounting policies

#### Basis of preparation

In the year ended 31 May 2016 the Company adopted FRS 100 and FRS 101, and takes advantage of all of the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised below.

- certain disclosures regarding the company's capital;
- certain disclosures regarding financial instruments;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of Leeds Group plc.

#### Investments

Investments in subsidiary undertakings are stated at cost less any impairment for permanent diminution in value.

#### Financial assets

The Company classifies its financial assets as either fair value or through the profit and loss or loan and receivables.

The Company's accounting policy for each category is as follows:

##### *(i) Fair value through profit or loss:*

This category comprises only in-the-money derivatives (see financial liabilities section for out-of-the-money derivatives). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the cost of sales line. Other than these derivative financial instruments, the Company does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

##### *(ii) Loans and receivables:*

Company loans and receivables amounts receivable from group undertakings and cash and cash equivalents in the statement of financial position. These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest rate less provision for impairment.

Cash and cash equivalents include cash in hand, deposits held at call with banks, and bank overdrafts. Cash and cash equivalents have maturities of three months or less. Bank overdrafts are shown within loans and borrowings in current liabilities in the statement of financial position.

#### Financial liabilities

The Company classifies its financial liabilities into one of the two categories below, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

##### *(i) Fair value through profit or loss:*

This category comprises only out-of-the-money derivatives (see financial assets for in-the-money derivatives). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the cost of sales line. Other than these derivative financial instruments, the Company does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

##### *(ii) Other financial liabilities:*

Other financial liabilities include accrual, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

## Notes

forming part of the financial statements for the year ended 31 May 2017

### 1 Accounting policies (continued)

#### Leases

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the profit and loss account on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

#### Foreign Currency

The financial statements are presented in UK pounds sterling, which is the company's functional currency.

Transactions entered into by the Company in a currency other than sterling are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

#### Dividends

Dividends are recognised when they become legally payable.

### 2 Profit and loss account

A separate profit and loss account for the Company is not presented, in accordance with Section 408 of the Companies Act 2006. The profit for the year for the Company dealt with in the consolidated financial statements of the Company was £300,000 (2016: £28,000).

The remuneration of the Auditors is disclosed in note 4 to the consolidated financial statements.

### 3 Staff costs

The average number of persons employed in the year by the Company (including directors) was 4 (2016: 4).

Staff costs, including directors, comprise	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000
Wages and salaries	100	97
Defined contribution pension cost	3	4
Employer's national insurance contributions and similar taxes	4	9
<b>Total staff costs</b>	<b>107</b>	<b>110</b>

The remuneration of the directors is disclosed in note 5 to the consolidated financial statements.

Outstanding share options granted to employees or directors at 31 May 2017 were nil (2016: nil).

### 4 Investments in subsidiary undertakings

	Cost £000	Accumulated impairment £000	Net carrying amount £000
<b>At 31 May 2017 and 31 May 2016</b>	<b>3,370</b>	<b>-</b>	<b>3,370</b>

Details of subsidiary undertakings are given in the Group Information section on page 3 and in note 13 to the consolidated financial statements.

## Notes

forming part of the financial statements of the Company for the year ended 31 May 2017

### 5 Debtors

	31 May 2017 £000	31 May 2016 £000
Other debtors	-	6
Prepayments and accrued income	20	17
Amounts receivable from subsidiary undertakings	2,928	2,305
<b>Total debtors</b>	<b>2,948</b>	<b>2,328</b>

The amounts receivable from subsidiary undertaking relates to a long term loan with details as follows:

	Fixed Interest Rate	Repayment Profile	31 May 2017 £000	31 May 2016 £000
Loan 1	8%	Repayable on demand	2,928	2,305

### 6 Creditors

	31 May 2017 £000	31 May 2016 £000
Accruals and deferred income	55	37
Derivative financial liability	48	-
<b>Total creditors</b>	<b>103</b>	<b>37</b>

### 7 Share capital

Issued and fully paid	2017 Number	2017 £000	2016 Number	2016 £000
<b>At beginning and end of the year</b>	<b>31,600,000</b>	<b>3,792</b>	<b>31,600,000</b>	<b>3,792</b>

At 31 May 2017, no options over ordinary shares of the Company were outstanding (2016: nil).

