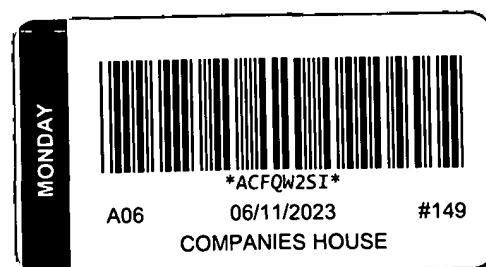


Scottish Leather Group Operations Limited

Annual Report and Financial Statements

Registered number SC015274

31 March 2023



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Strategic Report

The directors present their Strategic Report for the year ended 31 March 2023.

Principal activity and business review

The principal activity of the company continues to be the manufacture of leather.

The final result for the year ending 31 March 2023 was an operating profit of £0.2M (2022: loss of £0.4M) with a profit before tax of £0.3M (2022: loss of £0.3M), resulting from a sales turnover of £124.6M (2022: £89.7M).

In the automotive sector, despite a gradual easing of component supply restrictions (especially semiconductors), vehicle output was still significantly down on pre-pandemic levels. Our Bridge of Weir sales into this sector were somewhat cushioned by our customers focusing their limited supply of semiconductors upon building their higher value models which use our leathers, and revenue from increased levels of leather cutting.

Global airline passenger traffic rose steadily throughout the year to reach some two-thirds of pre-pandemic levels. In the latter half of the year, we saw aircraft which had been grounded throughout the pandemic, being brought back into service. This in turn led to an increasing level of enquiries from the aviation sector, for both leather and ready-to-install seat covers. An increasing level of aircraft new-build and refurbishment projects was evident from a high number of customers visiting the Muirhead stand at the recent AIX aviation interiors exhibition in Hamburg.

These promising signs of recovery in our two principal market sectors, led to a growth of sales turnover to £124.6M (2022: £89.7M).

Dramatic energy price increases, following commencement of the war in Ukraine, significantly impacted our energy and chemical costs. We were somewhat cushioned from energy cost increases, until early in the third quarter of the financial year, by favourable fixed-price gas and electricity contracts. Thereafter, our unit energy cost for gas more than doubled, and increased more than three-fold for electricity. We also endured steep chemical cost increases, from suppliers facing similar energy cost challenges.

Our year-end cash position declined as a consequence of the impact of factors discussed above on operating cashflow, and further investment on the final stages of the tannery project at our Bridge of Weir site, as well as other significant capital projects. These projects, which commenced prior to the pandemic, are nearing completion and will give us significant competitive and cost advantage as our markets recover from their pandemic-induced slowdown.

Principal risks and uncertainties, having a potential impact upon the business, include:

- Alternative materials in the automotive sector: price competition amongst automotive OEMs (Original Equipment Manufacturers), to gain market share in the 'value' segment and some parts of the 'premium' segment especially BEVs (Battery Electric Vehicles), is driving cost-out initiatives and some transition to synthetics. Volvo has strategically announced that there will be no leather in its vehicles by 2030. It is therefore crucial that we continue to focus upon 'ultra-premium' and 'luxury' automotive manufacturers, who value the quality, traceability, and sustainability of our products, as well our added-value services. There remains significant opportunity for us to grow in the 'ultra-premium' and 'luxury' segments.
- Customer demand volatility: the uncertain and variable nature of mid-term leather demand, a characteristic of our automotive and aviation segments over several years, continues. We have adjusted our factory overhead to deliver an efficient cost base aligned to a more predictable base customer demand, and access temporary agency labour to flex our workforce for demand peaks. We also continue to explore opportunities in other market sectors having more predictable demand.
- Energy costs: the manufacture of leather is energy intense therefore volatility in gas and electricity costs, driven by conflict, political decisions, and other factors, poses a risk to our profitability. We have been successful in passing through some of the recent energy cost increases to our customers via contractual energy clauses and a renegotiation of selling prices. We mitigate future energy cost risks through fixed-price 12-month energy

Principal activity and business review (continued)

contracts. We have also contracted with Total Energies, for their investment in the construction of a photo-voltaic energy plant on

land adjacent to our Bridge of Weir site, with a long-term commitment to supply lower-cost renewable solar electricity to our Bridge of Weir site equivalent to 25% of total site demand. Construction is due to complete in Q1 2024.

- Foreign currency: our percentage of sales turnover, transacted in USD and EUR, has declined but still represents some 50% of total turnover. A significant proportion of our chemical procurement is EUR denominated which acts as a partial natural FX hedge. To mitigate FX risk we have, for many years, hedged our FX exposure. With an increased proportion of GBP denominated transactions, we are reviewing details of our hedging policy.

