PITTARDS PLC

REPORT & ACCOUNTS
YEAR ENDED 31 DECEMBER 2010

Company Number: 102384

Results in brief

	2010 £'m	2009 £'m restated
Revenue	**36 1**	24 6
Profit from trading activities	**3 3**	0 8
Exceptional items	**–**	2 2
Profit from operations before finance costs	**3 3**	3 0
Profit before taxation	**2 9**	2 8
Net borrowings	**3.5**	6 2
Shareholders' funds	**10.8**	7 7
Per ordinary share	Pence per share	
Profit (basic)	**0.85**	1 24
Profit (pre-exceptional item – fair value restatement)	**0.85**	0 71
Net assets	**2.50**	3 40
Gearing	**33%**	80%

Highlights

- **Revenue up 47% from consolidated group, or 27% on like for like basis excluding ETSC**
- **Profit from trading activities up to £3 3m from £0 8m (312% increase)**
- **Profit from trading (without impairment release) up to £2 7m from £0 8m**
- **Cash generated from operating activities of £3m**
- **Net assets increased by 39%**
- **Net borrowings fell by 43% (to £3 5m from £6 2m)**
- **Gearing reduced to 33% from 80%**
- **Recognition of deferred tax asset of £1m (out of £4 6m tax asset previously unrecognised)**
- **Lawyers instructed to assist balance sheet restructuring to enable dividend payment**
- **Consumer products section developing well both in UK and Ethiopia**
- **Projects to improve animal husbandry in Ethiopia, working with USAid, will help skin and meat quality**
- **ETSC World Tannery of the Year award**

Company Number 102384

Chairman's statement

The Group achieved a consolidated profit from trading activities of £3 3m in 2010, the first full year of our expanded group including the Ethiopia Tannery Share Company (ETSC) which we acquired in December 2009 This compares to £0 8m in 2009 and shows the benefits of this strategic purchase

The result includes a release from impairment of £0 6m in respect of inventories as a result of year end counts, but even without that adjustment this represents considerable progress At the end of 2010, the earliest practical opportunity to establish a final fair value, the freehold buildings owned by ETSC were revalued, which produced a total increase over provisional fair value on acquisition of £1 6m Of this figure, £1 1m was considered to relate to fair value at the time of acquisition and has been restated as an exceptional item in 2009, and the balance has been included within other comprehensive income in 2010 Finance costs of £0 4m for the combined operations are increased from £0 2m as we have taken over various loans in Ethiopia, and the interest on the deferred element of the loan from PPESA to purchase ETSC is now included

The Group had been carrying an unrecognised deferred taxation asset of £4 6m representing temporary differences and losses brought forward In view of the continued profitability of the Group the directors now consider it likely that further taxable profit will be available against which the temporary differences can be utilised therefore £1m of this deferred tax asset has been recognised in the current year This has reduced a tax charge of £0 3m (arising mainly in ETSC) to a tax credit of £0 7m, leading to a profit on continuing operations after taxation of £3 7m (2009 £2 8m after restatement)

We have instructed lawyers to assist us in restructuring our balance sheet in order to make payment of dividends possible

Revenue of £36 1m represents an increase of 47% over 2009, which did not include ETSC's external revenue This reflects a major recovery in volumes from key customers, partly due to the refilling of the pipelines they had emptied in late 2008/early 2009 during the global recession, and partly in response to improved consumer demand

Sales derived from skin based products, which include sports, service and dress gloves, improved by 20% in value terms There was an upturn across all the different sectors to which glove leathers are sold Sales of hide based products rose 46% with sports products particularly in demand with consumers

The acquisition of ETSC has yielded benefits in terms of better inventory control, better co-ordination between raw material purchasing and commercial selling and has given the opportunity to despatch some products direct to customers around the world rather than shipping to England and then to the Far East, as our quality control improves and more products are taken to the finished stage in Ethiopia

Our consumer products section is developing well with revenue from finished products growing steadily We are in the process of expanding our retail shop in Yeovil and we have established a sample production unit for garments and leathergoods at the Yeovil head office, where we now have designers producing exciting new ranges which can be manufactured either in the Daines & Hathaway unit or in our joint venture in Ethiopia, Pittards Global Sourcing

Our new factory in Addis Ababa for garment production should be operational before the end of the year and we have just agreed to purchase the neighbouring factory on the Addis Ababa ring road for leather goods production This will considerably increase our capability to produce high quality goods in a lower cost environment

Our Yeovil headquarters is the intellectual hub of our group and the base for our innovations team who produce new leathers in response to customer demands, such as the multi terrain camouflage leathers for the MOD We have increased our capital expenditure in Yeovil this year in order to ensure that our facilities remain at the forefront of leather technology

We have been working with USAid on a project to improve sheep skin and meat quality in Ethiopia by improving animal husbandry and hope to develop this further in the coming year

As we noted in our interim report for 2010, ETSC was the first recipient of Tannery of the Year award sponsored by World Leather magazine (www leathermag com) in March 2010 and we are keen to build on this recognition of our achievements in Ethiopia To this end we have forged closer links with the village school near to the factory, providing books and refurbishing classrooms, and we have been able to provide leather for shoemaking for the Mossyfoot project in Ethiopia (www mossyfoot com)

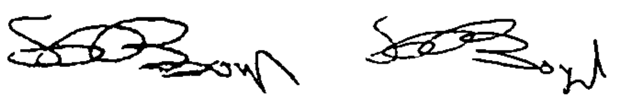
We were pleased to receive an award for development and rehabilitation of natural resources in the area of our factory from the East Shoa zone of Oromia

Net assets at the end of 2010 increased from £7 7m (restated) to £10 8m due primarily to continued profitability

Net borrowings of £3 5m at the end of 2010 represented a substantial improvement over £6 2m at the end of 2009 as the Group continued to generate cash whilst still settling residual loans and lease arrangements during the year This in turn led to a greatly improved gearing ratio of 33%, compared to a restated figure of 80% at the end of 2009

We are very pleased with the way the employees at our UK and Ethiopian operations are co-operating and working closely together and I am delighted at the way they continue to embrace the ongoing changes and demands of our expanding business

As we enter 2011 our orderbook remains strong and our customers remain confident about consumer demand but the current inflationary climate is affecting raw material prices therefore maintaining margins will be a challenge We will continue to make maximum use of our strong brand and market knowledge and experience during this growth phase in our development



Stephen Boyd Chairman
16 March 2011

Directors and officers

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

Stephen Boyd (61) joined the Group in 2004 as Executive Chairman He became non-executive Chairman on 7 December 2007 A chemical engineer by training, he has worked in a number of manufacturing industries, including five years as Group Chief Executive of Capital Industries plc He now owns a number of companies from plastic injection moulding to building materials businesses

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

Louise Cretton (54) 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

R H Hankey | *FSLTC, LCGI FCMI, CDipAF*

Reg Hankey (55) 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* C

Jan Holmstrom (58) 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 and 21st Century Technologies plc

J Williams | *LLB Hons, ACA, Secretary*

Jill Williams (53) 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

Auditor Baker Tilly UK Audit LLP, Chartered Accountants, Hartwell House, 55-61 Victoria Street, Bristol, BS1 6AD

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 financial statements for the year ended 31 December 2010 for Pittards plc

Principal activities

The principal activities of the Group 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

Business review

Financial results

Revenue increased by £11 5m to £36 1m partly due to the inclusion of external revenue from the Ethiopia Tannery Share Company (ETSC) and partly reflecting increased volumes

The profit from trading activities before exceptional items increased from £0 81m to £3 3m There was a release of £0 57m from the impairment reserve set up on the acquisition of ETSC in 2009 as the fair value of inventory was ascertained following the December 2010 stock count

There was no gain on derivatives (2009 £0 02m gain representing the residual settlement of forward contracts brought forward from 2008) There were no forward contracts outstanding at the year end and no new contracts were taken out during the year

Total finance costs increased from £0 21m to £0 37m due to the inclusion of ETSC finance costs and the unwinding of some of the discounting of the deferred instalments of the payment for ETSC

