PITTARDS plc

Annual Report & Accounts 2011

Company Number 102384

Results in brief

	2011 £'m	2010 £'m
Revenue	**38 2**	36 1
Profit from operations before finance costs	**3 1**	3 3
Profit before taxation	**2 8**	2 9
		restated
Net borrowings	**4 9**	3 0
Shareholders' funds	**16 0**	11 6
Per ordinary share		Pence per share
Profit (basic)	**0 83**	0 85
Profit (pre-adjustment to acquisition impairment)	**0 82**	0 84
Net assets	**3 63**	2 50
		restated
Gearing	**31%**	26%

Highlights

- **Revenue up 6% to £38 2m (2010 £36 1m)**
- **Profit from trading (without adjustments to acquisition impairment) £2 7m, as prior year**
- **Pre-tax profit from trading activities £3 1m (2010 £3.3m)**
- **Cash used in operations of £0 4m (2010 generated £3 4m)**
- **Net assets increased by 38% from £11 6m to £16.0m**
- **Net borrowings increased to £4 9m from £3 0m (restated)**
- **Gearing now 31% (2010 restated 26%)**

Chairman's statement

The Group succeeded in significantly strengthening its balance sheet, extending its brand and increasing revenues in 2011 but against a backdrop of rising raw material prices, as I advised earlier in the year and this coupled with structural changes in the supply chain has caused the unadjusted trading profit to remain at £2 7m

The consolidated profit from operations of £3 1m is slightly behind the £3 3m achieved in 2010, but this is after adjustments to acquisition impairments of £0 6m in 2010 and £0 4m in 2011, so the overall trading outturn was very similar The Group now owns three freehold properties in Ethiopia which were revalued at year end in line with our accounting policy, leading to a benefit to comprehensive income of £0 8m (2010 £0 6m) Finance costs of £0 3m represented a reduction from £0 4m in 2010 as the Group negotiated improved rates with its UK bank and the loan taken to fund the purchase of Ethiopia Share Tannery Co (ETSC) was further paid down

Following the recognition of £1m of the previously unrecognised deferred taxation asset in 2010, a further £1m has been recognised in 2011 as the directors believe it can be justified by reference to continued successful future trading The tax charge of £0 1m due on ETSC operations has been reduced to a tax credit of £0 9m and the profit for the year after taxation is £3 6m (2010 £3 7m)

Revenue of £38 2m is 6% ahead of £36 1m in 2010 with demand from key customers remaining firm Raw material prices rose steadily, in line with many other commodities around the world as demand exceeded supply, and we sought to pass this along the supply chain with price increases

In September 2011 the Ethiopian government announced that they would be imposing a tariff of 150% on exports of crust (semi processed) leather from mid December This sharply increased prices as the tanners in Ethiopia all tried to buy and process for export as much material as possible before the tariff took effect, with a consequent adverse effect on margins We were determined that supplies to major customers should not be disrupted whilst we accelerated the transfer to finished production at ETSC (the logical response to this situation) hence we had to buy additional stock at the prevailing prices which reduced gross margin in the second half of the year

Our strategic purchase of ETSC in late 2009 put us in a strong position to benefit from the tariff situation and I am pleased to report that the factory has responded very positively to the challenge of taking many more of our sheepskin products to the finished stage for direct export to our customers, which should generate savings on freight costs during 2012 We are making adjustments to our cost base in Yeovil, where we will no longer be processing Ethiopian crust skins The Yeovil factory is now being backfilled with more bovine and goatskin products and we are utilising our extensive contacts around the world to source new raw material supplies for technically advanced products to be made here

Net assets rose significantly from £11 6m (restated) at the end of 2010 to £16 0m, which reflected our investment in property, plant and equipment (mainly in Ethiopia), a further recognition of the unrecognised deferred tax asset and a substantial increase in inventory levels to accommodate the effect of the new crust tariff, which will potentially unwind in the first half of 2012 Net borrowings of £4 9m rose from £3 0m (restated) at the end of

2010 due mainly to the increased holding of inventory at year end and are expected to reduce to more normal levels by the half year The gearing ratio of 31% is in line with expectations (2010 26% restated)

We have commenced with our lawyers the process of restructuring our balance sheet to enable the payment of dividends in the future It is our intention to complete the process during 2012, which will involve a general meeting of shareholders

During 2011 we doubled the size of our retail shop in Yeovil to display more of our garments and the extensive range of Daines & Hathaway classic English leathergoods, and in response to customer demand we are about to add a coffee shop alongside it Our heritage of technical and innovative skills in Yeovil is being supplemented by our developing design capability, which positions us to benefit strongly from the current 'Made in Britain' movement

Within Ethiopia we established a new production unit for the manufacture of industrial gloves for a major US customer during 2011 Initially this was based in a rented unit but it has now moved to a new purpose built factory on the Addis ringroad next door to our garment production factory which is now nearing completion Demand is so strong that we have now rented an additional larger unit on the same prominent trading estate We are considering moving into other types of glove manufacturing as our confidence and expertise at finished product manufacture grow

We continue to seek suitable farms on which to establish our own flocks of sheep to be farmed on best practice lines to achieve improved skin quality, meat quality and yield It is recognised that this would be extremely advantageous to the Ethiopian economy and that local farmers' cooperatives would be likely to reflect our practices once they could see the benefits in terms of increased selling prices for their animals

We were pleased to be finalists in both the PricewaterhouseCoopers West of England Business of the Year Awards in June and in two categories of the UK Fashion & Textile Awards in October, with the positive recognition that they brought We were delighted that Pittards Products Manufacturing SC, our glove-making business, recently won a Best Investor award from the Leather Industry Development Institute at the All Africa Leather Fair in Addis Ababa

Our workforce of 1180 across the UK and Ethiopian operations have risen to the challenges of the year and they continue to coordinate their efforts exceptionally well, working closely in the transfer of products between the factories

Demand from customers is still strong and our increased production levels of both leather and finished products in a lower cost environment make us well placed to benefit from this, however raw material prices remain stubbornly high which puts pressure on margins and we will need to continue to pass this price pressure down the supply chain The premium Pittards brand is growing in reach and influence as we explore new sectors and market opportunities globally for our leather and leather products

Stephen Boyd Chairman
16 March 2012

Directors and officers

S D Boyd | *BSc Hons, Chairman, non-executive* A B C

Stephen Boyd (62) joined the Group in 2004 as Executive Chairman He became non-executive Chairman on 7 December 2007 He is also Chairman of Swallowfield plc and Pure Wafer plc and senior non-executive director at The Mission plc He owns a number of private companies

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

Louise Cretton (55) joined the Group as a non-executive director in April 2001 She is Managing Director of Market Evaluer, a marketing agency, and a director of Principal Ventures and a former director of McCann Erickson She sits on the board of the International Journal of Market Research and she is a managing partner of Optisca, a company which measures corporate reputations

R H Hankey | *FSLTC LCGI FCMI CDipAF*

Reg Hankey (56) was appointed to the board in January 1998 having joined the Group as Technical Director of the Yeovil Division in 1990 He was appointed Chief Executive on 19 July 2007 He is a director of UK Leather Federation (formerly BLC Research) and Leather Trade House Limited (formerly BLC Leather Technology Centre Ltd)

J G Holmstrom | *non-executive* B C

Jan Holmstrom (59) joined the Group in March 2010 He is Managing Director of Browallia AB in Sweden and holds a number of UK directorships including Densitron Technologies plc, Dawson International plc, Chapelthorpe plc, International Fibres Group Ltd, Leeds Group plc and 21st Century Technologies plc

J Williams | *LLB Hons, ACA, Secretary*

Jill Williams (54) joined the Group as Finance and Planning Manager in 1989 She became Company Secretary in 1991, and Finance Director on 1 June 2007 She is a non-executive director of SATRA

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

Registered office Sherborne Road, Yeovil, Somerset BA21 5BA

Company Number 102384

Advisers

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

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

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

Bankers Royal Bank of Scotland plc, 3 Temple Back East, Bristol BS1 6DZ

Registrars Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Directors' report

The directors submit their report together with the audited consolidated financial statements of the Group and the Company for the year ended 31 December 2011

Principal activities

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

Business review

Financial results

Revenue increased by £2 1m to £38 2m in 2011 reflecting some increases in selling prices and increases in volumes