Details of the shares held in treasury are disclosed in note 21 to the consolidated accounts.

### 8 Commitments

The Company holds no assets under finance leases.

The Company leases the property it occupies in Drighlington at an inclusive rent of £9,000 per annum. The lease may be terminated by either party following three months' notice in writing.

The annual lease commitments in respect of non-cancellable operating leases for land and buildings, based on date of expiry, are as follows:

	31 May 2017 £000	31 May 2016 £000
<b>Within one year</b>	<b>2</b>	<b>2</b>
	<b>2</b>	<b>2</b>

There were no contracted capital commitments for the Company in either period.

## Five Year Summary of Results and Capital Employed

	Year ended 31 May 2017 £000	Year ended 31 May 2016 £000	Year ended 31 May 2015 £000	Year ended 31 May 2014 £000	Year ended 31 May 2013 £000
<b>Results</b>					
Revenue	41,053	36,272	34,859	34,210	31,140
Cost of sales	(32,468)	(28,563)	(27,066)	(26,440)	(24,350)
<b>Gross profit</b>	<b>8,585</b>	<b>7,709</b>	<b>7,793</b>	<b>7,770</b>	<b>6,790</b>
Operating expenses	(7,008)	(6,165)	(6,171)	(6,088)	(5,267)
Profit from operations (excluding impairment charges)	1,577	1,544	1,622	1,682	1,523
Impairment of available-for-sale investments	-	-	-	-	(745)
Net finance expense	(162)	(88)	(64)	(71)	(83)
Share of post-tax profit of joint venture	33	51	13	-	-
<b>Profit before tax</b>	<b>1,488</b>	<b>1,507</b>	<b>1,571</b>	<b>1,611</b>	<b>695</b>
Tax expense	(334)	(468)	(518)	(532)	(412)
<b>Profit after tax</b>	<b>1,114</b>	<b>1,039</b>	<b>1,053</b>	<b>1,079</b>	<b>283</b>
<b>Assets employed</b>					
Non-current assets	10,339	7,359	3,115	2,808	2,959
Current assets	18,756	15,156	15,344	14,919	15,805
<b>Total assets</b>	<b>29,095</b>	<b>22,515</b>	<b>18,459</b>	<b>17,727</b>	<b>18,764</b>
Non-current liabilities	(4,940)	(4,073)	(909)	(1,052)	(2,048)
Current liabilities	(5,853)	(2,930)	(3,728)	(2,647)	(3,136)
<b>Total liabilities</b>	<b>(10,793)</b>	<b>(7,003)</b>	<b>(4,637)</b>	<b>(3,699)</b>	<b>(5,184)</b>
<b>Net assets</b>	<b>18,302</b>	<b>15,512</b>	<b>13,822</b>	<b>14,028</b>	<b>13,580</b>
<b>Financed by</b>					
<b>Equity</b>	<b>18,302</b>	<b>15,512</b>	<b>13,822</b>	<b>14,028</b>	<b>13,580</b>
<b>Key Statistics</b>					
Basic and diluted earnings per share	4.1p	3.8p	3.8p	3.9p	1.0p
Net assets per share	66.9p	56.5p	50.2p	50.7p	49.1p

## Notice of Annual General Meeting

The one hundred and seventeenth annual general meeting of the Leeds Group plc (“the **Company**”) will be held at 12 noon on Tuesday 19 September 2017 at the offices of BDO LLP at Central Square, 29 Wellington Street, Leeds, LS1 4DL for the following purposes:

### Ordinary business

To consider, and if thought fit, pass the following resolutions which will be proposed as ordinary resolutions:

1. To receive the report of the directors, the financial statements for the year ended 31 May 2017 and the report of the auditors thereon.
2. To re-appoint Mr Jörg Hemmers as a director.
3. To re-appoint Mr David Cooper as a director
4. To re-appoint BDO LLP as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which the financial statements are laid before the Company and to authorise the directors to fix their remuneration.