There was a tax credit for the year as while ETSC incurred a tax charge, the Group released £1 0m of its deferred tax asset of £4 6m

Year end position

Net assets at 31 December 2010 were £10 76m, compared with £7 73m at the end of 2009 (after restatement), principally due to the improved profitability in the year

Total debt (including bank borrowings and loans, hire purchase agreements/obligations and loans) was £3 51m, (2009 £6 21m), with gearing improving to 33% (2009 – 80%)

Future developments

The Group will continue with its strategy 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 2010 (2009 – nil) and the directors do not recommend payment of a final dividend (2009 – nil) A profit of £3 66m is transferred to reserves (2009 – £2 82m after restatement)

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 now 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 The placing exercise at the end of 2009 created more headroom on borrowings which has enabled better decision making based on profitability as well as cashflow considerations Bank facilities for 2011 were renewed at the same level as at the end of 2010

Directors' report (continued)

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 improved its result from a profit before taxation of £2 83m (including an exceptional gain on the acquisition of ETSC of £0 999m and fair value restatement of £1 215m) to £2 93m
- Gearing The Group's gearing improved from 80% in 2009 to 33% This was due to improved profitability and continued settlement of various loans and lease agreements during the year
- 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

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 also uses trend information from designers in order to reflect current trends in more fashion orientated products

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 also enters into derivative transactions, principally forward currency contracts, if appropriate The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance where appropriate The Group does not trade in financial instruments

Overall, some 82% of Group revenue is in US dollars, 12% in sterling, 5% in euros, and the balance in Canadian dollars Group policy is to sell forward dollar currency receivables against known orders when this is felt appropriate, or to sell away surplus dollars at spot rate

22% 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 policy is to consider hedging its excess dollar receivables and all transactions creating dollar cash flows, using currency accounts, spot and forward contracts and, where appropriate, options The proportion of hides and skins purchased in US dollars has decreased as compared to 2009 as ETSC buys its raw materials in Ethiopian Birr

The Group's principal borrowings are in pounds sterling, US dollars and Ethiopian Birr (for ETSC) 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 (2009 – 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 has taken advantage of some medium-term borrowings from 2010 onwards

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the Group provides goods and services to customers on credit terms or enters into derivative contracts (forward currency contracts) requiring settlement by the other party No derivative contracts were entered into in 2010

Group policies are aimed at minimising such losses 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 (i) derivative transactions can be contracted and (ii) 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

Directors' report (continued)

and committing to purchase on the basis of anticipated and actual forward sales orders The purchase of ETSC has 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 34 days' purchases (2009 – 36 days)

Charitable donations
During the financial year the Group made contributions to industry related charitable organisations of £6,325 (2009 – £1,760)

No political donations were made during the year

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

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 2011

Browallia AB	215,629,872	(49 86%)
Trustees of the Pittards pension schemes	39,537,399	(9 14%)
Hargreave Hale Nominees Ltd	62,484,777	(14 4%)
Hargreave Hale discretionary client portfolios	41,174,989	(9 51%)

Directors

The persons named on page 4 are the present directors J Williams retires by rotation and offers herself 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 (or at date of appointment) Ordinary Shares of 1p**	
	Total interests fully paid	Share options	Total interests fully paid	Share options
S D Boyd	19,666,667	6,666,666	21,000,000	–
L M Cretton	300,000	300,000	300,000	–
R H Hankey	6,281,719	2,500,000	4,781,719	–
J Williams	821,315	666,667	821,315	–
J G Holmstrom	–	–	–	–

No changes took place in the interests of directors in the shares of the Company between 31 December 2010 and 16 March 2011

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

Pursuant to resolutions passed on 22 December 2009, the directors are currently authorised to make rights issues and also to allot unissued shares for cash otherwise than to existing shareholders up to a nominal amount of £216,568, this authority lasts for five years from the date of the resolution An ordinary resolution (number 4) will be proposed to enable the Company to issue and allot shares up to an aggregate nominal value of £433,136 This authority lasts for five years and replaces the authority passed by resolution on 22 December 2009 A special resolution (number 6) will be proposed to increase the authority to allot equity shares for cash to a nominal amount of £433,136 The authority will last for five years from the date of resolution

Disclosure of information to the auditor

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

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

Auditor

Baker Tilly UK Audit LLP has indicated its willingness to continue in office

A resolution to appoint Baker Tilly UK Audit LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting

By order of the board
J Williams
Secretary
16 March 2011

Statement of directors' responsibilities in relation to financial statements

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

UK Company law requires the directors to prepare Group and Company Financial Statements for each financial year The directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU

The group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group, Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

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

In preparing the group and company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs adopted by the EU and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Pittards plc website

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditor's report to the members of Pittards plc

We have audited the group and parent company financial statements (the financial statements) on pages 10 to 39 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

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

Respective responsibilities of directors and auditors
As more fully explained 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 (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on the 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 2010 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with 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

Baker Tilly UK Audit LLP

Andrew Allchin FCA (Senior Statutory Auditor)
For and on behalf of Baker Tilly UK Audit LLP, Statutory Auditor
Chartered Accountants
Hartwell House
55-61 Victoria Street
Bristol
BS1 6AD

16 March 2011

Consolidated income statement

for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000 restated
Revenue	3	36,086	24,617
Cost of sales – trading		(27,343)	(19,591)
Cost of sales – release of impairment		567	–
Gross profit		9,310	5,026
Distribution costs		(2,507)	(1,808)
Administrative expenses		(3,494)	(2,439)
(Loss) gain on foreign currency translation		(12)	34
Profit from trading activities		3,297	813
Exceptional item – gain on bargain purchase	4	–	999
Exceptional item – fair value restatement	4	–	1,215
Gain on derivatives classified as fair value through income statement		–	15
Profit from operations before finance costs		3,297	3,042
Finance costs	9	(366)	(208)
Profit on continuing operations before taxation	5	2,931	2,834
Taxation credit (charge)	10	731	(10)
Profit for the year on continuing operations after taxation attributable to the equity shareholders of the parent		3,662	2,824
Profit attributable to.			
Owners of the parent		3,662	2,824
Non controlling interest		–	–
Profit per share attributable to equity shareholders of the parent			
Basic	11	0 85p	1 24p
Diluted	11	0 84p	1 24p
Pre-exceptional item – fair value restatement	11	0 85p	0 71p

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	2010 £'000	2009 £'000
Profit for the year on continuing operations after taxation attributable to the equity shareholders of the parent	3,662	2,824
Other comprehensive income		
Unrealised exchange loss on translation of overseas subsidiaries	(1,315)	(10)
Revaluation of land and buildings	552	–
Other comprehensive income, net of tax	(763)	(10)
Total comprehensive income for the year attributable to the equity shareholders of the parent	2,899	2,814
Total comprehensive income attributable to.		
Owners of the parent	2,899	2,814
Non controlling interest	–	–

There were no discontinued operations in 2010 or 2009 Accordingly the results relate to continuing operations