Key areas of development and performance of the business include:

- Health and Safety: remains our first topic of conversation at every meeting, with our Head of Health & Safety now reporting directly to the CEO. We have made significant progress in reducing accidents but aim to reduce these even further by focusing upon and addressing near-misses to prevent these from turning into accidents. We are immensely proud to have been awarded RoSPA Gold for the twelfth consecutive year, with a special RoSPA President's Award in recognition of this outstanding achievement.
- Sustainability and climate change: the foresight of our focus upon, and considerable investment in, sustainability since 2003 gives us a unique advantage over other manufacturers of leathers. The majority of automotive OEM's now have sustainability leaders at their top-table and have publicly announced bold targets for the reduction of their Scope 3 CO₂ emissions by working together with their supply chain partners. In the aviation sector, pending an availability of low-emission hydrogen or electric aero engines, or the widespread availability of sustainable aviation fuels, airlines and aircraft manufacturers are looking to supply chain partners to reduce the eCO₂ content and weight of materials used in aircraft.
- Supply chain forward integration: as a result of our investment in automotive cutting at our Paisley site, and our automotive cutting partnerships in Mexico and China, cut parts now represent over 50% of total automotive sales. This forward integration into the supply chains of our automotive customers, reduces the risk of their future move to an alternative leather supply, and generates attractive margins. Our wholly owned cut-and-sew operation in China is now fully operational and is delivering ready-to-install aviation seat covers to a number of Asian customers, with significant further opportunities in the pipeline with other Asian carriers.

A structured five-year planning process kicked off with February's strategy day, involving the full senior leadership team and board. This identified and prioritised key value creation drivers in terms of new technologies, product and business model innovations, as well as growth customers and segments. A number of these are already under implementation, with the remainder being further developed for a follow up strategy day in November. These value creation drivers will form the basis of a structured FY25-FY29 five-year plan to be presented to the board in Q4 FY24.

As well as measuring ourselves, against traditional financial KPIs, we believe that it is equally important for us to strive to improve against other metrics including Health & Safety, employee engagement, diversity, and environmental impact. We have therefore extended our traditional KPIs as below.

Key financial performance indicators include monitoring the management of profitability and working capital.

	2023	2022	Measure
Financial			
ROCE	0.8%	(0.9)%	Profit/(loss) before tax/net assets
Stock days	101	87	Stock/cost of sales

Strategic Report (continued)

Energy use and carbon emissions

The Streamlined Carbon and Energy Reporting (SECR) data is presented in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The data collected includes the emissions for the UK operations of Scottish Leather Group Limited. UK Government (greenhouse gas) conversion factors were used to calculate carbon emissions and offsets, from primary data (meter readings and invoices). Several of these conversion factors (e.g. waste, Scope 3) have increased during the year. All purchased electricity is from 100% renewable (REGO) and carbon neutral sources. The 2018-2019 financial year continues to be used as the base year. The chosen intensity measurement is kg CO₂e/m² of finished product which replaces the kWh/m² metric used previously within Climate Change Agreement reporting. Annual targets for absolute and relative energy use and carbon intensity KPIs for product mix are set within the Energy Management System. The energy and carbon data presented is audited bi-annually by BSI. Additionally, the data presented is audited to ISO14016. The Group's products (marketed as *Lowest Carbon Leather*) are subject to published (PCR, PEFCR) Life Cycle Analysis measurement which includes upstream carbon assessment.

We are pleased to report a 20% increase in energy efficiency over the past two years against the prior two-year period. We have targeted a further 5% improvement in energy efficiency over the coming year. To complete the few remaining miles, on our twenty-year journey to Net Zero (Scope 1&2) by 2025, we will also need to increase our utilisation of renewable heat, both through internal recovery and the adoption of green gas which has significantly lower carbon impact than natural gas. These initiatives, along with the photo-voltaic energy plant being constructed by Q1 2024 by Total Energies, on land adjacent to our Bridge of Weir site, will enable us to reach our net zero target.