The profit from operations decreased by £0 25m to £3 1m There was an adjustment to acquisition fair values following further investigations into provisional fair value estimates made on the acquisition of ETSC in December 2009

Total finance costs reduced from £0 37m to £0 29m due to the negotiation of new banking facilities in the UK and further paying down of the loan from PPESA to purchase ETSC

There was a tax credit for the year of £0 9m as while ETSC incurred a tax charge, the Group recognised £1 005m of its potential deferred tax asset of £3 137m

Year end position

Net assets at 31 December 2011 were £16 0m, compared with £11 6m at the end of 2010 (after restatement), principally due to the improved profitability in the year, but also further recognition of the previously unrecognised deferred tax asset and purchase and revaluation of property, plant and equipment

Total debt (including bank borrowings and loans, hire purchase agreements/obligations and loans) was £4 95m, (2010 £3 0m restated), with gearing easing back to 31% (2010 26% after restatement)

Business environment

The leather industry is a global business wherever countries have meat and dairy industries then hides and skins are produced as by-products

The Group operates mainly in the UK, where it sources most of its hides, and in Ethiopia where it sources most of its hairsheep skins Towards the end of 2011 the Ethiopian Government announced that it was to impose a tariff of 150% on the export of skins at the crust (semi processed) stage The Group is therefore seeking to finish most of its skins in Ethiopia and export direct to its customers around the world

Strategy

The Group will seek to increase its hides and goatskins business in the UK as it concentrates its skins business in Ethiopia It will also sample new sources of skins to be processed into its technically advanced leathers in Yeovil

The Group's strategy is to increase the consumer facing side of its business, building on its brand values of innovation, service and integrity with new ranges of finished products This was progressed during 2011 with the establishment of Pittards Product Manufacturing in Ethiopia, which is making leather industrial and gardening gloves and it is intended to develop this activity further into other types of gloves in 2012

Future developments

The Group will continue to look for new opportunities to develop the Pittards brand and build on its relationships across the supply chain and it will seek to maximise the benefits from owning the tannery in Ethiopia and manufacturing both leather and finished leather products in a lower cost environment It will continue to establish itself as a recognised consumer brand It will also follow up on new consultancy opportunities around the world

Dividends and reserves

No interim dividend was paid in respect of 2011 (2010 nil) and the directors do not recommend payment of a final dividend (2010 – nil) A profit of £3 64m is transferred to reserves (2010 £3 66m)

Directors' report (continued)

Principal risks and uncertainties

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

- The volatility of the US dollar The Group manages this by using forward exchange contracts if appropriate or selling any surplus US dollars when the rate is favourable Future cashflow forecasts are updated weekly and monthly
- The availability of quality raw materials The Group owns ETSC (which is its main supplier of Ethiopian skins) and has strong relationships with other major suppliers of skins in Ethiopia and hides in the UK and continually evaluates new sources of raw materials
- Continuing escalation in energy and environmental costs The Group uses industry experts to obtain the best energy rates available and continuous improvements are sought in reducing waste from the business
- The availability of working capital to finance its operations The Group monitors its weekly and monthly financial requirements closely against facility and enjoys a close working relationship with its bank Bank facilities for 2012 in the UK were renewed at the same core level as at the end of 2011 with a surge facility to help manage the introduction of the crust tariff in Ethiopia which necessitated a build up of skins at year end to ensure regular supplies to customers This surge facility will cease at the end of April when stock levels will have reduced

Key performance indicators

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

- Profit before tax The Group's profit before taxation of £2 76m (including an adjustment to acquisition impairment of £0 398m) fell slightly short of £2 93m achieved in 2010
- Gearing The Group's gearing moved from 26% (restated) in 2010 to 31%, which is within the target level of between 10% and 50% 2010 gearing benefitted from the write back of an old loan in Ethiopia, no longer considered payable
- Environmental measures The Group has targets to improve energy and processed water usage on which it reports in its biennial Environmental update The 2010 report can be found on the Company's website at www pittardsleather com
- Borrowings The Group monitors its bank balances against facilities on a daily basis and prepares weekly, quarterly and annual cashflow forecasts to ensure that it has sufficient funds to run the business Borrowings at end 2011 were higher than in 2010 due to the need to secure extra skins to enable progression to finished leather in Ethiopia while still manufacturing skins in Yeovil in order to fulfil customer orders

Restatement

The balance sheet at 31 December 2010 has been restated, as detailed in note 1

Going concern

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

Research and development

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

Treasury policies

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

Overall, some 72% of Group revenue is in US dollars, 13% in sterling, 10% in birr and 5% in euros Group policy is to sell away surplus dollars at spot rate

11% of the Group's purchases of hides and skins are in US dollars, and this forms a natural hedge against a proportion of the dollar sales

The Group's principal borrowings are in pounds sterling, US dollars and Ethiopian birr (for ETSC, PPM and PGS) which are used to manage timing differences in cash flows arising from trading activities as set out in note 27d The debt is a combination of floating and fixed rate The Group's policy is to use interest rate caps to manage exposure to significant fluctuations in interest rates when it believes that the risk justifies the cost, however at the year-end no interest rate caps were in place (2010 no caps in place)

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

Directors' report (continued)

took advantage of some medium-term borrowings in 2010, but this has now been converted to overdraft

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

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

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

Creditor payment policy

The Group does not follow a particular code for the payment of suppliers It is the Group's policy in respect of major suppliers to settle terms of payment when the terms of each transaction are agreed, to ensure the supplier is made aware of the terms of payment and to abide by the terms of payment For small local suppliers the policy is to pay within 45 days of invoice and for other suppliers to pay within 60 days Trade payables at the year end represented 43 days' purchases (2010 34 days)

Charitable donations

During the financial year the Group made contributions to industry related charitable organisations of £3,111 (2010 £6,325)

Employment of disabled persons

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

Employee consultation

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

Substantial interests

In addition to those disclosed under directors' interests, the Company has been notified of the following interests under section 793 Companies Act 2006 as at 16 March 2012

Browallia AB	214,529,872	(48 64%)
Trustees of the Pittards pension schemes	39,537,399	(8 96%)
Hargreave Hale Nominees Ltd	64,143,111	(14 54%)
Hargreave Hale discretionary client portfolios	42,071,790	(9 54%)

Directors

The persons named on page 4 are the present directors SD Boyd retires by rotation and offers himself for re-election

Directors' interests

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

	At end of year Ordinary Shares of 1p		At beginning of year Ordinary Shares of 1p	
	Total interests fully paid	Share options	Total interests fully paid	Share options
S D Boyd	19,333,333	1,666,666	19,666,667	6,666,666
L M Cretton	600,000	–	300,000	300,000
R H Hankey	7,121,719	2,000,000	6,281,719	2,500,000
J G Holmstrom	–	–	–	–
J Williams	1,171,315	316,667	821,315	666,667

No changes took place in the interests of directors in the shares of the Company between 31 December 2011 and 16 March 2012

Option warrants
In December 2007, as part of its negotiation of increased banking facilities, the Company issued option warrants to West Register (Investments) Limited, a subsidiary of the Royal Bank of Scotland plc, in respect of 5% of the Company's issued share capital at a subscription price of 1p The warrants are exercisable at any time up to five years following the date of grant

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

An ordinary resolution (number 4) will be proposed to enable the Company to issue and allot shares up to an aggregate nominal value of £441,049 This authority lasts for five years and updates the resolution passed at the last AGM A special resolution (number 6) will be proposed to increase the authority to allot equity shares for cash to a nominal amount of £441,049 The authority will last for five years from the date of resolution and updates the resolution passed at the last AGM

Disclosure of information to the auditors

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

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

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

Independent auditors

Baker Tilly UK Audit LLP resigned as auditors on 10 August 2011 and were replaced by PricewaterhouseCoopers LLP

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

By order of the board
J Williams
Company Secretary
16 March 2012

Statement of directors' responsibilities in relation to financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period In preparing these financial statements, the directors are required to

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

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

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

In accordance with Section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that
(a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Independent auditor's report to the members of Pittards plc

We have audited the group and parent company financial statements (the financial statements') of Pittards Plc for the year ended 2011 which comprise Group Income Statement, the Group and Parent Company Statement of Changes in Equity the Group and Parent Company Balance Sheets the Group and Parent Company Statement of Cash Flow the Accounting Policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements as applied in accordance with the provisions of the Companies Act 2006