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 2010

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 2009	22	2,233	4,214	8,158	6,475	(18,724)	–	(495)	–	–	1,861	24	1,885
Comprehensive income for the year													
Retained profit for the year – restated	4	–	–	–	–	2,824	–	–	–	–	2,824	–	2,824
Other comprehensive income													
Unrealised exchange loss on translation of foreign subsidiaries		–	–	–	–	–	(10)	–	–	–	(10)	–	(10)
Total comprehensive income for the year – restated		–	–	–	–	2,824	(10)	–	–	–	2,814	–	2,814
Transactions with owners													
Issue of shares		2,065	1,033	–	–	–	–	–	–	–	3,098	–	3,098
Cost of share issue		–	(63)	–	–	–	–	–	–	–	(63)	–	(63)
Total transactions with owners		2,065	970	–	–	–	–	–	–	–	3,035	–	3,035
At 1 January 2010 – restated		4,298	5,184	8,158	6,475	(15,900)	(10)	(495)	–	–	7,710	24	7,734
Comprehensive income for the year													
Retained profit for the year		–	–	–	–	3,662	–	–	–	–	3,662	–	3,662
Other comprehensive income													
Gain on revaluation of buildings		–	–	–	–	–	–	–	552	–	552	–	552
Unrealised exchange loss on translation of foreign subsidiaries		–	–	–	–	–	(1,315)	–	–	–	(1,315)	–	(1,315)
Total other comprehensive income		–	–	–	–	–	(1,315)	–	552	–	(763)	–	(763)
Total comprehensive income for the year		–	–	–	–	3,662	(1,315)	–	552	–	2,899	–	2,899
Transactions with owners													
Employee share option scheme – value of employee services		–	–	–	–	–	–	–	–	48	48	–	48
Proceeds from shares issued		33	15	–	–	–	–	–	–	–	48	–	48
Investment in Pittards Global Sourcing		–	–	–	–	–	–	–	–	–	–	26	26
Total transactions with owners		33	15	–	–	–	–	–	–	48	96	26	122
At 31 December 2010		**4,331**	**5,199**	**8,158**	**6,475**	**(12,238)**	**(1,325)**	**(495)**	**552**	**48**	**10,705**	**50**	**10,755**

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2010

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 2009	22	2,233	4,214	8,158	(13,247)	(495)	–	863
Comprehensive income for the year								
Retained profit for the year		–	–	–	982	–	–	982
Total comprehensive income for the year		–	–	–	982	–	–	982
Transactions with owners								
Issue of shares		2,065	1,033	–	–	–	–	3,098
Cost of share issue		–	(63)	–	–	–	–	(63)
Total transactions with owners		2,065	970	–	–	–	–	3,035
At 1 January 2010		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 period		–	–	–	2,554	–	–	2,554
Transactions with owners								
Issue of shares		33	15	–	–	–	–	48
Employee share option scheme								
Value of employee services		–	–	–	–	–	48	48
Total transactions with owners		33	15	–	–	–	48	96
At 31 December 2010		**4,331**	**5,199**	**8,158**	**(9,711)**	**(495)**	**48**	**7,530**

Consolidated balance sheet

as at 31 December 2010

		Group		Company	
		2010	2009	**2010**	2009
	Note	**£'000**	£'000	**£'000**	£'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**4,987**	5,017	**1,788**	1,733
Intangible assets	13	**115**	197	**100**	197
Investments in subsidiary undertakings	28	**–**	–	**1,891**	1,841
Deferred income tax asset	20	**1,000**	–	**1,000**	–
Held to maturity financial assets	28	**2**	3	**–**	–
Total non-current assets		**6,104**	5,217	**4,779**	3,771
Current assets					
Inventories	14	**10,444**	10,180	**6,599**	5,557
Trade and other receivables	15	**3,751**	3,201	**5,759**	4,879
Cash and cash equivalents	15	**1,307**	833	**29**	15
Total current assets		**15,502**	14,214	**12,387**	10,451
Total assets		**21,606**	19,431	**17,166**	14,222
LIABILITIES					
Current liabilities					
Trade and other payables	16	**(6,033)**	(4,655)	**(7,713)**	(6,934)
Interest bearing loans and borrowings	17	**(2,022)**	(5,651)	**(423)**	(2,385)
Total current liabilities		**(8,055)**	(10,306)	**(8,136)**	(9,319)
Non-current liabilities					
Interest bearing loans and borrowings	18	**(2,796)**	(1,391)	**(1,500)**	(23)
Total non-current liabilities		**(2,796)**	(1,391)	**(1,500)**	(23)
Total liabilities		**(10,851)**	(11,697)	**(9,636)**	(9,342)
Net assets		**10,755**	7,734	**7,530**	4,880
EQUITY					
Called up share capital	21	**4,331**	4,298	**4,331**	4,298
Share premium account	22	**5,199**	5,184	**5,199**	5,184
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	**(12,238)**	(15,900)	**(9,711)**	(12,265)
Translation reserve		**(1,325)**	(10)	**–**	–
Revaluation reserve		**552**	–	**–**	–
Share options reserve		**48**	–	**48**	–
Total equity attributable to equity shareholders of the parent		**10,705**	7,710	**7,530**	4,880
Minority interest		**50**	24	**–**	–
Total equity		**10,755**	7,734	**7,530**	4,880

The financial statements on pages 10 to 39 were approved and authorised for issue by the board of directors on 16 March 2011 and signed on its behalf by

Jill Williams
Finance Director

Company Number 102384

Consolidated cash flow statement

for the year ended 31 December 2010

		Group		Company	
	Note	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Cash flows from operating activities					
Cash generated from (used in) operations	23	**3,401**	1,359	**1,106**	(672)
Tax paid		**(80)**	(10)	**–**	–
Interest paid		**(284)**	(208)	**(151)**	(208)
Net cash generated from (used in) operating activities		**3,037**	1,141	**955**	(880)
Cash flows from investing activities					
Investment in Pittards Global Sourcing		**–**	–	**(50)**	–
Proceeds on disposal of property, plant and equipment		**10**	12	**–**	12
Purchases of property, plant and equipment		**(675)**	(129)	**(501)**	(110)
Purchases of intangible assets		**(17)**	–	**–**	–
Acquisition of subsidiary, net of cash acquired		**–**	(2,165)	**–**	–
Net cash used in investing activities		**(682)**	(2,282)	**(551)**	(98)
Cash flows from financing activities					
Loan financing		**2,500**	–	**2,500**	–
Repayment of bank loans		**(1,340)**	(442)	**(800)**	(442)
Repayment of obligations under finance leases and hire purchase obligations		**(47)**	(84)	**(46)**	(84)
Share issue		**48**	3,035	**48**	3,035
Net cash generated from financing activities		**1,161**	2,509	**1,702**	2,509
Increase in cash and cash equivalents		**3,516**	1,368	**2,106**	1,531
Cash and cash equivalents at beginning of the year		**(2,237)**	(2,648)	**(2,124)**	(2,709)
Exchange gains (losses) on cash and cash equivalents		**28**	(957)	**47**	(946)
Cash and cash equivalents at end of the year	24	**1,307**	(2,237)	**29**	(2,124)

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

These financial statements are presented in sterling as that is considered to be the currency of the primary economic environment in which the Group operates This decision was based on the fact that sterling is the currency in which management reporting and decision making is based The placing exercise raised funds in sterling which were used to pay the down payment on ETSC and the deferred element of the consideration is also in sterling

Going concern
The financial statements have been prepared on the going concern basis as the directors believe that their strategy to reduce costs in the UK and to increase the amount of processing carried out offshore is the best way to take the business forward They therefore negotiated the purchase of the Ethiopia Tannery Share Company (ETSC) in December 2009 which has enabled more processing to take place in a lower cost environment They seek to replace this production with more premium business on the Yeovil site The project to reduce costs in all areas of the business which improved both distribution and administrative expenses continues The directors also continually seek new income streams related to the business, for example the retail shop and internet sales and the purchase of the Daines & Hathaway business The directors believe that the continued relative strength of the US dollar represents an opportunity for the business as a large proportion of its income is denominated in dollars

The Group continues to receive the support of its major customers and suppliers around the world

The current economic conditions create uncertainty particularly over (a) the level of demand for the Group's products, (b) the exchange rate between sterling and the US dollar and thus the consequence for the cost of the Group's raw materials, and (c) the availability of bank finance in the foreseeable future however the directors do not consider these to be material uncertainties Any increase in the cost of raw materials due to the US dollar would create a corresponding and larger increase in revenue for the Group As highlighted above, the Group meets its day to day working capital requirements through a bank facility which was renewed on 31 December 2010 and is split between a Medium Term Loan and overdraft facilities through until 31 December 2011

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 facility The Group will open renewal negotiations with the bank about the overdraft later in the year in the normal way, however the medium term loan element of the facilities extends through to 2012 with reductions of £0 4m pa in 2011

(b) New standards and interpretations
At the date of authorisation of these financial statements the IASB and IFRIC have issued the following standards and interpretations which have an effective date falling after the date of these financial statements and so have not been applied in these financial statements The directors anticipate that the adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements of the Group