	Units	2022-2023	2021-2022	2020-2021	2018-2019 *
Scope 1					
Gas consumption	kWh	39,569,246	34,045,810	34,301,001	40,858,498
Electricity consumption	kWh	17,546,442	14,904,943	14,073,795	17,596,923
Gas consumption	T CO ₂ e	7,223	6,215	6,283	7,484
Owned transport	T CO ₂ e	198	156	158	123
Process emissions	T CO ₂ e	138	123	103	148
Total Scope 1		7,559	6,494	6,544	7,755
Scope 2					
Emissions from purchased electricity	T CO ₂ e	3,393	2,882	2,988	10,588
Total Scope 2		3,393	2,882	2,988	10,588
Chosen intensity measurement:					
S1 & S2 net emissions	kg CO₂e/m²	0.91	1.08	1.70	1.12
Scope 3					
Fuel- and energy-related activities not included in Scopes 1 and 2	T CO ₂ e	2,353	2,012	1,967	2,081
Business travel	T CO ₂ e	578	61	16	N/A
Waste generated in operations - disposal emissions	T CO ₂ e	5,650	4,323	3,723	9,653
Total Scope 3		8,581	6,396	5,706	11,734
Offsets					
Gross emissions S1, S2, and S3	T CO ₂ e	19,533	15,772	14,911	24,177
Offset – Steam and oil exported	T CO ₂ e	(2,348)	(2,255)	(2,546)	(3,255)
Offset – REGO electricity supply	T CO ₂ e	(3,186)	(2,656)	(2,722)	(3,403)
Net emissions	T CO₂e	13,999	10,861	9,643	17,519

* 2018-19 is the base year

Strategic Report (continued)

Energy use and carbon emissions (continued)

Kg CO₂e/m² Carbon intensity – Kg Carbon Dioxide equivalent per square metre product; T CO₂e – Tonnes Carbon Dioxide equivalent emissions; equivalent emissions are all emissions converted and reported on carbon dioxide; kWh – Kilowatt hours – Standard unit of gas & electricity measurement.

Section 172 Statement

Stakeholder Engagement - Business success depends on developing long term relationships with our employees, local communities and other organisations that have an interest in the company and may be impacted by its decisions. These stakeholders are central to the business's strategic direction, purpose, priorities, values, and culture. The business strives to provide mutually beneficial outcomes for our employees, customers, shareholders, suppliers, communities, environment, government, and non-governmental organisations (NGOs). The company identifies its key stakeholders through its strategic planning process which is focused on delivering long-term sustainable value.

The business engages with these important stakeholders in a variety of ways from direct discussions to surveys and participating in community, industry, and government forums. This provides valuable insights that inform the Board's deliberations. These active engagements support the principles of Section 172 of the Companies Act which sets out that Directors should have regard to stakeholder interests when discharging their duty to promote the success of the company. Principal engagement with key stakeholder groups is undertaken at a group level which supports both group and subsidiary companies. Engagement with key stakeholder groups to promote the long-term interests of the business and is achieved as follows:

Employees:

- All-employee survey • Regular Newsletters • Employee portal • Share ownership scheme • Employee benefits & discounts • Healthy Working Lives • Commitment to building an inclusive culture • Ongoing engagement with Health & Safety Initiatives, including behavioural safety.

Customers:

- Key account management • Technology partnerships • Trusted long-term partnerships • Investment in research and development • Sustainability strategy.

Suppliers:

- Clearly defined supplier quality policy • Supplier visits • Strong safety culture • Trusted partnerships.

Shareholders:

- Annual Report and General Meeting • Clear strategy and good execution • Financial discipline • Strong returns and management • Protecting and enhancing the reputation of the company • Sustainability strategy.

Communities & Environment:

- Supporting employment and apprenticeship schemes • Jobs and investment • Good neighbours, operating safely and ethically • Active support to local communities • Reducing environmental impact • Developing and executing our sustainability strategy.

Government & NGOs:

- Direct engagement with national and local politicians and officials • Membership of industry bodies • Supporting NGO efforts to improve STEM.

Strategic Report *(continued)*

Financing

The company's business activities and current position, as well as information on its cash flows and net funds, are set out within this annual report and the notes to the financial statements.

The working capital requirement will fluctuate over the course of a year and will be particularly driven by the nature of the long-term recovery from the pandemic and the current conflict in Ukraine on trading volumes, cost escalation, raw material costs and other seasonal factors. Cash flow requirements are closely managed by preparing monthly cashflow forecasts. A structured analysis of sensitivities to the main risks facing the business has been carried out.

Despite the challenging business environment and after taking into account the current order book, considering the underlying operational performance of the business, the various forecasts indicate that the company should continue to be able to operate within its existing level of cash resources. Where appropriate, the company offers credit terms to its customers for the payment of debts due for goods and services. The risk is mitigated by credit insurance and by maintaining strong ongoing relationships with customers.

As detailed in note 1.2 to the financial statements, after having made appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to finance operations for the foreseeable future. Therefore, they continue to adopt the going concern basis in preparing the annual report and financial statements.

By order of the board



Steve Henning
Director

Locher House, Kilbarchan Road, Bridge of Weir PA1 3RN

24 / 08 / 2023

Directors' Report

The directors present their report and audited financial statements for the year ended 31 March 2023.