### Special business

To consider and, if thought fit, pass the following resolutions, of which resolution 6 will be proposed as an ordinary resolution and resolutions 5 and 7 will be proposed as special resolutions:

5. That in accordance with Article 21.1 of the Articles of Association of the Company and Part 18 of the Companies Act 2006 (“the Act”) the Company be and is hereby granted general and unconditional authority (pursuant to section 701 of the Act) to make one or more market purchases (as defined in section 693(4) of the Act) of any of its own ordinary shares of 12 pence each on such terms and in such manner as the Board of directors of the Company may from time to time determine provided that:
  - 5.1 the maximum number of ordinary shares authorised to be purchased by this resolution is 715,000 being 2.26 per cent of the issued ordinary share capital at the date of this notice;
  - 5.2 the maximum price that may be paid for such an ordinary share (exclusive of expenses) is an amount equal to but not more than the higher of:
    - 5.2.1 105 per cent of the average middle market quotations for an ordinary share in the Company taken from the AIM appendix to The London Stock Exchange Daily Official List for the five business days immediately preceding the date of purchase; and
    - 5.2.2 the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange for an ordinary share in the Company at the time the purchase is carried out;
  - 5.3 the minimum price that may be paid for such an ordinary share (exclusive of expenses) is 5 pence per share; and
  - 5.4 unless previously revoked or varied, the authority conferred by this resolution shall expire on the conclusion of the next annual general meeting of the Company held after the passing of this resolution or the date which falls 15 months from the date of passing of this resolution (whichever shall first occur) except that the Company may, before such expiry, enter into a contract for the purchase of its own ordinary shares which may be completed by or executed wholly or partly after the expiration of this authority and may purchase ordinary shares in pursuance of any such contract as if the authority conferred by this resolution 4 had not expired.

## Notice of Annual General Meeting (continued)

### Special business (continued)

6. That the directors be and hereby are generally and unconditionally authorised for the purposes of section 551 of the Act to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into shares in the Company (**Rights**) up to an aggregate nominal amount of £1,095,000. The authority conferred by this resolution shall expire on the conclusion of the next annual general meeting of the Company held after the passing of this resolution or the date which falls 15 months from the date of passing of this resolution (whichever shall first occur), except that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or Rights to be granted after such expiry, and the directors may allot shares and grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all previous authorities granted to the directors to allot shares and grant Rights, but without prejudice to the allotment or grant of Rights already made or to be made pursuant to such authorities.
7. That, subject to the passing of resolution 6 above, the directors be and hereby are empowered pursuant to sections 570 and 573 of the Act to allot equity securities (within the meaning of section 560 of the Act) wholly for cash pursuant to the authority conferred by the previous resolution or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
  - 7.1 in connection with an offer of such securities by way of a rights issue, open offer or other preemptive issue or offer to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements, treasury shares, record dates or any legal, regulatory or practical problems under the laws of any territory, or the requirements of any recognised regulatory body or stock exchange in any territory or any other matter whatever; and
  - 7.2 otherwise than pursuant to sub-paragraph 7.1 above up to an aggregate nominal amount of £189,000.