International Accounting Standards (IAS & IFRS)		Effective date on periods beginning on or after
IAS 32	Financial Instruments Presentation – Amendment, Classification of Rights Issues	1 February 2010
IAS 24	Revised IAS 24 Related Party Disclosures,	1 January 2011
IFRIC 19	Financial Instruments Replacement of IAS 39	1 July 2010

(c) 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)

(c) Basis of consolidation (continued)
Minority interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity herein Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Company except to the extent that the minority 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, plus costs directly attributable to the acquisition 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 minority 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

The trading results of subsidiaries acquired or disposed of during the year are included in the Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate As the Ethiopia Tannery Share Company (ETSC) was acquired on 29 December 2009, its results were not included in the Statement of Comprehensive Income for 2009

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 The Company achieved a profit of £2 554m (2009 profit of £0 982m)

(d) Goodwill
Goodwill arising on consolidation is recorded as an intangible asset and is the surplus of the cost of acquisition over the Group's interest in the fair value of identifiable net assets acquired Goodwill is reviewed annually for impairment Any impairment identified as a result of the review is charged in the Statement of Comprehensive Income Any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost is taken to the Statement of Comprehensive Income in the year of acquisition

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

Goodwill arising on acquisitions before the date of transition to IFRS's has been written off directly to reserves in accordance with the exemption permitted under previous UK GAAP for acquisitions prior to 1998

(e) 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, VAT 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 Revenue from consultancy is recognised as the services are invoiced in accordance with the contract for services

(f) Foreign currency translation
a) Functional and presentation currency
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
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date All differences are taken to the Statement of Comprehensive Income

Notes to the consolidated accounts (continued)

1 Statement of accounting policies (continued)

(f) Foreign currency translation (continued)

c) Subsidiaries

On consolidation, the assets and liabilities of the Group's overseas operations are translated into the Group's presentational currency at exchange rates prevailing on the balance sheet date Income and expense items are translated at the average exchange rates for the period unless exchanges rates have fluctuated significantly during the year, in which case the exchange rate at the date of the transaction is used Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of at exchange rates prevailing on the balance sheet date Income and expense items are translated at the average exchange rates for the period unless exchanges rates have fluctuated significantly during the year, in which case the exchange rate at the date of the transaction is used Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of

(g) Exceptional items

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

(h) Intangible assets other than goodwill

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

Intangible assets acquired as part of a business combination are capitalised separately from goodwill and are carried at cost less accumulated amortisation and accumulated impairment losses The cost of the intangible assets is amortised over their estimated useful lives on a straight line basis, which can range from less than a year to 25 years, depending on the nature of the intangible asset

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 Statement of Comprehensive Income 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

Development expenditure is capitalised as an intangible asset only if the following conditions are met

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefit
- the development cost of the asset can be measured reliably

Development expenditure thus capitalised is amortised on a straight-line basis over its useful life Where the criteria are not met, development expenditure is recognised as an expense in the Statement of Comprehensive Income

(i) 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	5%
Plant, machinery and motor vehicles	10 – 33%

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

Notes to the consolidated accounts (continued)

1 Statement of accounting policies (continued)

***(i) Property, plant and equipment** (continued)*

Freehold buildings acquired from ETSC were depreciated at 5% The buildings acquired with the ETSC company were revalued using the Depreciated Replacement Cost method in December 2010 and the increase in value of £1 645m has been reflected via a fair value restatement in 2009 of £1 094m and a revaluation of buildings in other comprehensive income in 2010 of £0 551m Depreciation to date has been released No depreciation has been charged on the building being constructed by Pittards Global Sourcing Limited as it is still under construction

(j) 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income on a straight line basis over the periods of the leases

(k) Impairment of long-term assets

An impairment test is performed whenever events and circumstances arising during the year under review indicate that the carrying value of an asset may exceed its recoverable amount When the recoverable amount of an asset, being the higher of its net selling price and its value in use, is less than its carrying amount, then the carrying amount is reduced to its recoverable value This reduction is reported in the Statement of Comprehensive Income as an impairment loss Value in use is calculated using estimated cash flows These are discounted using an appropriate long-term pre-tax interest rate When an impairment arises, the useful life of the asset in question is reviewed and, if necessary, the future depreciation/amortisation charge is accelerated

(l) 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 amount that can be realised from the sale of the inventory in the normal course of business after allowing for the costs of realisation In addition to the cost of materials and direct labour, an appropriate proportion of production overheads is included in the inventory values Net realisable value is the estimated selling price less all costs to be incurred

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 at the end of 2009 as set out in Note 28 The directors have now satisfied themselves that there is no material difference between FIFO and average therefore the impairment reserve of £0 567m has been released to the Consolidated Statement of Comprehensive Income Inventories now include goods in transit from the suppliers to our factory where ownership has effectively passed to the Group

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

(m) Taxes

Taxation is tax chargeable on the profits for the period, together with deferred taxation Taxable profit differs from net profit as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

Deferred tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts, in the financial statements Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them

Notes to the consolidated accounts (continued)

1 Statement of accounting policies (continued)

(n) 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

(o) 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

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

Trade and other receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate 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 Statement of Comprehensive Income The cost of unrecoverable trade receivables is recognised in the Statement of Comprehensive Income immediately

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments 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

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities

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

Derivative financial instruments
The Group's activities expose it primarily to the financial risks of changes in foreign currency rates and interest rates Forward foreign exchange contracts are derivative instruments and are used by the Group to manage its risks The use of financial derivatives is governed by the Group's policies approved by the board

All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at inception This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration Such hedges are expected at inception to be highly effective

Forward currency contract hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the currency risk of future highly probable inventory sales Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in

Notes to the consolidated accounts (continued)

1 Statement of accounting policies (continued)

(p) Financial instruments (continued)

Derivative financial instruments (continued)

the Statement of Comprehensive Income Amounts taken to equity are transferred to the Statement of Comprehensive Income when the hedged transaction affects profit or loss, such as when a forecast sale occurs

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Statement of Comprehensive Income as they arise

(q) Share based payments

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

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

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

(r) 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

(s) Dividend distribution

Dividends proposed by the board of directors are not recorded in the financial statements until they have been approved by the shareholders at the Annual General Meeting (generally in the case of final dividends) or paid (in the case of interim dividends)

(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

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 was 2 3% (2009 – 4 3%) which represents the consistent application of an agreed formula plus additional specific provisions which management have deemed to be prudent

(b) Estimates of impairment on acquisition of ETSC

The directors have had to make certain assumptions on the impairment of various assets acquired in ETSC which are set out in Note 28 to the accounts The resulting accounting estimates will by definition seldom equal the actual results but the assumptions used are listed below

The buildings acquired were not subject to a full survey before purchase therefore the directors have made an impairment reserve of 10% to reflect the expected costs of necessary improvements to the structure to make all areas suitable for intended use

Inventories have not been valued on an equivalent FIFO basis to Yeovil inventories therefore an impairment reserve of 10% was applied in 2009 to raw hides and skins and 20% to chemical stocks where there may also have been some deterioration due to over stocking

Notes to the consolidated accounts (continued)

2 Critical judgements and estimation uncertainty (continued)

(b) Estimates of impairment on acquisition of ETSC (continued)
As noted in Note 14, this reserve has been released in 2010 as following the 31 December 2010 stock count, the directors are now satisfied that inventory values represent their true value

Certain accruals for potential liabilities relating to the business have not been recognised by ETSC therefore the directors have added an impairment reserve to trade and other payables of a further £0 359m across several categories of likely additional expense, which they do not yet feel able to release

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 consultancy income (as this is for services not goods) 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 before fixed and variable production costs as these are not separated out by segment The segment information is shown below

2010	Skins £'000	Hides £'000	Consultancy £'000	ETSC £'000	Other £'000	Unallocated £'000	Total £'000
Turnover	19,814	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	–	–	–	3,290	–	7,561	10,851