Directors

The directors who held office during the year were as follows:

D M Archibald (Resigned on 31 March 2023)
S S Henning (Appointed 23 March 2023)
D MacTaggart (Resigned 22 June 2022)
I F McFadyen (Resigned 1 October 2022)
M K S Marshall (Resigned 30 June 2022)
N Muirhead

In compliance with their duties under Section 172 of the Companies Act 2006, the directors have described how the business develops relationships with suppliers, customers and others, and the effect of that on principal decisions taken, in the Strategic Report.

Dividend

Dividends totalling to £1.4m (2022: £1.4m) were paid during the year.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

In accordance with the company's articles, a resolution proposing that Johnston Carmichael LLP be reappointed as auditor of the company will be put at a general meeting.

Financial instruments

The company does not make use of complex financial instruments. However, as noted on page 1, the company has a policy of hedging against major currency exposures. This is achieved through a combination of forward currency contracts and where appropriate the creation of currency overdrafts in respect of certain forecast sales transactions. This policy is monitored regularly by the board.

By order of the board



Steven Henning
Director

Baltic Works, Bridge of Weir PA11 3RH

24 / 08 / 2023

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern and disclose any relevant issues;
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no other realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Scottish Leather Group Operations Limited

Opinion

We have audited the financial statements of Scottish Leather Group Operations Limited ('the company') for the year ended 31 March 2023, which comprise the profit and loss account, statement of other comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice). In our opinion the financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor responsibilities for the audit of the financial statements

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

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

Extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. We assessed whether the engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations by considering their experience, past performance and support available.

All engagement team members were briefed on relevant identified laws and regulations and potential fraud risks at the planning stage of the audit. Engagement team members were reminded to remain alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

We obtained an understanding of the legal and regulatory frameworks that are applicable to company and the sector in which it operates, focusing on those provisions that had a direct effect on the determination of material amounts and disclosures in the financial statements. The most relevant frameworks we identified include:

- UK GAAP;
- Companies Act 2006;
- VAT legislation; and
- Corporation tax legislation

Extent the audit was considered capable of detecting irregularities, including fraud (continued)

We gained an understanding of how the company is complying with these laws and regulations by making enquiries of management and those charged with governance. We corroborated these enquiries through our review of relevant correspondence with regulatory bodies and board meeting minutes.

We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur, by meeting with management and those charged with governance to understand where it was considered there was susceptibility to fraud. This evaluation also considered how management and those charged with governance were remunerated and whether this provided an incentive for fraudulent activity. We considered the overall control environment and how management and those charged with governance oversee the implementation and operation of controls. We identified a heightened fraud risk in relation to:

- Management override of controls
- Revenue recognition

In addition to the above, the following procedures were performed to provide reasonable assurance that the financial statements were free of material fraud or error:

- Reviewing minutes of meetings of those charged with governance for reference to: breaches of laws and regulation or for any indication of any potential litigation and claims; and events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud;
- Reviewing the level of and reasoning behind the company's procurement of legal and professional services;
- Performing audit work procedures over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing judgements made by management in their calculation of accounting estimates for potential management bias;
- Completion of appropriate checklists and use of our experience to assess the Company's compliance with the Companies Act 2006; and
- Agreement of the financial statement disclosures to supporting documentation.

Our audit procedures were designed to respond to the risk of material misstatements in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve intentional concealment, forgery, collusion, omission or misrepresentation. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

Use of our report

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.

J.B. Marjoribanks

Jeffrey Marjoribanks (Senior Statutory Auditor)
For and behalf of Johnston Carmichael LLP
Statutory Auditor

227 West George Street
Glasgow
G2 2ND

24 / 08 / 2023

Profit and Loss Account
for the year ended 31 March 2023

	Note	2023 £000	2022 Restated £000
Turnover	2	124,615	89,697
Cost of sales		(100,810)	(74,746)
Gross profit		23,805	14,951
Distribution costs		(8,635)	(5,447)
Administrative expenses		(12,468)	(11,248)
Other operating (expenditure)/income	3	(2,521)	1,314
Operating profit/(loss)		181	(430)
Other interest receivable and similar income	6	93	133
Interest payable and similar charges	7	(11)	-
Profit/(loss) before taxation		263	(297)
Tax on profit/(loss)	8	742	(391)
Profit/(loss) for the financial year		1,005	(688)

All amounts relate to continuing activities.

Notes 1 to 23 form part of the financial statements.

2022 numbers are restated to reclassify foreign exchange gains and losses within Other operating (expenditure)/income, consistent with current year treatment. In prior years these were shown in Other interest receivable and similar income.