Respective responsibilities of directors and auditor
As explained more fully in the Directors Responsibilities Statement set out on page 8 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 Auditing Practices Board s Ethical Standards for Auditors

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group s and parent company s circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 s affairs as at 31 December 2011 and of the group's profit and group's and parent company s cash flows 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 financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006 and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
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

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

16 March 2012

Consolidated income statement

for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Continuing operations			
Revenue	3	**38,194**	36,086
Cost of sales – trading		**(29,328)**	(27,343)
Cost of sales – adjustment to acquisition impairment	4	**–**	567
Gross profit		**8,866**	9,310
Distribution costs		**(2,767)**	(2,507)
Administrative expenses		**(3,547)**	(3,494)
Administrative expenses – adjustment to acquisition impairment	4	**398**	–
Gain (loss) on foreign currency translation		**100**	(12)
Profit from operations before finance costs		**3,050**	3,297
Finance costs	9	**(292)**	(366)
Profit before taxation	5	**2,758**	2,931
Taxation credit	10	**879**	731
Profit for the year after taxation		**3,637**	3,662
Profit attributable to			
Owners of the parent		**3,645**	3,662
Non controlling interest		**(8)**	–
		3,637	3,662
Earnings per share attributable to equityholders of the company			
Basic	11	**0 83p**	0 85p
Diluted	11	**0 82p**	0 84p

Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Note	£'000	£'000 restated
Profit for the year after taxation attributable to owners of the parent		**3,637**	3,662
Other comprehensive income			
Unrealised exchange loss on translation of overseas subsidiaries		**(238)**	(1,543)
Revaluation of land and buildings	12	**848**	552
Other comprehensive income		**610**	(991)
Total comprehensive income for the year		**4,247**	2,671
Total comprehensive income attributable to			
Owners of the parent		**4,084**	2,899
Non controlling interest		**163**	–

The accompanying notes on pages 15 to 39 form an integral part of the Financial Statements

Consolidated statement of changes in equity

for the year ended 31 December 2011

Group	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Capital reserve £'000	Retained earnings £'000	Translation reserve £'000	Shares held by ESOP £'000	Revaluation reserve £'000	Share options reserve £'000	Total attributable to owners of the parent	Non-controlling interest	Total equity
At 1 January 2010 – as previously reported	22	4,298	5,184	8,158	6,475	(15,900)	(10)	(495)	–	–	7,710	24	7,734
Restatement	1	–	–	–	–	1,074	–	–	–	–	1,074	–	1,074
At 1 January 2010 – restated		4,298	5,184	8,158	6,475	(14,826)	(10)	(495)	–	–	8,784	24	8,808
Comprehensive income for the year													
Retained profit for the year		–	–	–	–	3,662	–	–	–	–	3,662	–	3,662
Other comprehensive income													
Gain on the revaluation of buildings	12	–	–	–	–	–	–	–	552	–	552	–	522
Unrealised exchange loss on translation of foreign subsidiaries – restated	1	–	–	–	–	–	(1,543)	–	–		(1,543)	–	(1,543)
Total other comprehensive income – restated		–	–	–	–	–	(1,543)	–	552	–	(991)	–	(991)
Total comprehensive income for the year – restated		–	–	–	–	3,662	(1,543)	–	552	–	2,671	–	2,671
Transactions with owners													
Employee share option scheme – value of employee services	7	–	–	–	–	–	–	–	–	48	48	–	48
Proceeds from shares issued	21	33	15	–	–	–	–	–	–	–	48	–	48
Investment in Pittards Global Sourcing	28	–	–	–	–	–	–	–	–	–	–	26	26
Total transactions with owners		33	15	–	–	–	–	–	–	48	96	26	122
At 1 January 2011 – restated		4,331	5,199	8,158	6,475	(11,164)	(1,553)	(495)	552	48	11,551	50	11,601
Comprehensive income for the year													
Retained profit for the year		–	–	–	–	3,645	–	–	–	–	3,645	(8)	3,637
Other comprehensive income													
Gain on the revaluation of buildings	12	–	–	–	–	–	–	–	677	–	677	171	848
Unrealised exchange loss on translation of foreign subsidiaries		–	–	–	–	–	(220)	–	(18)	–	(238)	–	(238)
Total other comprehensive income		–	–	–	–	–	(220)	–	659	–	439	171	610
Total comprehensive income for the year		–	–	–	–	3,645	(220)	–	659	–	4,084	163	4,247
Transactions with owners													
Proceeds from shares issued	21	79	51	–	–	–	–	–	–	–	130	–	130
Total transactions with owners		79	51	–	–	–	–	–	–	–	130	–	130
At 31 December 2011		**4,410**	**5,250**	**8,158**	**6,475**	**(7,519)**	**(1,773)**	**(495)**	**1,211**	**48**	**15,765**	**213**	**15,978**

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2011

Company	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Retained earnings £'000	Shares held by ESOP £'000	Share options reserve £'000	Total £'000
At 1 January 2010	22	4,298	5,184	8,158	(12,265)	(495)	–	4,880
Comprehensive income for the year								
Retained profit for the year		–	–	–	2,554	–	–	2,554
Total comprehensive income for the year		–	–	–	2,554	–	–	2,554
Transactions with owners								
Issue of shares		33	15	–	–	–	–	48
Employee share option scheme	21							
Value of employee services	7	–	–	–	–	–	48	48
Total transactions with owners		33	15	–	–	–	48	96
At 1 January 2011		4,331	5,199	8,158	(9,711)	(495)	48	7,530
Comprehensive income for the year								
Retained profit for the year		–	–	–	2,863	–	–	2,863
Total comprehensive income for the year		–	–	–	2,863	–	–	2,863
Transactions with owners								
Issue of shares	21	79	51	–	–	–	–	130
Total transactions with owners		79	51	–	–	–	–	130
At 31 December 2011	22	**4,410**	**5,250**	**8,158**	**(6,848)**	**(495)**	**48**	**10,523**

Balance sheets
as at 31 December 2011

		Group		Company	
		2011	2010 restated	**2011**	2010
	Note	**£'000**	£'000	**£'000**	£'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**6,441**	4,987	**1,708**	1,788
Intangible assets	13	**15**	115	**15**	100
Investments in subsidiary undertakings	28	**–**	–	**848**	1,891
Deferred income tax asset	20	**2,005**	1,000	**2,000**	1,000
Available for sale financial instruments	28	**15**	2	**–**	–
Total non-current assets		**8,476**	6,104	**4,571**	4,779
Current assets					
Inventories	14	**14,524**	10,444	**8,905**	6,599
Trade and other receivables	15	**3,833**	3,751	**7,110**	5,759
Cash and cash equivalents	15	**1,142**	1,307	**471**	29
Total current assets		**19,499**	15,502	**16,486**	12,387
Total assets		**27,975**	21,606	**21,057**	17,166
LIABILITIES					
Current liabilities					
Trade and other payables	16	**(5,904)**	(5,595)	**(6,905)**	(7,713)
Current income tax liability		**(1)**	(97)	**–**	–
Interest bearing loans, borrowings and overdrafts	17	**(6,092)**	(2,022)	**(3,629)**	(423)
Total current liabilities		**(11,997)**	(7,714)	**(10,534)**	(8,136)
Non-current liabilities					
Interest bearing loans, borrowings and overdrafts	18	**–**	(2,291)	**–**	(1,500)
Total non-current liabilities		**–**	(2,291)	**–**	(1,500)
Total liabilities		**(11,997)**	(10,005)	**(10,534)**	(9,636)
Net assets		**15,978**	11,601	**10,523**	7,530
EQUITY					
Called up share capital	21	**4,410**	4,331	**4,410**	4,331
Share premium account	22	**5,250**	5,199	**5,250**	5,199
Capital redemption reserve	22	**8,158**	8,158	**8,158**	8,158
Capital reserve	22	**6,475**	6,475	**–**	–
Shares held by ESOP	22	**(495)**	(495)	**(495)**	(495)
Retained earnings	22	**(7,519)**	(11,164)	**(6,848)**	(9,711)
Translation reserve	22	**(1,773)**	(1,553)	**–**	–
Revaluation reserve	22	**1,211**	522	**–**	–
Share options reserve	22	**48**	48	**48**	48
Total equity attributable to owners of the parent		**15,765**	11,551	**10,523**	7,530
Non-controlling interest		**213**	50	**–**	–
Total equity		**15,978**	11,601	**10,523**	7,530