2009 (restated)	Skins £'000	Hides £'000	Consultancy £'000	ETSC £'000	Other £'000	Unallocated £'000	Total £'000
Turnover	16,507	7,336	367	–	474	–	24,684
Inter-segmental trading	(11)	(56)	–	–	–	–	(67)
	16,496	7,280	367	–	474	–	24,617
Gross contribution	7,715	2,929	11	–	37	–	10,692
Taxation	–	–	10	–	–	–	10
Assets	–	–	–	8,650	–	10,781	19,431
Liabilities	–	–	–	3,997	–	7,700	11,697

All transactions between segments are at normal commercial rates and terms

Reconciliation of gross contribution to gross profit is as follows	**2010 £'000**	2009 £'000
Gross contribution	**17,239**	10,692
Production costs including direct labour	**(7,125)**	(5,216)
Stock provisions movement	**(42)**	(25)
Depreciation	**(762)**	(425)
Gross profit	**9,310**	5,026

Notes to the consolidated accounts (continued)

3 Business segments information (continued)

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

2010	Skins £'000	Hides £'000	Consultancy £'000	ETSC £'000	Other £'000	Unallocated £'000	Total £'000
Europe	4,123	1,344	–	265	572	–	6,304
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**
2009							
Europe	4,403	1,263	–	–	332	–	5,998
North America	2,911	21	–	–	26	–	2,958
Rest of the world	9,182	5,996	367	–	116	–	15,661
	16,496	7,280	367	–	474	–	24,617

Revenues of approximately £6 250m (2009 £4 058m) within the skins segment are derived from one customer Revenues of approximately £6 778m (2009 £3 624m) within the hides segment are derived from another customer Both customers' revenues fall within the Rest of the World geographical segment

4 Exceptional items	**2010 £'000**	2009 £'000
Gain on bargain purchase	–	999
Fair value restatement	–	1,215

The Group acquired 100% of the issued share capital of Ethiopia Tannery Share Company (ETSC) on 29 December 2009 The excess of the value of assets acquired (subject to the impairment detailed in Note 28) over the purchase price of the ETSC business has been recognised in the Consolidated Statement of Comprehensive Income in 2009

The profit for the year ended 31 December 2009 as originally stated of £1 599m has been restated by the fair value adjustment of £1 215m and a taxation adjustment of £0 01m

5 Profit on continuing operations before taxation

The following items have been included in arriving at profit before taxation	**£'000**	£'000
Depreciation of property, plant and equipment		
– owned assets	**718**	419
– leased assets	**41**	41
Amortisation of intangible assets	**99**	97
(Profit) on sale of non-current assets	**(7)**	–
Operating lease rentals recognised as an expense		
– plant and machinery	**40**	85
– property	**258**	237
Staff costs (Note 6)	**7,071**	5,507
Research and development expenditure	**171**	130
(Loss) gain on foreign currency translations	**(12)**	34

Notes to the consolidated accounts (continued)

5 Profit on continuing operations before taxation (continued)

Auditor's remuneration

The analysis of fees payable to the Group's auditor is as follows	**2010**	2009
	£'000	£'000
Baker Tilly UK Audit LLP		
Fees in respect of the audit of the Company's annual accounts and consolidation	**29**	29
Fees in respect of the audit of the Company's subsidiaries pursuant to legislation	**14**	15
Total audit fees	**43**	44
Other services		
Services relating to corporate finance transactions	**–**	–
Other services pursuant to legislation	**5**	5
Total non-audit fees	**5**	5

6 Staff costs

The average number of employees of the Group (including executive directors) was	**No.**	No
Production	**700**	167
Sales, distribution and administration	**166**	17
Directors	**5**	4
	871	188
Their aggregate remuneration comprised	**£'000**	£'000
Wages and salaries	**6,484**	5,014
Social security costs	**587**	493
	7,071	5,507

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

	2010		2009	
	No. of options	**Weighted average exercise price pence**	No of options	Weighted average exercise price pence
Outstanding at the beginning of the period	**–**	**–**	–	–
Granted during the period	**17,866,667**	**1 64**	–	–
Exercised during the period	**(3,299,999)**	**1 64**	–	–
Outstanding at the end of the period	**14,566,668**	**1 64**	–	–
Exercisable at the end of the period	**14,566,668**	**1.64**	–	–

Share options outstanding at the end of the year expire in December 2012 and have a weighted average exercise price of 1 64 pence The weighted average exercise price of options exercised in the year was 2 43p

Notes to the consolidated accounts (continued)

7 Share options (continued)

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 £0 049m The total charge for cash settled share based payments was £0 275m, this amount is also held as a liability as at December 2010

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

8 Directors' remuneration

	Salary and fees £'000	*Benefits £'000	Share tracker bonus £'000	**2010 Total £'000**	2009 Total £'000
Executive					
R H Hankey	173	11	51	**235**	178
J Williams	95	7	28	**130**	99
Non-executive					
S D Boyd	48	3	14	**65**	40
L M Cretton	28	–	8	**36**	28
J G Holmstrom	21	–	–	**21**	–
	365	21	101	**487**	345
Social security costs				**39**	39
Total costs				**526**	384

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

Share options

Share options granted to directors under the Matching Share Option Scheme described in Note 7 were as follows

	Granted during year	Exercised during year	Number of options at 31 December 2010
R H Hankey	4,000,000	1,500,000	2,500,000
J Williams	666,667	–	666,667
S D Boyd	6,666,667	–	6,666,667
L M Cretton	300,000	–	300,000
J G Holmstrom	–	–	–
	11,633,334	1,500,000	10,133,334

No pensions contributions are made to directors

Only the directors are considered to be key management therefore there are no other key management costs to be disclosed

Notes to the consolidated accounts (continued)

9 Finance costs

	2010 £'000	2009 £'000
Interest on bank loans and overdrafts	**279**	156
Interest on obligations under finance leases and hire purchase contracts	**5**	9
Interest on other loans	**–**	43
Unwinding of discount on deferred consideration	**82**	–
	366	208

10 Taxation

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

	2010 £'000	2009 £'000 restated
The (credit) charge based on the profit for the year comprises		
Corporation tax on profit for the year	**238**	–
Foreign tax	**31**	10
Total current tax	**269**	10
Deferred tax – origination	**(1,000)**	–
	(731)	10

(b) Factors affecting the charge for the year

	2010	2009
Profit on ordinary activities before tax	**2,931**	2,834
Profit on ordinary activities before tax at 28% (2009 28%)	**821**	793
Effect of		
Recognition of deferred tax asset	**(1,000)**	–
Expenses not deductible for tax purposes	**37**	(269)
Depreciation in excess of capital allowances	**146**	155
Foreign tax paid	**31**	10
Other temporary differences	**(69)**	(19)
Tax losses in current year not relievable	**20**	45
Pension spreading	**–**	(250)
Tax losses utilised	**(534)**	(115)
Impairment release	**(156)**	–
Double tax relief	**(42)**	–
Effect of fair value restatement	**–**	(340)
Effect of foreign tax rate	**15**	–
Total tax (credit) charge for the year (Note 10(a))	**(731)**	10

(c) Factors that may affect future tax charges

The Group has decided to recognise a deferred tax asset of £1 0m in respect of losses out of a total deferred tax asset of £4 599m (2009 £4 663m) The element of the deferred tax asset not yet recognised would be available to be utilised against future taxable profits (Note 20)

Notes to the consolidated accounts (continued)

11. Profit per ordinary share

	2010 £'000	2009 £'000 restated
Analysis of the profit in the year		
Profit from continuing operations attributable to ordinary shareholders	**3,662**	2,824
Profit pre-exceptional item – fair value restatement	**3,662**	1,609
Weighted average number of ordinary shares in issue	**'000's**	'000's
(excluding the shares owned by the Pittards Employee Share Ownership Trust)		
Basic	**430,591**	222,387
Diluted	**436,240**	222,387
Basic profit per ordinary share from continuing operations	**0 85p**	1 24p
Diluted profit per ordinary share from continuing operations	**0 84p**	1 24p
Pre-exceptional item – fair value restatement profit per ordinary share	**0.85p**	0 71p