Statement of Other Comprehensive Income
for the year ended 31 March 2023

	<i>Note</i>	2023 £000	2022 £000
Profit/(loss) for the financial year		1,005	(688)
Other comprehensive income			
Cash flow hedging	16	1,276	(1,075)
Foreign currency translation through other reserves	16	(379)	-
Deferred tax on hedging instruments	8	(311)	222
Deferred tax on rolled over capital gains	8	(29)	(75)
Other comprehensive income/(expenditure) for the year net of tax		557	(928)
Total comprehensive income/(expenditure) for the financial year		1,562	(1,616)

Balance Sheet

at 31 March 2023

	Note	2023 £000	2023 £000	2022 £000	2022 £000
Fixed assets					
Tangible assets	9		34,504		31,844
Current assets					
Stocks	10	28,025		17,810	
Debtors	11	23,656		17,368	
Cash at bank and in hand	12	1,521		1,257	
		53,202		36,435	
Creditors: amounts falling due within one year	13	(53,740)		(35,002)	
Net current (liabilities)/assets			(538)		1,433
Total assets less current liabilities			33,966		33,277
Provision for liabilities					
Deferred tax liability	14		(950)		(464)
Net assets			33,016		32,813
Capital and reserves					
Called up share capital	17		155		155
Cash flow hedge reserve	17		750		(215)
Other reserves	17		(408)		-
Profit and loss account	17		32,519		32,873
Shareholders' funds			33,016		32,813

Notes 1 to 23 form part of the financial statements.

These financial statements were approved by the board of directors on 24 / 08 / 2023 and were signed on its behalf by:



Steven Henning
Director



Nicholas Muirhead
Director

Company registered number: SC015274

Statement of Changes in Equity

	Called up share capital £000	Cash flow hedging reserve £000	Profit and loss account £000	Other Reserves £000	Total equity £000
Balance at 1 April 2021	155	638	34,995	-	35,788
Loss for the financial year	-	-	(688)	-	(688)
Other comprehensive expenditure for the year	-	(853)	(75)	-	(928)
Total comprehensive expenditure for the year	-	(853)	(763)	-	(1,616)
Transactions with owners, recorded directly in equity dividends	-	-	(1,359)	-	(1,359)
Total contributions by and distributions to owners	-	-	(1,359)	-	(1,359)
Balance at 31 March 2022	155	(215)	32,873	-	32,813

	Called up share capital £000	Cash flow hedging reserve £000	Profit and loss account £000	Other Reserves £000	Total Equity £000
Balance at 1 April 2022	155	(215)	32,873	-	32,813
Profit for the financial year	-	-	1,005	-	1,005
Other comprehensive income for the year	-	965	-	(408)	557
Total comprehensive income/(expenditure) for the year	-	965	1,005	(408)	1,562
Transactions with owners, recorded directly in equity dividends	-	-	(1,359)	-	(1,359)
Total contributions by and distributions to owners	-	-	(1,359)	-	(1,359)
Balance at 31 March 2023	155	750	32,519	(408)	33,016

Notes

(forming part of the financial statements)

1 Accounting policies

Scottish Leather Group Operations Limited (the “company”) is a private company limited by shares, incorporated, domiciled and registered in Scotland, United Kingdom. The registered number is SC015274 and the registered office is Baltic Works, Bridge of Weir PA11 3RH.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The company’s ultimate parent undertaking, Scottish Leather Group Limited includes the company in its consolidated financial statements. The consolidated financial statements of Scottish Leather Group Limited are prepared in accordance with UK Generally Accepted Accounting Practice, are available to the public and may be obtained from Locher House, Kilbarchan Road, Bridge of Weir, Renfrewshire, PA11 3RN. In these financial statements, the company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Scottish Leather Group Limited include the equivalent disclosures, the company has also taken the exemptions available under FRS 102 in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 for *Share Based Payments*; and,
- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are detailed in note 23.

1.1 Measurement convention

The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policy below.

1.2 Going concern

The company’s activities together with factors likely to affect future development and position are set out in strategic report. The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for the period ending 30th September 2024, which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its parent company, Scottish Leather Group Limited, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Scottish Leather Group Limited providing additional financial support during that period Scottish Leather Group Limited has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes (continued)

1 Accounting policies (continued)

1.3 Foreign currency

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction or at an average rate where that rate approximates the actual rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued which are recognised in other comprehensive income.

1.4 Turnover

Turnover represents sales invoiced on despatch of goods to external customers and excludes value added tax.

1.5 Basic financial instruments

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1.6 Other financial instruments

Financial instruments not considered to be basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of basic financial instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged as below.