The financial statements on pages 10 to 39 were approved and authorised for issue by the board of directors on 16 March 2012 and signed on its behalf by

J Williams
Finance Director

Company Number 102384

Consolidated cash flow statement

for the year ended 31 December 2011

		Group		Company	
		2011	2010	**2011**	2010
	Note	**£'000**	£'000	**£'000**	£'000
Cash flows from operating activities					
Cash (used in) generated from operations	23	**(412)**	3,401	**(814)**	1,106
Tax paid		**(187)**	(80)	**–**	–
Interest paid		**(247)**	(284)	**(209)**	(151)
Net cash (used in) generated from operating activities		**(846)**	3,037	**(1,023)**	955
Cash flows from investing activities					
Investment in subsidiaries		**–**	–	**(53)**	(50)
Proceeds on disposal of property, plant and equipment		**–**	10	**–**	–
Purchases of property, plant and equipment		**(1,261)**	(675)	**(354)**	(501)
Purchases of intangible assets		**(6)**	(17)	**(15)**	–
Investment in available for sale financial assets		**(13)**	–	**–**	–
Net cash used in investing activities		**(1,280)**	(682)	**(422)**	(551)
Cash flows from financing activities					
Loan financing		**–**	2,500	**–**	2,500
Repayment of bank loans		**(2,714)**	(1,340)	**(1,900)**	(800)
Repayment of obligations under finance leases and hire purchase obligations		**(23)**	(47)	**(23)**	(46)
Share issue		**130**	48	**130**	48
Net cash (used in) generated from financing activities		**(2,607)**	1,161	**(1,793)**	1,702
(Decrease) increase in cash and cash equivalents		**(4,733)**	3,516	**(3,238)**	2,106
Cash and cash equivalents at beginning of the year		**1,307**	(2,237)	**29**	(2,124)
Exchange gains on cash and cash equivalents		**14**	28	**51**	47
Cash and cash equivalents at end of the year	24	**(3,412)**	1,307	**(3,158)**	29

Notes to the consolidated accounts

1 Statement of accounting policies

General information

Pittards plc is a public limited company incorporated and domiciled under the Companies Act 2006 in England and is quoted on the Alternative Investment Market (AIM) The address of the registered office is given on page 4 The nature of the Group's operations and its principal activities are set out in the Directors' report on page 5

(a) Basis of preparation

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

The consolidated financial statements have been prepared in accordance with the Companies Act 2006, applicable to Companies reporting under IFRS The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the Group's accounting policies The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2

(b) Going concern

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

(c) New and amended standards adopted by the group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the group IAS24 (revised) has resulted in additional disclosure requirements, which have been included in these financial statements

(d) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

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

Amendments to IFRS 7, Financial Instruments Disclosures on derecognition
Amendment to IFRS 1, 'First time adoption' on fixed dates and hyperinflation
Amendment to IAS 12, 'Income taxes' on deferred tax
Amendment to IAS 19, 'Employee benefits'
Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income
IFRS 9, 'Financial instruments' – classification and measurement'
IFRS 10, 'Consolidated financial statements'
IFRS 11, 'Joint arrangements'
IFRS 12, 'Disclosures of interests in other entities'
IFRS 13, 'Fair value measurement'
IAS 27 (revised 2011) 'Separate financial statements'
IAS 28 (revised 2011) 'Associates and joint ventures'

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

(e) Basis of consolidation

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

Notes to the consolidated accounts (continued)

1 Statement of accounting policies (continued)

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

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

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

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

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

In accordance with the exemptions given by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income or Income Statement The Company achieved a profit of £2 863m (2010 £2 554m)

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

(g) Revenue recognition
Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services and consultancy income provided in the normal course of business, net of discounts, value added tax and other sales related taxes

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

(h) Foreign currency translation
a) Functional and presentation currency
These financial statements are presented in sterling as that is considered to be the currency of the primary economic environment in which the Company operates This decision was based on the fact that sterling is the currency in which management reporting and decision making is based

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

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

Notes to the consolidated accounts (continued)

1 Statement of accounting policies (continued)

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

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

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset and is carried at cost less accumulated amortisation and accumulated impairment losses Costs include software licences and consulting costs attributable to the development, design and implementation of the computer software Amortisation is calculated using the straight-line method so as to charge the cost of the computer software to the Income Statement over its estimated useful life (1-7 years)

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

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

Freehold buildings	2%
Plant, machinery and motor vehicles	10-33%

A revaluation policy is applied to freehold buildings Buildings were revalued at December 2011 and December 2010 based on the fair value as determined by an independent licensed loss assessor qualified to value buildings in Ethiopia The increase in value has been reflected via a revaluation of land and buildings in other comprehensive income Buildings have been depreciated at 2% No depreciation has been charged on the building being constructed by Pittards Global Sourcing Limited as it is still under construction

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

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

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

(m) Inventories
Inventories are stated at the lower of cost or net realisable value Cost is determined on a first in first out (FIFO) basis Net realisable value is the estimated selling price less all costs to be incurred In addition to the cost of materials and direct labour, an appropriate proportion of production overheads is included in the inventory values

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

Notes to the consolidated accounts (continued)

1 Statement of accounting policies (continued)

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

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

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

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

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

(o) Retirement benefit costs
The Group operates a stakeholder pension scheme for the benefit of its employees in the UK but makes no contribution to the scheme Pension contributions continue to be made for those employees at ETSC who were members of the Social Security Agency scheme (a defined contribution scheme) at the time of purchase of that business

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

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

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

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

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

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

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

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

Notes to the consolidated accounts (continued)

1 Statement of accounting policies (continued)

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

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

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

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

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

(u) Restatement
At acquisition ETSC held a loan payable on its balance sheet for £1,074m Legal advice obtained supports the Directors' view that the loan is not repayable and that the Group does not have a legal or constructive obligation to transfer cash This view has not changed since acquisition and therefore the fair value of assets and liabilities acquired on acquisition of ETSC have been restated in the current year resulting in a credit to retained earnings at 1 January 2010 of £1 074m, as shown in the consolidated statement of changes in equity, to eliminate the brought forward loan payable balance

As the loan was denominated in local currency the movement on the translation reserve during 2010 has been revised by £0 228m to take into account the revised foreign exchange movement in 2010, excluding the loan

The balance sheet as at 31 December 2010 has been restated to eliminate the loan from the 2010 statement of financial position as previously reported, resulting in a reduction in trade and other payables included in current liabilities of £0 341m, a reduction in borrowings included in non current liabilities of £0 505m and an increase in retained earnings of £1,074m and increase in translation reserve losses of £0 228m, resulting in a net increase in net assets and equity of £0 846m The Directors acknowledge the requirement to prepare an additional statement of financial position as a result of the restatement However as the restatement only impacts the balances set out above the directors consider that the impact on the financial statements can be determined from the disclosures given, without the need to present a further statement

2 Critical judgements and estimation uncertainty

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

a) Inventory provisions
The Group reviews its finished goods inventory on a regular basis and, where appropriate, makes provisions for slow moving and obsolete inventory based on estimates of future sales activity The estimates of the future sales activity will be based on both historical experience and expected outcomes based on knowledge of the markets in which the Group operates The level of inventory provisions at year end represents the consistent application of an agreed formula plus additional specific provisions which management have deemed to be appropriate

Notes to the consolidated accounts (continued)

2 Critical judgements and estimation uncertainty (continued)

(b) Assessment of fair values on acquisition of ETSC
The directors had to make certain assumptions for the assessment of fair value of various assets on the acquisition of ETSC At the end of 2010 investigations into inventory held provided necessary assurances that the inventory was fairly valued therefore a release of £0 567m of impairment provision was recognised in the Income Statement The provisional fair values on acquisition were not updated because the ability to release the provision was identified during a stock take on 31 December 2010, which was outside the twelve months permitted under IFRS3 to revise provisional fair values

At the end of 2011 the remaining provisions of £0 465m have been released to the Income Statement £0 398m of this release has been disclosed on the face of the Income Statement and £0 067m has been released through administrative expenses, offsetting expenses incurred to which the provisions relate