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 2009	–	12,057	12,057	11,325	11,325
Additions	19	110	129	110	110
Purchase of Ethiopia Tannery Share Company	2,017	4,789	6,806	–	–
Disposals	–	(14)	(14)	(14)	(14)
At 1 January 2010 – as previously stated	2,036	16,942	18,978	11,421	11,421
Fair value adjustment (see Note 28)	60	–	60	–	–
At 1 January 2010 (restated)	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	–	–
At 31 December 2010	**2,413**	**14,782**	**17,195**	**10,877**	**10,877**
Depreciation					
At 1 January 2009	–	9,908	9,908	9,232	9,232
Charge for year	–	460	460	458	458
Acquired on purchase of Ethiopia Tannery Share Company	1,034	3,655	4,689	–	–
Disposals	–	(2)	(2)	(2)	(2)
At 1 January 2010 – as previously stated	1,034	14,021	15,055	9,688	9,688
Fair value adjustment (see Note 28)	(1,034)	–	(1,034)	–	–

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
At 1 January 2010 (restated)	–	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 31 December 2010	–	**12,208**	**12,208**	**9,089**	**9,089**
Net book value					
At 31 December 2010	**2,413**	**2,574**	**4,987**	**1,788**	**1,788**
At 31 December 2009 (restated)	2,096	2,921	5,017	1,733	1,733
At 31 December 2008	–	2,149	2,149	2,093	2,093

Depreciation of £0 72m has been charged to cost of sales and £0 040m to administrative expenses in the Statement of Comprehensive Income

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 £113,000 (2009 – £154,000)

Freehold buildings includes an amount of £71,000 (2009 – £19,000) in respect of work commenced on the building for Pittards Global Sourcing Private Ltd Company

The buildings acquired from ETSC were revalued as at 31 December 2010 by Getachew Tesfaye, licensed loss assessor, who is an independent valuer The historic cost of buildings acquired from ETSC if no revaluation had taken place would have been £2 077m, the fair value of the building acquired

The property owned by Pittards Global Sourcing is carried at the historic cost of £0 069m

13 Intangible assets

	Group	Company
	Computer software	Computer software
	£'000	£'000
Cost		
At 1 January 2009 and 1 January 2010	**1,559**	**1,559**
Additions	**17**	**–**
At 31 December 2010	**1,576**	**1,559**
Amortisation		
At 1 January 2009	1,265	1,265
Charge for year	97	97
At 1 January 2010	1,362	1,362
Charge for year	99	97
At 31 December 2010	**1,461**	**1,459**
Net book value		
At 31 December 2010	**115**	**100**
At 31 December 2009	197	197
At 31 December 2008	294	294

Notes to the consolidated accounts (continued)

13 Intangible assets (continued)

Amortisation has been charged to administrative expenses in the Statement of Comprehensive Income

The directors are not aware of any events or changes in circumstances during the year which would have a significant impact on the carrying value of the Group's property, plant and equipment or intangible assets at the balance sheet date

14 Inventories

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Raw material and sundry inventory	**3,416**	4,353	**1,978**	1,716
Work in progress	**2,926**	2,292	**1,924**	1,403
Finished goods	**4,102**	3,535	**2,697**	2,438
	10,444	10,180	**6,599**	5,557

During the year £0 042m (2009 £0 025m) in respect of a stock provision was debited to the Statement of Comprehensive Income as part of the cost of sales, and £18 991m was charged to the Statement of Comprehensive Income as cost of sales (2009 £12 329m) There were no reversals of writedowns recognised during the year

Raw material and sundry inventory includes £0 569m of goods in transit at year end (2009 – £0 225m)

As part of the purchase of ETSC in 2009 the Group took over inventory of £4 989m against which there was a provision of £0 567m Following a stock count at 31 December 2010 this provision was deemed to be unnecessary and was released through cost of sales

15 Other financial assets

Trade and other receivables	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
		restated		restated
Trade receivables	**3,463**	2,752	**2,685**	2,499
Less provision for impairment of trade receivables	**(369)**	(269)	**(365)**	(241)
Trade receivables net	**3,094**	2,483	**2,320**	2,258
Other receivables	**495**	566	**286**	166
Prepayments and accrued income	**162**	152	**154**	111
Amounts owed by Group undertakings	**–**	–	**2,999**	2,344
	3,751	3,201	**5,759**	4,879
Movement on the provision for impairment of trade receivables was as follows				
As at 1 January	**269**	173	**241**	173
Provision for receivables impairment	**124**	77	**124**	77
Receivables written off during the year as uncollectable	**(24)**	(9)	**–**	(9)
Provision taken over at ETSC	**–**	28	**–**	–
As at 31 December	**369**	269	**365**	241
The ageing of the net trade receivables is as follows				
Up to 60 days	**2,805**	2,344	**2,260**	2,136
60 – 90 days	**189**	126	**58**	114
More than 90 days	**100**	13	**2**	8
	3,094	2,483	**2,320**	2,258

Notes to the consolidated accounts (continued)

15 Other financial assets (continued)

Credit terms for trade receivables vary between payment on receipt of goods to 90 days therefore a large proportion of the above receivables are not yet due for payment

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	Group		Company	
	2010 £'000	2009 £'000 restated	**2010 £'000**	2009 £'000 restated
US dollars	**1,974**	1,599	**1,713**	1,533
Canadian dollars	**–**	52	**–**	52
Ethiopian Birr	**425**	99	**–**	–
Euros	**115**	216	**114**	215
GB sterling	**580**	517	**493**	458
	3,094	2,483	**2,320**	2,258
Cash and cash equivalents	**1,307**	833	**29**	15

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 doubtful 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 520m (2009 £1 135m) 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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are financial institutions with high credit-ratings assigned by international credit rating agencies

16 Trade and other payables	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Trade payables	**2,545**	1,844	**2,270**	1,426
Other taxes and social security costs	**425**	344	**288**	333
Accruals and deferred income	**1,670**	846	**1,300**	858
Other payables	**1,393**	1,621	**413**	593
Amounts owed to Group undertakings	**–**	–	**3,442**	3,724
	6,033	4,655	**7,713**	6,934

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

Notes to the consolidated accounts (continued)

17 Interest-bearing loans and borrowings – amounts falling due within one year

	Group		Company	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Unsecured Loans	**411**	1,729	**–**	–
Secured Overdrafts	**–**	3,069	**–**	2,139
Loans	**1,588**	806	**400**	200
Obligations under finance leases	**23**	47	**23**	46
	2,022	5,651	**423**	2,385

18 Interest-bearing loans and borrowings – amounts falling due after more than one year

	£'000	£'000	**£'000**	£'000
Unsecured Loans	**505**	234	**–**	–
Secured Loans	**2,291**	1,134	**1,500**	–
Obligations under finance leases				
– between one and two years	**–**	23	**–**	23
– between two and five years	**–**	–	**–**	–
	2,796	1,391	**1,500**	23
Repayable as follows				
Between one and two years by instalments	**2,796**	1,391	**1,500**	23
	2,796	1,391	**1,500**	23

The Group's loan and overdraft facilities are secured by fixed and floating charges over the assets of the Company, principally property, plant and equipment, inventory and receivables Obligations under finance leases are secured by the related asset

19 Obligations under leases

Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties, motor vehicles and items of machinery Future aggregate minimum rentals payable under non-cancellable operating leases are as follows

	£'000	£'000	**£'000**	£'000
Not later than one year	**244**	254	**244**	253
After one year but not more than five years	**125**	483	**125**	483
	369	737	**369**	736
Plant and machinery				
Not later than one year	**13**	24	**13**	23
After one year but not more than five years	**10**	21	**10**	21
	23	45	**23**	44
Property				
Not later than one year	**231**	230	**231**	230
After one year but not more than five years	**115**	462	**115**	462
	346	692	**346**	692

Notes to the consolidated accounts (continued)