Notes (continued)

1 Accounting policies (continued)

1.6 Other financial instruments (continued)

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively, when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, such as land and buildings, they are accounted for as separate items of tangible fixed assets.

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- buildings 2% - 10%
- plant and equipment 6.67% - 33.33%
- motor vehicles 25%

Notes (continued)

1 Accounting policies (continued)

1.7 Tangible fixed assets (continued)

Depreciation methods, useful lives and residual values are reviewed if there are indications of significant changes since the last annual reporting date in the pattern by which the company expects to consume the future economic benefit of assets.

1.8 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out method and includes expenditure incurred on acquiring the stocks, production, conversion and other costs in bringing them to their existing condition and location. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.9 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

Group Plans

The company is a participating employer with members in two group defined benefit pension schemes. Contributions payable are calculated based on the overall funding requirements of the schemes with the company recognising a cost equal to the contributions payable for each accounting period.

As there is no contractual agreement or stated group policy for charging the net defined benefit cost to participating entities, the net defined benefit cost of the pension schemes and the net defined benefit liability are recognised fully by the company which is legally responsible for the schemes, which is Scottish Leather Group Limited.

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Share-based payment transactions

Eligible members of staff participate in the Scottish Leather Group Limited Approved Share Option Scheme which allows eligible employees to acquire shares in Scottish Leather Group Limited. The fair value of options granted is recognised as an employee expense. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an options pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

Disclosure in respect of approved share option schemes in which the company's employees participate is made in the consolidated financial statements of the parent entity, Scottish Leather Group Limited. No expense is accounted for in the financial statements of the company as the charge is immaterial.

Notes (continued)

1 Accounting policies (continued)

1.10 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges includes interest payable, finance charges on shares classified as liabilities, finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Interest receivable and similar income includes interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.11 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case the related tax is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes (continued)

1 Accounting policies (continued)

1.12 Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

1.13 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the company's non-financial assets, other than investment property, stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units (CGU), that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire entity into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (continued)

1 Accounting policies (continued)

1.14 Classification of financial instruments issued by the company

In accordance with FRS 102.22, financial instruments issued by the company are treated as equity only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

2 Turnover

Turnover and profit before taxation were derived substantially from leather manufacturing. The geographical analysis of turnover is not provided as the directors consider that this would be seriously prejudicial to the company's interests.

3 Other operating (expenditure)/income

	2023	2022
	£000	Restated £000
Gain on disposal of fixed assets	71	3
Sundry income	10	45
Job retention scheme income	-	58
(Loss)/gain on foreign exchange contracts	(2,602)	1,208
	<u>(2,521)</u>	<u>1,314</u>

4 Expenses and auditor's remuneration

Included in profit are the following:

	2023	2022
	£000	£000
<i>Auditor's remuneration:</i>		
Audit of these financial statements	63	55
Amounts receivable by the company's auditor and its associates in respect of:		
Taxation compliance services	17	15
	<u>80</u>	<u>70</u>

Notes (continued)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2023	2022
Production	696	506
Sales	38	38
Administration	49	38
	<u>783</u>	<u>582</u>

The aggregate payroll costs of these persons were as follows:

	2023	2022
	£000	£000
Wages and salaries	25,507	22,909
Social security costs	3,083	1,893
Contributions to defined contribution plans	1,666	1,087
	<u>30,256</u>	<u>25,889</u>

6 Other interest receivable and similar income

	2023	2022
	£000	Restated £000
Foreign exchange gain	2	-
Grant income	91	133
	<u>93</u>	<u>133</u>
Total interest receivable and other income	<u>93</u>	<u>133</u>

7 Interest payable and similar charges

	2023	2022
	£000	£000
Interest payable on financial liabilities	11	-
	<u>11</u>	<u>-</u>
Total other interest payable and similar charges	<u>11</u>	<u>-</u>

Notes (continued)

8 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2023 £000	2022 £000
<i>Current tax</i>		
UK corporation tax on income for the period	-	-
Adjustments in respect of prior periods	(888)	130
Total current tax	(888)	130
<i>Deferred tax (see note 14)</i>		
Origination and reversal of timing differences	(31)	182
Adjustments in respect of prior periods	177	79
Cash flow hedging instruments	311	(222)
Rolled over capital gains	29	75
Total deferred tax	486	114
Total tax	(402)	244

	Current tax £000	2023 Deferred tax £000	Total tax £000	Current tax £000	2022 Deferred tax £000	Total tax £000
Recognised in profit and loss account	(888)	146	(742)	130	261	391
Recognised in other comprehensive income	-	340	340	-	(147)	(147)
Total tax	(888)	486	(402)	130	114	244

	2023 £000	2022 £000
<i>Reconciliation of effective tax rate</i>		
Profit for the year	1,005	(688)
Total tax expense	(742)	391
Profit excluding taxation	263	(297)
Tax using the UK corporation tax rate of 19% (2022: 19%)	50	(66)
Non-deductible expenses	12	(20)
(Over)/under provided in prior years	(710)	840
Group relief	12	39
Fixed asset adjustments	(106)	(402)
Total tax expense included in profit or loss	(742)	391

The deferred tax liability has been calculated at 25% (2022: 25%).