The authority conferred by this resolution shall expire on the conclusion of the next annual general meeting of the Company held after the passing of this resolution or the date which falls 15 months from the date of passing of this resolution (whichever shall first occur), except that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

**By Order of the Board**

**Dawn Henderson**  
*Company Secretary*

Old Mills  
Whitehall Grove  
Drighlington  
Bradford  
BD11 1BY

28 July 2017

1

## Notice of Annual General Meeting (continued)

### Notes

1. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (as amended) and section 360B of the Companies Act 2006 (the Act”), only those shareholders registered in the register of members of the Company at close of business on 15 September 2017 as holders of ordinary shares of 12p each in the capital of the Company shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members of the Company after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. A member entitled to attend and vote may appoint a proxy to attend, speak and to vote in his or her stead. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company. A form of proxy has been inserted into this annual report and accounts and contains notes for its completion.
3. To be valid, the form of proxy and any power of attorney or the authority under which it is signed (or a notarially certified copy of it) must be completed and lodged at the Registrars of the Company, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not later than 12.00 noon on 15 September 2017.
4. Completion and return of a form of proxy does not preclude a member from subsequently attending and voting at the meeting. If a member appoints a proxy or proxies and then decides to attend the annual general meeting in person and vote using his poll card, then the vote in person will override the proxy vote(s). If the vote in person is in respect of the member's entire holding, then all proxy votes will be disregarded. If, however, the member votes at the meeting in respect of less than the member's entire holding, then if the member indicates on his polling card that all proxies are to be disregarded, that shall be the case; but if the member does not specifically revoke proxies, then the vote in person will be treated in the same way as if it were the last received proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding the member's entire holding. If you do not have a proxy form and/or believe that you should have one or if you require additional forms, please contact the Company at its registered office.
5. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see note 3 above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, BR3 4TU.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

6. In order to revoke a proxy instruction, you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Asset Services. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Asset Services at PXS, 34 Beckenham Road, Beckenham, BR3 4TU no later than 12 noon on 15 September 2017. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to paragraph 4 above, your proxy appointment will remain valid.

Copies of the following documents will be available for inspection at the registered office of the Company during normal business hours until the date of the annual general meeting and on that day, at the place of the meeting at least 15 minutes prior to the meeting until its conclusion:

• letters of appointment  
• of association



## Notice of Annual General Meeting (continued)

### Notes (continued)

8. As at 28 July 2017 (being the last practicable business day prior to the publication of this notice) the Company's issued share capital consisted of 31,600,000 ordinary shares of 12 pence each, with one voting right per share. There are 4,249,157 shares held in treasury, representing approximately 13.45 per cent of the total issued share capital. Thus the total voting rights in the Company as at 28 July 2017 are 27,350,843.
9. If a corporation is a member of the Company, it may by resolution of its directors or other governing body authorise one or more persons to act as its representative or representatives at the Meeting and any such representative or representatives shall be entitled to exercise on behalf of the corporation all the powers that the corporation could exercise if it were an individual member of the Company.

Corporate representatives should bring with them either an original or certified copy of the appropriate Board resolution or an original letter confirming the appointment, provided it is on the corporation's letterhead and is signed by an authorised signatory and accompanied by evidence of the signatory's authority.

10. A member may not use any electronic address (within the meaning of section 333(4) of the Act) provided in this notice of meeting (or in any related or accompanying document, including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.
11. Section 311A of the Act requires a traded company to make available on its website
  - a. notice of its Annual General Meeting
  - b. details of its issued share capital and of its members' voting rights
  - c. members' statements, members' resolutions and members' matters of business received by the company after the date on which notice of its meeting was first given.

Although the Company, as an AIM quoted company, is not required to comply with the requirements of Section 311A of the Act, it has nevertheless elected to do so. The Annual Report and Accounts, including the notice of the Company's AGM, can be found at the Company's website [www.leedsgroup.plc.uk](http://www.leedsgroup.plc.uk). The necessary details of its issued share capital and of its members' voting rights are shown in note 8 above. Upon receipt of any of the items detailed in c. above, the Company will promptly make them available on the Documentation and Notifications page of its website.