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

3 Business segments information

Management has determined the operating segments based on the reports reviewed by the board that are used to make strategic decisions The board consider the business from a product perspective by type of raw material, (hides and skins) by income from Ethiopia and by other revenue streams, including the consumer products section which is not yet sufficiently material to be a separate category The board review the results by segment at gross contribution level which includes raw material costs but excludes fixed and variable production costs as these are not separated out by segment The segment information is shown below

2011	Skins £'000	Hides £'000	Ethiopia £'000	Other £'000	Unallocated £'000	Total £'000
Turnover	20,481	10,014	15,875	3,215	–	49,585
Inter-segmental trading	(49)	(46)	(8,778)	(2,518)	–	(11,391)
	20,432	9,968	7,097	697	–	38,194
Gross contribution	10,691	2,536	5,154	329	–	18,710
Taxation	–	–	81	–	(960)	(879)
Assets	–	–	14,176	–	13,799	27,975
Liabilities	–	–	(5,333)	–	(6,664)	(11,997)

2010	Skins	Hides	Ethiopia	Other	Unallocated	Total
Turnover	19,858	10,732	12,120	1,363	–	44,073
Inter-segmental trading	(44)	(28)	(7,234)	(681)	–	(7,987)
	19,814	10,704	4,886	682	–	36,086
Gross contribution	9,448	3,479	4,212	100	–	17,239
Taxation	–	–	238	–	(969)	(731)
Assets	–	–	8,806	–	12,800	21,606
Liabilities – restated	–	–	(2,444)	–	(7,561)	(10,005)

Notes to the consolidated accounts (continued)

3 Business segments information (continued)

The exceptional items, details of which are set out in note 1, relate to accounting for the acquisition of ETSC and therefore have not been allocated to a specific segment

The total of non-current assets other than deferred tax assets located in the UK is £1 723m (2010 £1 932m)

Reconciliation of gross contribution to gross profit is as follows

	2011	2010
	£'000	£'000
Gross contribution	**18,710**	17,239
Production costs including direct labour	**(9,075)**	(7,128)
Inventory provisions movement	**(17)**	(42)
Depreciation	**(752)**	(759)
Gross profit	**8,866**	9,310

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

2011	Skins	Hides	Ethiopia	Other	Total
	£'000	£'000	£'000	£'000	£'000
UK	691	1,496	–	495	2,682
Europe	3,742	382	2,376	132	6,632
North America	3,065	14	3	68	3,150
Rest of the world	12,934	8,076	4,718	2	25,730
	20,432	**9,968**	**7,097**	**697**	**38,194**
2010					
UK	756	1,165	–	191	2,112
Europe	3,367	179	265	381	4,192
North America	3,257	34	170	22	3,483
Rest of the world	12,434	9,326	4,452	87	26,299
	19,814	10,704	4,887	681	36,086

Revenues of approximately £4 998m (2010 £6 250m) within the skins segment are derived from one customer Revenues of approximately £5 712m (2010 £6 778m) within the hides segment are derived from another customer Both customers' revenues fall within the Rest of the World geographical segment

Notes to the consolidated accounts (continued)

4 Exceptional items

		2011 £'000	2010 £'000
Release of fair value provision	– cost of sales	–	567
	– administrative expenses	**398**	–

The Group acquired 100% of the issued share capital of Ethiopia Tannery Share Company (ETSC) on 29 December 2009 As part of the acquisition accounting, certain provisions were made to reflect the fair value of assets and liabilities acquired During 2010 £0 567m of provisions made on acquisition were released to the Income Statement The provisional fair values on acquisition were not updated because the ability to release the provision was identified during a stock take on 31 December 2010, which was outside the twelve months permitted under IFRS3 to revise provisional fair values These provisions were released to the 2010 income statement to reflect the balances to which they related, being stock and cost of sales During 2011 a further £398k of provisions established on acquisition were released to the Income Statement as not required, following further investigations during 2011

5 Profit before taxation

The following items have been included in arriving at profit before taxation	2011 £'000	2010 £'000
Depreciation of property, plant and equipment	**752**	759
Amortisation of intangible assets	**106**	99
Operating lease rentals recognised as an expense	**268**	298
Staff costs (Note 6)	**7,384**	7,087
Employee benefit expense	**99**	93
Research and development expenditure	**180**	171
Gain (loss) on foreign currency translation	**100**	(12)

Auditors' remuneration

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

	2011 £'000	2010 £'000
Fees payable to the Company's auditors in respect of the audit of the parent company and consolidated accounts	**37**	37
Fees payable to the Company's auditors in respect of the audit of subsidiaries	**5**	6
Total audit fees	**42**	43
Other services		
Other services pursuant to legislation	**–**	5
Total fees payable	**42**	49

In 2011 fees were payable to PricewaterhouseCoopers LLP (2010 Baker Tilly LLP)

Notes to the consolidated accounts (continued)

6 Staff costs

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

	2011	2010
	No	No
Production	**972**	700
Sales, distribution and administration	**205**	166
Directors	**5**	5
	1,182	871

Their aggregate remuneration comprised	**£'000**	£'000
Wages and salaries	**6,708**	6,484
Social security costs	**656**	587
Pension contribution	**20**	16
	7,384	7,087

7 Share options

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

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

	2011		2010	
	No of options	**Weighted average exercise price pence**	No of options	Weighted average exercise price pence
Outstanding at the beginning of the period	**14,566,668**	**–**	–	–
Granted during the period	**–**	**1 64**	17,866,667	1 64
Exercised during the period	**(7,913,332)**	**1 64**	(3,299,999)	1 64
Outstanding at the end of the period	**6,653,336**	**1 64**	14,566,668	1 64
Exercisable at the end of the period	**6,653,336**	**1 64**	14,566,668	1 64

Share options outstanding at the end of the year expire in February 2013 and have a weighted average exercise price of 1 64 pence The weighted average share price at the time of exercise was 3 45p (2010 2 43p)

On grant the options were valued using the Black Scholes valuation model The options granted have a variable exercise price, being 1 5 pence in year one, 1 65 pence in year two and 1 81 pence in year three The options were valued as the average of each year's independently calculated Black Scholes value The assumptions used were risk free interest rate year one 0 69%, year two 1 36%, year three 1 96%, volatility 25%, bid price at grant date 1 75 pence which was adjusted to 1 68 pence based on the dilutive effect of the options granted Volatility was calculated using the historic rate from 2009 and the directors' best estimate of the volatility going forward The fair value of the options calculated was 0 273 pence

The total charge for the year relating to employee equity settled share-based payment plans was nil (2010 £0 048m)

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

The total charge for cash settled share based payments was £0 111m (2010 £0 275m), this amount is also held as a liability as at December 2011

Notes to the consolidated accounts (continued)

8 Directors' remuneration

	Salary and fees £'000	*Benefits £'000	Share tracker bonus £'000	**2011 Total £'000**	2010 Total £'000
Executive					
R H Hankey	180	12	19	**211**	235
J Williams	97	7	17	**121**	130
Non-executive					
S D Boyd	60	4	4	**68**	65
L M Cretton	32	–	1	**33**	36
J G Holmstrom	29	–	–	**29**	21
	398	23	41	**462**	487

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

Key management compensation

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

	2011 £'000	2010 £'000
Salaries and other short-term employee benefits	**483**	434
Share-based payments	**76**	127
Total	**559**	561

Share options

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

	Number of options at 01 January 2011	Granted during year	Exercised during year	Number of options at 31 December 2011
R H Hankey	2,500,000	–	500,000	2,000,000
J Williams	666,667	–	350,000	316,667
S D Boyd	6,666,667	–	5,000,000	1,666,667
L M Cretton	300,000	–	300,000	–
J G Holmstrom	–	–	–	–
	10,133,334	–	6,150,000	3,983,334

The aggregate amount of gains made by directors on the exercise of share options was £0 137m (2010 £0 013m)

9 Finance costs

	2011 £'000	2010 £'000
Interest on bank loans and overdrafts	**209**	279
Interest on obligations under finance leases and hire purchase contracts	**29**	5
Unwinding of discount on deferred consideration	**54**	82
	292	366

Notes to the consolidated accounts (continued)