19. Obligations under leases (continued)

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 May 2012

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	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Future minimum payments due				
Not later than one year	**25**	52	**25**	52
After one year but not more than five years	**–**	25	**–**	25
	25	77	**25**	77
Less finance charges allocated to future periods	**(2)**	(7)	**(2)**	(7)
Present value of minumum lease payments	**23**	70	**23**	70
The present value of minimum lease payments is analysed as follows				
Not later than one year	**23**	47	**23**	47
After one year but not more than five years	**–**	23	**–**	23
	23	70	**23**	70

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

20. Deferred taxation

The Group has unrecognised deferred tax assets in respect of temporary differences and losses In accordance with the requirements of IAS12 the directors considered the potential utilisation of the deferred tax asset and have decided to recognise £1 0m of the deferred tax asset in the current year in view of the Group's continued profitability

The analysis of deferred tax assets not recognised is as follows

	2010			2009		
	£'000 recognised	**£'000 unrecognised**	**£'000 Total**	£'000 recognised	£'000 unrecognised	£'000 Total
Capital allowances in advance of depreciation	**–**	**(915)**	**(915)**	–	(819)	(819)
Tax losses	**(1,000)**	**(2,535)**	**(3,535)**	–	(3,685)	(3,685)
Other temporary differences	**–**	**(149)**	**(149)**	–	(159)	(159)
	(1,000)	**(3,599)**	**(4,599)**	–	(4,663)	(4,663)

The Group has no deferred tax liabilities

Notes to the consolidated accounts (continued)

21. Share capital

	2010	2009
	£'000	£'000
Authorised		
2,750,000,000 ordinary shares of 1p each	**27,500**	27,500
Issued and fully paid		
Ordinary shares of 1p each	**4,331**	4,298
	Shares	Shares
Issued and fully paid		
Number of ordinary shares of 1p each	**433,136,128**	429,836,129

Following a placing of shares and loan conversions approved by shareholders in 2009, the Company issued 206,591,652 new shares at a price of 1 5p per nominal 1p share on 23 December 2009 increasing shares in issue to 429,836,129 Pursuant to the Matching Share Option Scheme approved by shareholders in December 2009, options over shares totalling 3,299,999 were issued in 2010, increasing shares in issue to 433,136,128

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

Share options
At 31 December 2010 directors and employees held options to subscribe for 14,566,668 shares (2009 nil)

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 represents 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 revaluation reserve represents the revaluation of the buildings at ETSC undertaken in December 2010

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 Company has not presented its own Statement of Comprehensive Income based on the exemption in s408 of Companies Act 2006

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 2010 the trust held a total of 951,328 shares (2009 – 951,328) with a market value at that date of £27,000 (2009 - £19,000)

Notes to the consolidated accounts (continued)

23. Cash generated from (used in) operations

	Group		Company	
	2010 £'000	2009 £'000 restated	**2010 £'000**	2009 £'000
Profit before taxation	**2,931**	2,834	**1,554**	982
Adjustments for				
Depreciation of property, plant and equipment	**759**	460	**445**	458
Amortisation	**99**	97	**97**	97
Profit on sale of plant and equipment	**(7)**	–	**–**	–
Gain on derivatives	**–**	(15)	**–**	(15)
Foreign exchange gain	**(12)**	(28)	**(47)**	(34)
Bank and other interest charges	**284**	208	**151**	208
Gain on bargain purchase and fair value restatement	**–**	(2,214)	**–**	–
Share based payments	**48**	–	**48**	–
Operating cash flows before movement in working capital	**4,102**	1,342	**2,248**	1,696
Working capital				
Increase in inventories	**(1,138)**	(1,349)	**(1,042)**	(1,312)
Decrease (increase) in receivables	**(671)**	2,253	**(879)**	(1,499)
Increase (decrease) in payables	**1,108**	(887)	**779**	443
Cash generated from (used in) operations	**3,401**	1,359	**1,106**	(672)

24 Analysis of the changes in net funds

Group	As at 1 January 2010 £'000	Cashflow £'000	Exchange movements £'000	**As at 31 December 2010 £'000**
Cash at bank and in hand	833	474	–	**1,307**
Bank overdraft	(3,070)	3,042	28	**–**
	(2,237)	3,516	28	**1,307**
Company				
Cash at bank and in hand	15	14	–	**29**
Bank overdraft	(2,139)	2,092	47	**–**
	(2,124)	2,106	47	**29**

25. Related party transactions

(a) Related party trading

The net purchases from ETSC during the year were £7 234m (2009 – £7 120m) Net sales to ETSC during the year were £620,000 (2009 £103,000)

During the year Pittards plc sold goods to Daines & Hathaway in the sum of £52,077 (2009 £66,828) During the year Daines & Hathaway sold goods to Pittards plc in the sum of £60,491 (2009 £43,010)

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

Notes to the consolidated accounts (continued)

25. Related party transactions (continued)

(a) Related party trading (continued)

Amounts due from subsidiaries		Company	
	Note	**2010 £'000**	2009 £'000
Daines & Hathaway Limited	15	**427**	295
Pittard Garnar Services Limited		**2,572**	2,049
		2,999	2,344
Amounts due to subsidiaries	16		
R & A Kohnstamm Limited		**(1,286)**	(1,286)
CW Pittard Limited		**(1,000)**	(1,000)
Pittards Group Limited		**(30)**	(30)
Ethiopia Tannery Share Company		**(1,126)**	(1,408)
		(3,442)	(3,724)

(b) Related party loans

During the year the Group paid off its loan from Chamberlain Plastics Limited (CPL) CPL is 60% owned by Mr Stephen Boyd, a director of the Company At the year end the loan owed to CPL was £nil (2009 £200,000) The maximum amount outstanding at any point in the year was £200,000

Under the terms of the loan agreement, the loan bore interest at 7 5%, and was to be repaid on demand or within 3 months It was secured by means of a second charge, subordinate to the Group's bank, over the assets of the Group

(c) 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. Ultimate parent company

Browallia AB, a company incorporated and registered in Sweden, held 49 86% of the share capital of Pittards plc at year end (215,629,872 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, fair value interest rate risk, cash flow 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 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

(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 to Ethiopian Birr since the purchase of ETSC on 29 December 2009 Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations

Approximately 91% (2009 – 88%) of the Group's revenue is from exports, with some 82% (2009 – 72%) in US dollars US dollar based raw material purchases amounted to 22% in 2010 (2009 60%)

Notes to the consolidated accounts (continued)

27 Financial instruments (continued)

(a) Risk management policies (continued)
Foreign currency exchange rate risk (continued)
The foreign currency transaction exposure in the business is also mitigated where appropriate by the use of forward currency contracts There were no forward contracts used in 2010 or 2009

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 has been 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

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

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 Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts

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	
	2010 £'000	2009 £'000 restated	**2010 £'000**	2009 £'000 restated	**2010 £'000**	2009 £'000
US Dollar	**1,971**	1,599	**(1,789)**	50	**333**	394
Euro	**115**	216	**(136)**	61	**116**	114
Ethiopian Birr	**425**	99	**(1,956)**	(3,275)	**1,212**	(133)
Other	**–**	52	**(5)**	15	**(11)**	25
	2,511	1,966	**(3,886)**	(3,149)	**1,650**	400
GBP	**583**	517	**(3,477)**	(5,737)	**(343)**	(2,637)
Total	**3,094**	2,483	**(7,363)**	(8,886)	**(1,307)**	(2,237)

(d) Foreign currency sensitivity
As 82% (2009 – 72%) of the Group's revenue is in US dollars, the sensitivity analysis is only on the US dollar impact

The following table details the Group's sensitivity to a 10% change in pounds sterling against the US dollar 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 decreases against the respective currency

Notes to the consolidated accounts (continued)

27 Financial instruments (continued)

(d) Foreign currency sensitivity (continued)

	2010 **£'000**	2009 £'000
Loss (i)	**(1,423)**	(804)

(i) This is mainly attributable to the exposure to outstanding US dollars receivables, payables and cash at the year end in the Group and changes in fair value of derivative instruments designated as available for sale

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 2010 or 2009

(e) 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 015m (2009 – £0 011m) 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 2010 and at 31 December 2009 and their weighted average effective interest rates are as follows