Notes (continued)

9 Tangible fixed assets

	Freehold and buildings £000	Plant and equipment £000	Motor vehicles £000	Assets Under Construction £000	Total £000
Cost					
Balance at 1 April 2022	20,032	64,757	110	1,997	86,896
Transfers	363	1,627	-	(1,990)	-
Additions	1,253	5,266	-	779	7,298
Disposals	-	(804)	-	-	(804)
Balance at 31 March 2023	21,648	70,846	110	786	93,390
Depreciation and impairment					
Balance at 1 April 2022	7,724	47,250	68	-	55,042
Depreciation charge for the year	646	3,959	27	-	4,632
Asset impairment	-	-	-	-	-
Disposals	-	(788)	-	-	(788)
Balance at 31 March 2023	8,370	50,421	95	-	58,886
Net book value					
At 31 March 2023	13,278	20,425	15	786	34,504
At 31 March 2022	12,308	17,507	42	1,997	31,854

10 Stocks

	2023 £000	2022 £000
Raw materials and consumables	5,618	3,202
Work in progress	3,050	6,066
Finished goods	19,357	8,542
	28,025	17,810

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £42,789,000 (2022: £34,661,000). Stock of £28,025,000 (2022: £17,810,000) is shown net of a provision of £5,164,000 (2022: £3,400,000). During the year, the stock provision increased by £1,764,000.

Notes (continued)

11 Debtors

	2023 £000	2022 £000
Amounts falling due within one year:		
Trade debtors	18,002	16,323
Amounts owed by group undertakings	2,803	134
Other debtors	861	37
Other financial assets (see note 16)	957	120
Corporation tax	586	-
Prepayments and accrued income	447	754
	<u>23,656</u>	<u>17,368</u>

12 Cash and cash equivalents

	2023 £000	2022 £000
Cash at bank and in hand	<u>1,521</u>	<u>1,257</u>

13 Creditors: amounts falling due within one year

	2023 £000	2022 £000
Bank overdraft	23,491	8,725
Trade creditors	8,555	5,598
Amounts owed to group undertakings	10,981	9,677
Taxation and social security	695	858
Corporation tax	-	204
Deferred income	-	216
Accruals and deferred income	10,018	9,317
Other financial liabilities (see note 16)	-	407
	<u>53,740</u>	<u>35,002</u>

Notes (continued)

14 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2023	2022	2023	2022	2023	2022
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	-	-	(3,175)	(2,516)	(3,175)	(2,516)
Financial instruments	-	72	(239)	-	(239)	72
Rolled over capital gains	-	-	(313)	(284)	(313)	(284)
Other timing differences	120	-	-	-	120	-
Losses	2,657	2,264	-	-	2,657	2,264
	<u>2,777</u>	<u>2,336</u>	<u>(3,727)</u>	<u>(2,800)</u>	<u>(950)</u>	<u>(464)</u>
Deferred tax assets/(liabilities)	2,777	2,336	(3,727)	(2,800)	(950)	(464)
Net of deferred tax assets	(2,777)	(2,336)	2,777	2,336	-	-
	<u>-</u>	<u>-</u>	<u>(950)</u>	<u>(464)</u>	<u>(950)</u>	<u>(464)</u>
Net deferred tax liabilities	-	-	(950)	(464)	(950)	(464)

15 Employee benefits

The company participates in two defined benefit pension schemes, the Scottish Leather Group Retirement Benefits Scheme and the Scottish Leather Group 1979 Retirement Benefits Scheme for Directors, operated by the group. The assets of each scheme are held in separate trustee administered funds. Following consultation with the members accruals to both defined benefit schemes ceased with effect from 31 March 2016.

It has not been possible to readily determine, on a consistent and reasonable basis, the assets and liabilities of the pension schemes attributable to the company. As permitted by FRS 102 the schemes have been accounted for, in these financial statements, as if the schemes were defined contribution schemes.