10 Taxation

(a) Analysis of the credit in the year	**2011 £'000**	2010 £'000
The credit based on the profit for the year comprises		
Corporation tax on profit for the year	**87**	238
Foreign tax	**39**	31
Total current tax	**126**	269
Deferred tax	**(1,540)**	(1,000)
Origination and reversal of temporary differences		
Utilisation of tax losses	**399**	–
Impact of change in UK tax rate	**136**	–
Total deferred tax	**(1,005)**	(1,000)
Income tax credit	**(879)**	(731)

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011 Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 26 5% and will be taxed at 26% in the future

(b) Factors affecting the charge for the year

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	**2,758**	2,931
Tax calculated at domestic tax rates applicable to profits in the respective countries	**762**	821
Income not subject to tax	**(110)**	(141)
Expenses not deductible for tax purposes	**264**	293
Allowable tax deductions	**(384)**	(179)
Foreign tax paid	**39**	31
Double tax relief	**(37)**	(42)
Tax losses for which no deferred income tax asset was recogniseds	**(9)**	(514)
Recognition of deferred tax asset in respect of temporary differences	**(1,141)**	(1,000)
Utilisation of tax losses	**(399)**	–
Impact of change in UK tax rate	**136**	–
Total tax credit for the year (Note 10(a))	**(879)**	(731)

(c) Factors that may affect future tax charges

The Group has recognised a deferred tax asset of £2 005m (2010 £1 000m) in respect of losses out of a total potential deferred tax asset of £3 138m (2010 £4 599m) The element of the deferred tax asset not yet recognised would be available to be utilised against future UK taxable profits (Note 20)

Notes to the consolidated accounts (continued)

11 Earnings per ordinary share

	2011 £'000	2010 £'000
Analysis of the profit in the year		
Profit for the year attributable to equityholders of the company	**3,645**	3,662
Weighted average number of ordinary shares in issue	**'000's**	'000's
(excluding the shares owned by the Pittards Employee Share Ownership Trust)		
Basic	**440,098**	430,591
Diluted	**443,650**	436,240
Basic earnings per ordinary share	**0 83p**	0 85p
Diluted earnings per ordinary share	**0 82p**	0 84p

12 Property, plant and equipment

	Group			Company	
	Freehold buildings £'000	Plant machinery & motor vehicles £'000	Total £'000	Plant, machinery & motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 2010	2,096	16,942	19,038	11,421	11,421
Exchange differences	(211)	(1,058)	(1,269)	–	–
Additions	56	619	675	501	501
Disposals	–	(1,721)	(1,721)	(1,045)	(1,045)
Revaluation of property	472	–	472	–	–
As 1 January 2011	2,413	14,782	17,195	10,877	10,877
Exchange differences	(75)	(126)	(201)	–	–
Additions	471	790	1,261	354	354
Disposals	–	(27)	(27)	(12)	(12)
Reversal of impairment (Note 2)	–	201	201	–	–
Revaluation of property	789	–	789	–	–
At 31 December 2011	**3,598**	**15,620**	**19,218**	**11,219**	**11,219**
Accumulated depreciation					
At 1 January 2010	–	14,021	14,021	9,688	9,688
Exchange differences	–	(775)	(775)	–	–
Charge for year	79	680	759	445	445
Disposals	–	(1,718)	(1,718)	(1 044)	(1 044)
Release of depreciation on revaluation	(79)	–	(79)	–	–
At 1 January 2011	–	12,208	12,208	9,089	9,089
Exchange differences	–	(97)	(97)	–	–
Charge for year	59	693	752	434	434
Disposals	–	(27)	(27)	(12)	(12)
Release of depreciation on revaluation	(59)	–	(59)	–	–
At 31 December 2011	**–**	**12,777**	**12,777**	**9,511**	**9,511**

Notes to the consolidated accounts (continued)

12 Property, plant and equipment (continued)

	Group			Company	
	Freehold buildings	Plant machinery & motor vehicles	Total	Plant, machinery & motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Net book value					
At 31 December 2011	**3,598**	**2,843**	**6,441**	**1,708**	**1,708**
At 31 December 2010	2,413	2,574	4,987	1,788	1,788
At 31 December 2009	2,096	2,921	5,017	1,733	1,733

Depreciation of £0 650m has been charged to cost of sales and £0 109m to administrative expenses in the Income Statement

Included in the Group's and Company's plant and machinery are leased assets and assets being acquired under hire purchase agreements with a net book value of £0 072m (2010 £0 113m)

Freehold buildings includes an amount of £0 540m (2010 £0 071m) in respect of work commenced on the building for Pittards Global Sourcing Private Ltd Company As this building is under construction no depreciation has been charged

The Group's buildings were revalued to fair value as at 31 December 2011 Fair value was determined by Getachew Tesfaye, licensed loss assessor, who is an independent valuer

If buildings were stated on the historic cost basis the net book value would be £1 130m (2010 £0 770m)

13 Intangible assets

	Group	Company
	Computer software	Computer software
	£'000	£'000
Cost		
At 1 January 2010	1,559	1,559
Additions	17	-
At 1 January 2011	1,576	1,599
Additions	6	15
At 31 December 2011	**1,582**	**1,574**
Accumulated amortisation		
At 1 January 2010	1,362	1,362
Charge for year	99	97
At 1 January 2011	1,461	1,459
Charge for year	106	100
At 31 December 2011	**1,567**	**1,559**
Net book value		
At 31 December 2011	**15**	**15**
At 31 December 2010	115	100

Notes to the consolidated accounts (continued)

14 Inventories

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Raw material and sundry inventory	**5,091**	3,416	**2,943**	1,978
Work in progress	**4,011**	2,926	**1,969**	1,924
Finished goods	**5,422**	4,102	**3,993**	2,697
	14,524	10,444	**8,905**	6,599

During the year £0 017m (2010 £0 042m) in respect of a stock provision was debited to the Income Statement as part of the cost of sales, and £20 890m inventory was charged to the Income Statement as cost of sales (2010 £18 991m) Raw material and sundry inventory includes £0 871m of goods in transit at year end (2010 £0 569m) There were no reversals or writedowns recognised during the year

15. Other current financial assets

Trade and other receivables	**£'000**	£'000	**£'000**	£'000
Trade receivables	**3,081**	3,463	**2,718**	2,685
Less provision for impairment of trade receivables	**(301)**	(369)	**(301)**	(365)
Trade receivables net	**2,780**	3,094	**2,417**	2,320
Other receivables	**804**	495	**293**	286
Prepayments and accrued income	**249**	162	**265**	154
Amounts owed by Group undertakings	**–**	–	**4,135**	2,999
	3,833	3,751	**7,110**	5,759

Movement on the provision for impairment of trade receivables was as follows				
As at 1 January	**369**	269	**365**	241
Release of provision for receivables impairment	**(68)**	124	**(64)**	124
Receivables written off during the year as uncollectable	**–**	(24)	**–**	–
As at 31 December	**301**	369	**301**	365

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

	£'000	£'000	**£'000**	£'000
Up to 60 days	**885**	978	**755**	797
60 – 90 days	**(24)**	155	**13**	24
More than 90 days	**330**	81	**61**	(16)
	1,191	1,214	**829**	805

Notes to the consolidated accounts (continued)

15. Other current financial assets (continued)

Trade and other receivables (continued)

As at 31 December the provision against trade receivables was £0 301m (2010 0 369m) for the Group and £0 301m (2010 0 365m) for the Company The ageing of the receivables impaired is as follows

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Not overdue	**100**	115	**100**	115
Up to 60 days	**126**	156	**125**	155
60 – 90 days	**80**	79	**78**	78
More than 90 days	**120**	59	**118**	58
	426	409	**421**	406

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

Trade receivables are held in the following currencies

	£'000	£'000	**£'000**	£'000
US dollars	**1,752**	1,974	**1,752**	1,713
Canadian dollars	**3**	–	**3**	–
Ethiopian birr	**363**	425	–	–
Euros	**220**	115	**220**	114
GB sterling	**442**	580	**442**	493
	2,780	3,094	**2,417**	2,320
Cash and cash equivalents	**1,142**	1,307	**471**	29