As at 31 December 2010

Fixed rate	Weighted average effective interest %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	Within 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Other loans	0	411	–	–	793	506	–	–	1,710
Obligations under finance leases	6 50	–	–	–	23	–	–	–	23
Floating rate									
Bank overdrafts and loans	4 5	–	–	–	795	2,290	–	–	3,085
Trade payables	–	2,545	–	–	–	–	–	–	2,545

Notes to the consolidated accounts (continued)

27 Financial instruments (continued)

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

As at 31 December 2009

Fixed rate	Weighted average effective interest %	Less than 1 month £'000	1-3 months £'000	3 months to 1 year £'000	Within 1 year £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total £'000
Other loans	0	–	–	–	–	1,963	–	–	1,963
Obligations under finance leases	6 50	–	–	–	47	23	–	–	70
Floating rate									
Bank overdrafts and loans	4 79	–	–	–	3,875	1,134	–	–	5,009
Trade payables	–	1,844	–	–	–	–	–	–	1,844

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 2010, the Group's strategy was to improve the gearing ratio The gearing ratios at 31 December 2010 and 2009 were as follows

	2010 £'000	2009 £'000 restated
Total borrowings	**4,818**	7,042
Less cash and cash equivalents	**(1,307)**	(833)
Net debt	**3,511**	6,209
Total equity	**10,755**	7,734
Gearing ratio	**33%**	80%

The decrease in the gearing ratio during 2010 resulted from improved profitability and continued settlement of loans and leases

Notes to the consolidated accounts (continued)

28 Investments	Subsidiaries £'000
Cost	
At 1 January 2009 and 1 January 2010	3,423
Investment in Pittards Global Sourcing	50
At 31 December 2010	**3,473**
Provision	
At 31 December 2009 and 2010	1,582
Net book value	
At 31 December 2010	**1,891**
At 31 December 2009	1,841

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 leathergoods	United Kingdom	£ sterling
CW Pittard & Co Ltd	Dormant	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 plc holds directly or indirectly all the issued 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

100% of the shares of Ethiopia Tannery Share Company (ETSC) were acquired from the Privatisation and Public Enterprises Supervisory Agency (PPESA) in Ethiopia on 29 December 2009 The consideration was settled by way of an upfront payment of £1 899m plus three instalments of £0 633m to be paid on the first, second and third anniversary of completion The first instalment was settled on 20 December 2010 If the acquisition had occurred on 1 January 2009 Group revenue would have been £30 371m and profit before tax would have been £1 725m These amounts have been calculated using the Group's accounting policies

The fair value of the assets acquired was as follows

	Book value 31-12-2009 £'000	Adjustment for impairment £'000	Fair value 31-12-2009 provisional £ 000	Fair value restatement £ 000	Fair value 31-12-2009 restated £'000
Property, plant and equipment	2,319	(202)	2,117	1,094	3,211
Investment	3	–	3	–	3
Inventories	4,989	(567)	4,422	–	4,422
Trade and other receivables	2,088	–	2,088	(49)	2,039
Cash and cash equivalents	511	–	511	–	511
Trade and other payables	(1,191)	(359)	(1,550)	170	(1,380)
Interest bearing loans and borrowings – current	(1,600)	–	(1,600)	–	(1,600)
Interest bearing loans – non-current	(1,249)	–	(1,249)	–	(1,249)
Fair value of net assets	5,870	(1,128)	4,742	1,215	5,957

Notes to the consolidated accounts (continued)

28 Investments (continued)

	Book value 31-12-2009 £'000	Adjustment for impairment £'000	Fair value 31-12-2009 provisional £'000	Fair value restatement £'000	Fair value 31-12-2009 restated £'000
Purchase consideration – cash	(1,899)	–	(1,899)	–	(1,899)
– deferred (i)	(1,741)	–	(1,741)	–	(1,741)
– fees (ii)	(103)	–	(103)	–	(103)
Gain on bargain purchase	2,127	(1,128)	999	1,215	2,214

The fair value of the acquired assets at the end of 2009 was provisional pending full surveys of the property and inventory and quantification of certain liabilities not yet recognised in ETSC's balance sheet

(i) Deferred consideration after discount at 4 5%pa This is shown in Note 17 for the element due within 1 year and in Note 18 for the proportion due in year 2

(ii) Fees payable in connection with the purchase totalled £103,000

(iii) By the end of 2010 investigations into the inventory held provided necessary assurances that the inventory was fairly valued in the books of ETSC therefore a release of £0 567m has been made in the Consolidated Statement of Comprehensive Income

As at December 2010 the fair values originally reported for certain assets and liabilities were adjusted to take account of new information that came to light in the year

In preparing the 31 December 2009 financial statements, the directors included the freehold buildings acquired as part of the acquisition of ETSC at their book value (as reduced to take into account their best estimate of works required to the property at that time) as it was not practicable for full surveys to be undertaken at that point These surveys were completed during the course of 2010 and a valuation received in August 2010 which was subsequently updated as at 31 December 2010 The valuation received in August 2010 was used as the basis for updating the calculation of the provisional fair value established at the date of acquisition which resulted in an increase to the fair value at this time of £1 094m This has been treated as an update to the provisional fair value as required under IFRS3 (revised) The additional uplift in the value of the freehold property which arose between the date of the initial valuation and that carried out as at 31 December 2010 has been treated as a revaluation adjustment and the uplift has been credited to a revaluation reserve

Additionally, the value of other receivables included within the ETSC balance sheet at the date of acquisition was impaired by £0 049m reflecting an update of the assessment of the recoverability of these sums and payables were reduced by £0 17m following finalisation of the taxation provision These adjustments occurred during the assessment period under IFRS3 (revised) and have resulted in restatements to the provisional fair values assessed by the directors at the date of acquisition

	Non subsidiaries	
	2010	2009
	£'000	£'000
ETSC has an investment, representing 2% of the company, which has not been consolidated	**2**	3

The reduction in the value of the investment from 2009 to 2010 is due to changes in exchange rate during the year

29 Post balance sheet events

A deposit of 5% was paid in December 2010 in respect of a nearly completed factory unit next to Pittards Global Sourcing's new factory in Addis Ababa A legally binding contract has been signed and completion is expected in the next few weeks The total cost of the factory will be £0 3m

Analysis of shareholders

as at 31 December 2010

Ordinary shares	Number of holders	% held	Number of shares held	% held
Category				
Individuals	1,525	99 22	387,161,262	89 39
Trust and investment companies	9	0 58	6,221,217	1 44
Pension funds	3	0 20	39,753,649	9 17
	1,537	100 00	433,136,128	100 00
Size of holding				
Up to 999 shares	686	44 63	312,499	0 07
1,000 to 9,999 shares	563	36 63	2,003,127	0 46
10,000 to 49,999	148	9 63	3,549,964	0 82
50,000 shares and over	140	9 11	427,270,538	98 65
	1,537	100 00	433,136,128	100 00

Five year review

	2010 £'000	2009 £'000 restated	2008 £'000	2007 £'000	2006 £'000
Revenue					
Continuing operations	36,086	24,617	26,785	28,853	39,444
Percentage outside UK	91%	88%	91%	90%	90%
Profit (loss) on ordinary activities before finance costs					
Continuing operations	3,297	3,042	(71)	(1,783)	26,535
Profit (loss) on ordinary activities before taxation	2,931	2,834	(367)	(2,185)	27,470
Profit (loss) on ordinary activities after taxation	3,662	2,824	(380)	(2,185)	27,457
Dividends					
Ordinary	–	–	–	–	–
Shareholders' funds	10,705	7,710	1,861	2,808	4,973
Earnings (loss) per ordinary share (basic)	0 85p	1 24p	(0 17p)	(0 98p)	18 9p
Dividends per ordinary share	–	–	–	–	–

Financial calendar

Annual General Meeting	11 May 2011
Announcement of half year results for 2011	September 2011
Payment of interim dividend for 2011 (if declared) to shareholders registered on 7 October 2011 (ex dividend date 5 October 2011)	7 November 2011
Announcement of 2011 results	March 2012