As at 31 March 2023 the two pension schemes had a gross liability of £8,083,000 (2022: gross liability of £nil) on an FRS 102 basis and further disclosures are included within the financial statements of the parent entity, Scottish Leather Group Limited. The charge in relation to the defined benefits schemes in these financial statements is £nil (2022: £nil).

Defined contribution plans

The company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £1,160,000 (2022: £1,087,000).

Contributions amounting to £167,614 (2022: £nil) were payable to the plans and are included in creditors.

16 Other financial liabilities

Carrying amounts of financial instruments

	2023	2022
	£000	£000
Assets measured at fair value – amount falling due within one year	1,124	120
Liabilities measured at fair value – amount falling due within one year	(167)	(407)
	<u>957</u>	<u>(287)</u>
Analysed as:		
Amounts falling due within one year	957	(287)

Notes (continued)

16 Other financial liabilities (continued)

Financial instruments measured at fair value

Derivative financial instruments

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Hedge accounting

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments and related profit effect are expected to occur as required by FRS 102.29(a).

	2023				2022			
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	Carrying Amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000
Forward exchange contracts:								
Assets	1,124	28,381	31,128	1,977	120	12,175	11,493	682
Liabilities	(167)	16,388	10,964	700	(407)	27,713	26,574	1,139
	<u>957</u>	<u>44,769</u>	<u>42,092</u>	<u>2,677</u>	<u>(287)</u>	<u>39,888</u>	<u>38,067</u>	<u>1,821</u>

17 Capital and reserves

Share capital

	2023 £000	2022 £000
Allotted, called up and fully paid		
155,000 ordinary shares of £1 each	<u>155</u>	<u>155</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Other reserves

The other reserve account represents unrealised foreign exchange currency at the year end.

Notes (continued)

18 Commitments

Capital commitments

Contracts placed but not provided for in the financial statements £715,724 (2022: £5,360,052).

Operating leases

Operating leases for the year amounted to £100,000 (2022: £54,000). These relate to forklifts which are expensed in the profit and loss account on a straight-line basis. The intended use will be for the next 18 months. There is a future commitment of £94,942.

Lease	<1 Year £	2-5 Years £	> 5 Years £	Committed £
Forklift	92,429	2,513	-	94,942

19 Guarantees and securities

The company has provided a cross guarantee, covering the bank borrowings on overdraft of Scottish Leather Group Limited and its subsidiary undertakings. The aggregate bank borrowings on overdraft of Scottish Leather Group Limited and its subsidiary undertakings at the end of the year were £413,000 (2022: £nil).

The company has provided a guarantee of £200,000 to H M Revenue and Customs (2022: £200,000).

20 Ultimate parent company and parent company of larger group

The company is a subsidiary undertaking of Scottish Leather Group Limited. The ultimate controlling party is Scottish Leather Group Limited.

The largest group in which the results of the company are consolidated is that headed by Scottish Leather Group Limited, United Kingdom. No other group financial statements include the results of the company. The consolidated financial statements of the group are available to the public at the company's registered office at Locher House, Kilbarchan Road, Bridge of Weir, Renfrewshire, PA11 3RN, Scotland.

21 Subsequent events

There have been no events after the financial year end date that would materially affect the amounts presented in the financial statements.

22 Accounting estimates and judgements

The company is exposed to financial risk from three main areas – raw material availability and prices, foreign currency transactions and customer credit exposure.

The company, with the support of other group members, constantly assesses the sources and availability of raw materials and related prices. Relationships have been developed with existing and potential vendors with the objective of ensuring continuity of supplies in what is essentially a commodity market. The effect on sales and profit margins of raw material price changes is closely monitored. Inventory is assessed to ensure that stock values are reasonably stated to reflect current raw material prices, manufacturing and overhead costs and market values for finished products.

The company is exposed to foreign currency risk as a significant proportion of sales and accounts receivable are denominated in non-Sterling currencies. The net exposure to each currency is closely monitored and managed by the use of forward exchange contracts. The forward foreign exchange contracts all mature within two years.

The company, where appropriate, offers credit terms to its customers for the payment of debts due for goods and services. The risk is mitigated by credit insurance and by maintaining strong ongoing relationships with customers.

Notes *(continued)*

22 Accounting estimates and judgements (continued)

The carrying value of assets and liabilities is assessed on a regular basis and appropriate estimates applied in areas of financial risk. In particular, estimates have been made in relation to the carrying values of stocks, levels of anticipated bad debts and customer compensation accruals. Stock valuation throughout the year reflects the company's view on production volumes and attributable cost projections. Year-end stock has been revalued to be based on actual production volumes and attributable costs. Chemical stock provisions have been estimated through comparison of future stock consumption against stock expiry dates.

23 Reclassification of prior year presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.