Credit risk

The Group's credit risk is attributable to its trade receivables The amounts presented in the balance sheet are net of allowances for impaired receivables An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows Where possible, the Group mitigates its credit risk by using credit insurance policies to insure its credit sales and as a result the reserve made for irrecoverable amounts is not material The maximum exposure, representing trade and other receivables not covered by insurance, impaired, or due from government or similar institutions was £0 394m (2010 £0 520m) Management carries out a review of trade receivables more than sixty days past due date and makes provision for any debts which are considered to be impaired The Group does not hold any collateral as security However, the Group has traded with a high proportion of its customers for several years and is experienced in managing this risk, resulting in low levels of impairment

Notes to the consolidated accounts (continued)

16 Trade and other payables

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Trade payables	**3,501**	2,545	**2,048**	2,270
Other taxes and social security costs	**218**	425	**214**	288
Accruals and deferred income	**1,756**	1,670	**1,919**	1,300
Other payables	**429**	955	**330**	413
Amounts owed to Group undertakings	**–**	–	**2,394**	3,442
	5,904	5,595	**6,905**	7,713

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

Other payables in 2010 have been restated, as set out in note 1

17 Interest-bearing loans, borrowings and overdrafts – current

	£'000	£'000	**£'000**	£'000
Unsecured Loans	**476**	411	**–**	–
Secured Overdrafts	**4,554**	–	**3,629**	–
Loans	**1,062**	1,588	**–**	400
Obligations under finance leases	**–**	23	**–**	23
	6,092	2,022	**3,629**	423

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

	£'000	£'000 restated	**£'000**	£'000
Secured Loans	**–**	2,291	**–**	1,500
	–	2,291	**–**	1,500
Repayable as follows				
Between one and two years by instalments	**–**	2,291	**–**	1,500
	–	2,291	**–**	1,500

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

During the year the Company's fixed term loan was converted to an overdraft facility

Non-current interest-bearing loans, borrowings and overdrafts in 2010 have been restated, as set out in note 1

Notes to the consolidated accounts (continued)

19 Obligations under leases

Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties, motor vehicles and items of machinery

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

	Group		Company	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Not later than one year	**265**	244	**265**	244
After one year but not more than five years	**7**	125	**7**	125
	272	369	**272**	369
Plant and machinery				
Not later than one year	**9**	13	**9**	13
After one year but not more than five years	**7**	10	**7**	10
	16	23	**16**	23
Property				
Not later than one year	**256**	231	**256**	231
After one year but not more than five years	**–**	115	**–**	115
	256	346	**256**	346

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

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

	£'000	£'000	**£'000**	£'000
Future minimum payments due				
Not later than one year	**–**	25	**–**	25
	–	25	**–**	25
Less finance charges allocated to future periods	**–**	(2)	**–**	(2)
Present value of minimum lease payments	**–**	23	**–**	23
The present value of minimum lease payments is analysed as follows				
Not later than one year	**–**	23	**–**	23
	–	23	**–**	23

All lease obligations are denominated in sterling The fair value of the Group's lease obligations approximates their carrying amount The Group's obligations under finance leases are secured by the lessor's charge over the leased assets

Notes to the consolidated accounts (continued)

20 Deferred taxation

The Group has recognised and unrecognised deferred tax assets in respect of temporary differences and losses In accordance with the requirements of IAS12 the directors considered the potential utilisation of the deferred tax asset and have decided to recognise £2 005m of the deferred tax asset in the current year in view of the Group's continued profitability The Group has no deferred tax liabilities

Deferred tax assets	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000
Deferred tax asset to be recovered after more than 12 months	**1,723**	1,000	**2,000**	1,000
Deferred tax asset to be recovered within 12 months	**282**	–	–	–
	2,005	1,000	**2,000**	1,000

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

	£'000	£'000	**£'000**	£'000
At 1 January	**1,000**	–	**1,000**	–
Income Statement credit	**1,005**	1,000	**1,000**	1,000
At 31 December	**2,005**	1,000	**2,000**	1,000

The analysis of the deferred tax asset is as follows

	Group	
Recognised	Tax losses £'000	Total £'000
At 1 January 2010	–	–
Income Statement credit	1,000	1,000
At 31 December 2010	1,000	1,000
Income Statement credit	1,005	1,000
At 31 December 2011	**2,005**	**2,005**

In addition the Group has £0 611m of unrecognised deferred tax assets in relation to tax losses (2010 2 535m) and £0 521m in relation to temporary timing differences (2010 £1 064m)

	Company	
Recognised	Tax losses £'000	Total £'000
At 1 January 2010	–	–
Income Statement credit	1,000	1,000
At 31 December 2010	1,000	1,000
Income Statement credit	1,000	1,000
At 31 December 2011	**2,000**	**2,000**

In addition the Company has £0 567m of unrecognised deferred tax assets in relation to tax losses (2010 £2 392m) and £0 517m in relation to temporary timing differences (2010 £0 792m)

Notes to the consolidated accounts (continued)

21 Share capital

	2011 £'000	2010 £'000
Authorised		
2,750,000,000 ordinary shares of 1p each	**27,500**	27,500
Issued and fully paid		
At 1 January	**4,331**	4,298
Proceeds from shares issued in the year	**79**	33
At 31 December	**4,410**	4,331

	Shares	Shares
Number of ordinary shares of 1p each		
At 1 January	**433,136,128**	429,836,129
Shares issued in the year	**7,913,332**	3,299,999
At 31 December	**441,049,460**	433,136,128

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

Share options

At 31 December 2011 directors and employees held 6,653,336 options to subscribe for shares (2010 14,566,668)

22 Reserves

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

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

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

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

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

The revaluation reserve represents the revaluation of the buildings at ETSC, Pittards Products Manufacturing and Pittards Global Sourcing undertaken in December 2010 and 2011

The share options reserve represents the cost to the Company of the Matching Share Options issued to directors and employees following the placing exercise in December 2009

The Pittards Employee Share Ownership Trust holds Pittards plc ordinary shares to meet potential obligations under the restricted share plan scheme Shares are held in trust until such time as they may be transferred to employees in accordance with the terms of the scheme There are no further awards in the scheme which could vest in the participants At 31 December 2011 the trust held a total of 951,328 shares (2010 951,328) with a market value at that date of £30,000 (2010 £27,000)

Notes to the consolidated accounts (continued)

23 Cash (used in) generated from operations

	Group		Company	
	2011	2010	**2011**	2010
	£'000	£'000 restated	**£'000**	£'000
Profit before taxation	**2,758**	2,931	**1,862**	1,554
Adjustments for				
Depreciation of property, plant and equipment	**752**	759	**434**	445
Amortisation	**106**	99	**100**	99
Profit on sale of plant and equipment	**–**	(7)	**–**	–
Bank and other interest charges	**247**	284	**209**	151
Other non-cash items in Income Statement	**(252)**	(12)	**(51)**	(47)
Share based payments	**–**	48	**–**	48
Dissolution of investments	**–**	–	**1,096**	–
Operating cash flows before movement in working capital	**3,611**	4,102	**3,650**	2,250
Movements in working capital (excluding exchange differences on consolidation)				
Increase in inventories	**(4,195)**	(1,138)	**(2,305)**	(1,044)
Increase in receivables	**(197)**	(671)	**(1,351)**	(879)
Increase (decrease) in payables	**369**	1,108	**(808)**	779
Cash (used in) generated from operations	**(412)**	3,401	**(814)**	1,106

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

	As at 1 January 2011	Cashflow	Exchange movements	**As at 31 December 2011**
Group	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	1,307	(179)	14	**1,142**
Bank overdraft	–	(4,554)	–	**(4,554)**
	1,307	(4,733)	14	**(3,412)**
Company				
Cash at bank and in hand	29	391	51	**471**
Bank overdraft	–	(3,629)	–	**(3,629)**
	29	(3,238)	51	**(3,158)**

25 Related party transactions

(a) Related party trading

Group

During the year the Group did not enter into any related party transactions with related parties other than subsidiary undertakings

Notes to the consolidated accounts (continued)

25 Related party transactions (continued)

(a) Related party trading (continued)
Company
The following transactions with other Group undertakings took place during the year

Transactions with subsidiaries		Company	
		2011	2010
	Note	**£'000**	£'000
Purchases on letter of credit or cash terms		**8,757**	7,234
Sales on CAD terms		**2,462**	620
Sales on other terms		**63**	52
Purchases on other terms		**37**	61