## Explanation of resolutions

### Resolution number 1

The directors must present to shareholders the report of the directors and the accounts for the Company for the year ended 31 May 2017. That report and those accounts, and the report of the Company's auditors on those accounts, are set out on pages 8 to 48 of this document.

### Resolution numbers 2 and 3

At each annual general meeting, one third of the directors of the Company for the time being (other than those appointed since the last annual general meeting) are required to retire. If the number of relevant directors is not a multiple of three, the number nearest to but not less than one third of the directors are required to retire. Any retiring director is eligible for re-appointment. At this annual general meeting, Mr Jörg Hemmers and Mr David Cooper are the directors subject to retirement by rotation. Resolutions numbers 2 and 3 propose the re-appointment of Mr Hemmers and Mr Cooper respectively.

### Resolution number 4

The auditors of the Company must be re-appointed at each meeting at which accounts are presented. Resolution 4 proposes the re-appointment of BDO LLP, who have indicated their willingness to be so re-appointed. The resolution also follows past practice in giving the directors authority to agree the auditor's remuneration.

### Resolution number 5

The directors are seeking authority to enable the Company to purchase ordinary shares in the capital of the Company by utilising some of the Company's available distributable profits. The directors would only consider effecting purchases under this authority, if granted, where to do so would improve the Company's earnings per share and would be in the best interests of shareholders generally. The authority would allow purchases of up to 715,000 ordinary shares, being approximately 2.26 per cent of the Company's ordinary share capital in issue as at the date of this notice, at a minimum price per ordinary share of 5 pence and a maximum price per ordinary share of the higher of 5 per cent above the average of the middle market quotations for an ordinary share as derived from the AIM appendix of the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which any purchases are made and the higher of the last independent trade and the highest current independent bid on the London Stock Exchange at the time the purchase is carried out. This authority expires at the conclusion of the next annual general meeting of the Company or 15 months from the date of passing of the resolution, whichever is the earlier.

Companies are permitted to retain any of their own shares that they have purchased as treasury stock, as an alternative to cancelling them. Shares held in treasury may be subsequently cancelled, sold for cash or used to satisfy share options and share awards under employee share schemes and provide the Company with additional flexibility in the management of its capital base. Accordingly, if the directors exercise the authority granted by resolution 5 to purchase ordinary shares, the Company will consider exercising the option of holding those ordinary shares in treasury.

### Resolution number 6

The directors are seeking authority to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company (**Rights**) up to an aggregate nominal amount of £1,095,000 being an amount representing approximately 33 per cent of the Company's current issued share capital (excluding treasury shares). It is not the directors' current intention to allot shares or to grant Rights pursuant to this resolution. This authority expires at the conclusion of the next annual general meeting of the Company or 15 months from the date of passing of the resolution, whichever is the earlier.

### Resolution number 7

This resolution disapplies the statutory pre-emption rights which would otherwise apply on an issue of shares for cash and is limited to allotments in connection with a rights issue or other pre-emptive offer where the securities attributable to the interests of all shareholders are proportionate (as nearly as may be) to the number of shares held and otherwise up to a further nominal amount of £189,000, being approximately 5 per cent of the Company's current issued share capital (including treasury shares). This disapplication of the statutory pre-emption rights expires at the conclusion of the next annual general meeting of the Company or 15 months from the date of passing of the resolution, whichever is the earlier. This authority also covers the sale of treasury shares for cash.

It is the Company's intention to adhere to the provisions in the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a three year rolling period where the principles provide that usage in excess of 7.5 per cent should not take place without prior consultation with shareholders.



# LEEDS

## GROUP PLC

Registered in England and Wales  
Registered Number 00067863

### Registered Office

Old Mills  
Whitehall Grove  
Drighlington  
Bradford  
BD11 1BY  
Tel: 0113 285 4324

Email: [admin@leedsgroup.plc.uk](mailto:admin@leedsgroup.plc.uk)

Website: [www.leedsgroup.plc.uk](http://www.leedsgroup.plc.uk)