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

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

Amounts due from subsidiaries			
Daines & Hathaway Limited		–	427
Pittard Garnar Services Limited		**3,779**	2,572
Ethiopia Tannery Share Company		**348**	–
Pittards Global Sourcing		**8**	–
	15	**4,135**	2,999
Amounts due to subsidiaries			
R&A Kohnstamm Limited		**(1,286)**	(1,286)
CW Pittard & Co Limited		–	(1,000)
Pittards Group Limited		**(30)**	(30)
Ethiopia Tannery Share Company		**(1,078)**	(1,126)
	16	**(2,394)**	(3,442)

(b) Transactions with directors
Disclosures required under IAS24 regarding remuneration of key management personnel are covered by the Directors' remuneration disclosure in note 8 and interests in shares are disclosed in the Directors' Report

26 Major shareholder

Browallia AB, a company incorporated and registered in Sweden, held 48 64% of the share capital of Pittards plc at year end (214,529,872 shares) Its ultimate parent company is Peter Gyllenhammar AB

27 Financial instruments

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

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

Notes to the consolidated accounts (continued)

27 Financial instruments (continued)

(a) Risk management policies

Foreign currency exchange rate risk

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

Approximately 93% (2010 91%) of the Group's revenue is from exports, with some 72% (2010 82%) in US dollars US dollar based raw material purchases amounted to 11% in 2011 (2010 22%), creating a partial natural hedge

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

Interest rate risk

The Group mitigates its exposure to interest rate fluctuations by using fixed rates where possible and when it is felt to be beneficial and the directors would consider taking out an interest rate cap if this was felt to be beneficial

Liquidity risk

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

Credit risk

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

(b) Significant accounting policies

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

(c) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise

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

	Assets		Liabilities		Cash	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000 restated	**2011 £'000**	2010 £'000
US dollar	**1,752**	1,971	**(351)**	(1,789)	**226**	333
Euro	**220**	115	**(206)**	(136)	**94**	116
Ethiopian birr	**364**	425	**(3,681)**	(1,451)	**494**	1,212
Other	**3**	–	**–**	(5)	**84**	(11)
	2,339	2,511	**(4,238)**	(3,381)	**898**	1,650
GBP	**441**	583	**(5,355)**	(3,477)	**244**	(343)
Total	**2,780**	3,094	**(9,593)**	(6,858)	**1,142**	1,307

Notes to the consolidated accounts (continued)

27 Financial instruments (continued)

(d) Foreign currency sensitivity
As 72% (2010 82%) of the Group's revenue is in US dollars, the sensitivity analysis is only on the US dollar impact

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

Group	2011 £'000	2010 £'000
Loss (i)	**(2,402)**	(1,423)

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

(e) Forward foreign exchange contracts
It is the policy of the Group to enter into forward foreign exchange contracts to manage the risk associated with anticipated foreign currency sales and purchase transactions, when this is felt appropriate, however no such contracts were entered into in 2011 or 2010

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

ii) Interest rate sensitivity
The sensitivity analysis has been determined on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the year and held constant throughout the reporting period A 50 basis point has been applied in the sensitivity analysis

At the reporting date, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's net profit would decrease by £0 036m (2010 £0 015m) This is attributable to the Group's exposure to interest rates on its variable borrowings

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

iv) Liquidity and interest risk tables
The interest rate profile of the non-derivative financial liabilities of the Group and its contractual maturity as at 31 December 2011 and at 31 December 2010 and their weighted average effective interest rates are as follows

As at 31 December 2011
Group

Fixed rate	Less than 3 months £'000	3 months to 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Other loans	–	–	476	–	–	476
Floating rate						
Bank overdrafts and loans	5,010	–	–	–	–	5,010
Trade and other payables	3,931	–	–	–	–	3,931
Other loans	–	633	–	–	–	633

Notes to the consolidated accounts (continued)

27 Financial instruments (continued)

f) Liquidity and interest rate risk (continued)
iv) Liquidity and interest risk tables (continued)

As at 31 December 2010 – restated
Group

Fixed rate	Less than 3 months £'000	3 months to 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Other loans	411	793	–	–	–	1,204
Obligations under finance leases	–	23	–	–	–	23
Floating rate						
Bank overdrafts and loans	–	822	2,344	–	–	3,166
Trade and other payables	3,500	–	–	–	–	3,500

The Group has the following undrawn borrowing facilities

Group	2011 £'000	2010 £'000
Floating rate		
Expiring within one year	**314**	1,202
Expiring beyond one year	–	–
	314	1,202

The facilities expiring within one year are subject to review at various dates in 2012

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

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

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

During 2011, the Group's strategy was to maintain the gearing ratio at an acceptable level, which is considered to be between 10% and 50% The gearing ratios at 31 December 2011 and 2010 were as follows

Group	2011 £'000	2010 £'000 restated
Total borrowings	**6,092**	4,313
Less cash and cash equivalents	**(1,142)**	(1,307)
Net debt	**4,950**	3,006
Total equity	**15,978**	11,601
Gearing ratio	**31 0%**	26 0%

Notes to the consolidated accounts (continued)

28 Investments

	2011 £'000	2010 £'000
At 1 January	**1,891**	1,841
Investment in Pittards Global Sourcing	**53**	50
Dissolution of CW Pittard & Co Ltd	**(1,000)**	–
Dissolution of Pittards Sales Ltd	**(6)**	–
Impairment of Daines & Hathaway Limited	**(90)**	–
At 31 December	**848**	1,891

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

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

Pittards plc holds directly or indirectly all the issued ordinary share capital and voting rights of its principal trading subsidiary undertakings except for Pittards Global Sourcing Private Limited Company where it holds 60% of the capital and voting rights

During the year Pittards plc decided to dissolve and wind up its investment in Pittards Sales Ltd and C W Pittard & Co Ltd as these subsidiaries had been dormant for many years

The assets and liabilities of Daines & Hathaway Ltd were hived up to the parent company as at 31 December 2011 as it was felt there was no need for this business to remain a separate limited entity

During March 2011 Pittards Products Manufacturing commenced trading in the production of quality leather gloves and leather goods

	Non-consolidated subsidiaries	
	2011 £'000	2010 £'000
Non-consolidated investments held	**15**	2

29 Events after the reporting period

As a result of the transfer of more production to ETSC following the introduction of the crust tariff in Ethiopia, the Company began an exercise in January 2012 to reduce headcount at the Yeovil factory during March and April 2012 The costs of the exercise are expected to be approximately £0 14m, representing the costs of redundancy

Analysis of shareholders

as at 31 December 2011

Ordinary shares	Number of holders	% held	Number of shares held	% held
Category				
Individuals	1,517	99 15	399,518,444	90 58
Trust and investment companies	9	0 59	1,777,367	0 40
Pension funds	4	0 26	39,753,649	9 02
	1,530	100 00	441,049,460	100 00
Size of holding				
Up to 999 shares	671	43 87	304,017	0 07
1,000 to 9,999 shares	559	36 53	1,999,729	0 45
10,000 to 49,999	146	9 54	3,571,201	0 81
50,000 shares and over	154	10 06	435,174,513	98 67
	1,530	100 00	441,049,460	100 00

Five year review

	2011 £'000	2010 £'000 restated	2009 £'000	2008 £'000	2007 £'000
Revenue	38,194	36,086	24,617	26,785	28,853
Percentage outside UK	93%	91%	88%	91%	90%
Profit (loss) from operations before finance costs	3,050	3,297	3,042	(71)	(1,783)
Profit (loss) on ordinary activities before taxation	2,757	2,931	2,834	(367)	(2,185)
Profit (loss) on ordinary activities after taxation	3,637	3,662	2,824	(380)	(2,185)
Dividends					
Ordinary	–	–	–	–	–
Equity attributable to owners of the parent	15,765	11,551	8,784	1,861	2,808
Earnings (loss) per ordinary share (basic)	0 83p	0 85p	1 24p	(0 17p)	(0 98p)
Dividends per ordinary share	–	–	–	–	–

Financial calendar

Annual General Meeting	9 May 2012
Announcement of half year results for 2012	September 2012
Payment of interim dividend for 2012 (if declared) to shareholders registered on 12 October 2012 (ex dividend date 10 October 2012)	7 November 2012
Announcement of 2012 results	March 2013

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